LISC

Unlocking the Potential of Cash Transfer Programs to Tackle Wealth Inequality

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Introduction

With staff, expertise, and relationships in 38 urban markets and rural communities nationwide, including a network of more than 120 Financial Opportunity Center® (FOC) partners offering integrated financial and employment services to support low- to moderate-income families reach their financial goals, LISC is a national intermediary with extensive reach and insight into the impact that the COVID-19 pandemic had on local economies and households—including how the pandemic widened existing inequities rooted in race, ethnicity, and gender. As entire sectors were closing their doors or significantly reducing their workforce during the pandemic, the national unemployment rate skyrocketed. In May 2020 the overall national unemployment rate was reported at 13.3%. However, a closer look reveals expanding race and gender disparities. For example, in May 2020 the unemployment increased 11.7 percentage points from 4.8% to 16.5% for Black women and 14.1 percentage points from 4.9% to 19% for Hispanic women, as opposed to a 7.8 percentage point increase from 2.9% to 10.7% for white men—more than doubling the pre-pandemic racial and gender disparities.[1]

Because LISC FOC partners serve a primarily low-income, BIPOC population, connecting clients to multiple types of cash transfer programs to make up for the loss of jobs and income became a critical focus of LISC FOC partners during this time. While there are many articles on how households in the upper-income levels increased their savings during the pandemic, due to widespread COVID-related federal cash transfer programs, limited opportunities for travel and outings resulting from government-mandated shutdowns, and the benefit of less employment volatility and the ability to work remotely; LISC's network of FOC partners gained insight into what was happening in lower-income households who were often working in frontline jobs or in sectors with a greater deal of job loss and/or health insecurity.

The purpose of this brief is to investigate the relationship between cash transfer programs and household savings, emphasizing the potential outcomes of expanded unconditional cash transfer initiatives, with specific attention to low- to moderate-income BIPOC (Black, Indigenous, and People of Color) households. In this brief, we use the term 'cash transfer(s)' to describe any public or private program that provides conditional or unconditional resources to individuals and families through the form of stipends, checks, tax refunds, cash deposits, or other income support. Cash transfers are an efficient, equitable method of promptly delivering funds to individuals in need while giving recipients agency over how they spend their money. Cash transfers can take the form of guaranteed income, basic income, tax credit, stipends, stimulus check, income supports, etc. There are three general reasons a program distributes cash transfers:

1. Address basic needs for households with gaps in income and public safety nets.
2. Provide income stabilization during volatile economic times.
3. Aid in creating, building, or protecting savings, educational or workforce attainment, and other assets.

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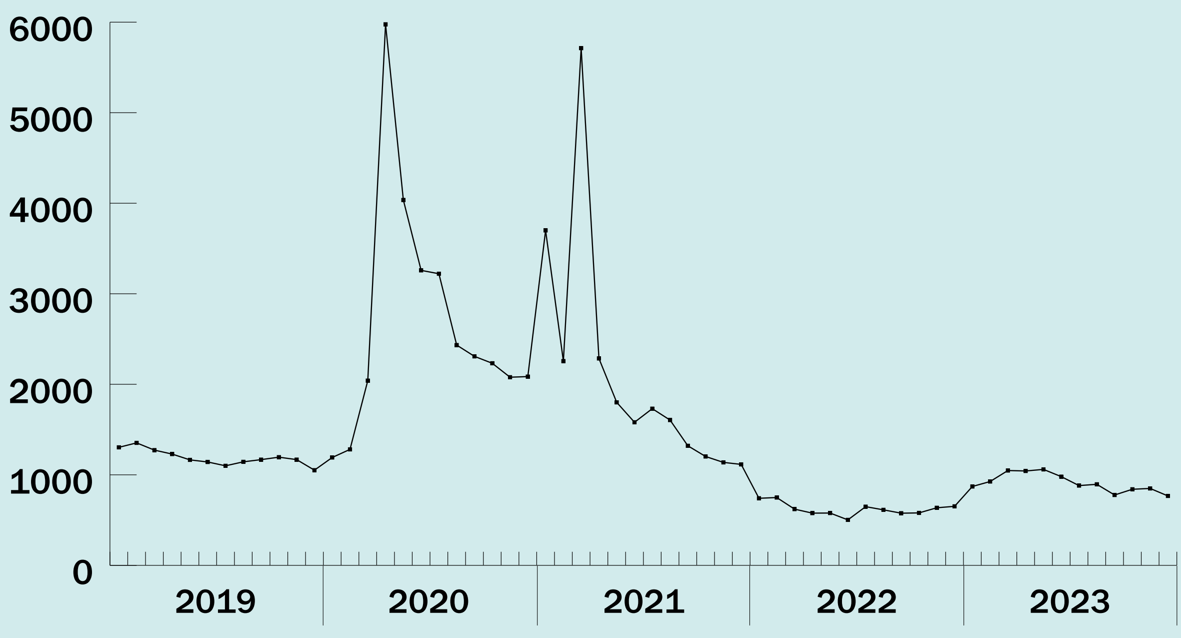
SECTION I: Perspectives on Financial Stability and Savings in Low- and Moderate Income Households across the U.S.

According to the Federal Reserve Bank of Kansas City[2], Americans as a whole saved more of their money than ever in response to the pandemic and economic downturn, with a shift in savings as a percentage of disposable income going from 7.2% in December 2019 to a record high of 33.7% in April 2020. There were multiple federal cash transfer programs launched to help families weather the financial storm resulting from the pandemic, including $1200 and $600 stimulus checks, $600 monthly supplemental payment added to unemployment benefits, and an expanded Child Tax Credit. According to the Federal Reserve,[3] the top half of earners are still benefiting from the savings they accumulated during the pandemic. However, this picture looks vastly different for lower-income families who largely used the cash transfer programs available to them to cover basic needs such as rent and food in order to remain afloat during the pandemic.[4]The chart below demonstrates not only the savings gains realized by U.S. households during the pandemic when a growth in cash transfers occurred, but also details how those savings gains have been depleted as cash transfers dwindled and the cost of living increased.

U.S. Total Personal Savings Over Time



Source: Bureau of Economic Analysis, January 26, 2024
*In billions of dollars

SECTION II: Perspectives on Financial Stability and Savings in LISC Community Markets

Financial Opportunity Center® (FOC) partners offer career and financial coaching programs to families living on a low- to moderate-income so they can build effective money habits and focus on the financial bottom line to reach their goals. FOC programs provide employment and career counseling, one-on-one financial coaching and education and access to low-cost financial products that help build credit, savings and assets safely. They also connect clients with income supports such as food assistance, utilities assistance and affordable health insurance to bridge gaps as they work towards new career goals. The cornerstone of the FOC model is providing these services in an integrated way—rather than as stand-alone services—and with a long-term commitment to helping clients achieve financial success.

During the pandemic, LISC FOC partners continued to provide integrated employment and financial services, including offering matched savings programs to incentivize and support clients with gaining stability in a time of crisis, working toward savings goals, building credit, and eventually acquiring assets. LISC and its FOC partners prioritized assisting clients with accessing multiple forms of cash transfers, including:

- Connecting to free tax preparation services to access earned income and child tax credits
- Applying for unemployment benefits
- Navigating applications for income supports
- Enrolling in local cash transfer programs
- Providing small grants to clients[5]

To better understand what happened with clients served by FOCs during the pandemic, LISC conducted interviews and a focus group with staff serving markets across the country in May 2023.[6] The interviewees and focus group participants were asked to share their perspectives on financial health, savings, and direct cash transfers for clients served by FOCs. As FOCs tend to serve community members in more economic distress than likely reflected in national data,[7] these observations provide interesting lessons on how future cash transfer programs can improve to help low-income households.

1. **Economic devastation and uncertainty resulting from the COVID-19 pandemic disparately impacted low-wage workers.** Almost all Group Participants agreed that in their markets "Lower wage workers were more likely to experience job loss," and "Earned income from a job declined early in the pandemic." Observations on savings across the participants were mixed. Some described client savings were "minimal" and "obliterated" during the pandemic while others reported seeing an increase. It seems that while financial resources were constrained, the "silver lining was that the pandemic elevated the importance of saving," and as one participant explained "savings rates did go up but I think it was largely about folks continuing to anticipate further economic shocks...they were conserving their resources in anticipation of further [or] worse disruptions to their income."

> "Clients in our market are struggling to maintain their basic needs...The cost of living is too high for lower income earners."

2. **Surging inflation points to the need for cash transfer programs to be expanded.** A participant shared, "Clients in our market are struggling to maintain their basic needs...The cost of living is too high for lower income earners." Almost all participants agreed or strongly agreed that "The rising cost of goods due to inflation offsets the gains to hourly earnings making it hard to pay for things in 2023." Most participants agreed that "Households are currently drawing down their liquid savings and are likely to spend the majority of savings before the end of the year." One participant provided an example. They credited expanded food subsidies as critical for helping families during the pandemic. Since the subsidies expired, they've been witnessing more instability and hearing from food pantries that demand for food support is rising.

3. **Flexibility in both the amount and duration of cash transfer programs is needed to fully stabilize low-income households.** There is skepticism that direct cash transfers alone were sufficient to fully help households maintain the status quo during the pandemic. Most participants disagreed with the statement that "Low-wealth households 'broke even' as a result of cash transfers received during the COVID-19 pandemic." In general, it is possible that not enough direct cash transfers were provided to or accessed by clients. Most participants disagreed that "financial transfers offered during COVID-19 pandemic offset declines in earned income from job."

SECTION III: Considerations for Future Cash Transfer Programs to Support Financial Stability and Savings

With insights from national-level research and perspectives of staff serving local markets, key considerations for future cash transfer programs emerge.

Future direct cash transfer programs should be designed to help recipients effectively stabilize and save. More direct cash transfer programs are needed to support clients in the post-pandemic economy as they navigate rising costs and seek ways to overcome barriers in the job market to achieve livable and higher-income employment. Cash transfer programs should be designed in such a way as to:

1. **Offer sufficient, ongoing resources to foster asset-building among participants.** One-time direct cash transfer programs have been proven effective in reducing material hardship in low-income households. To ensure households continue to be supported in achieving long-term financial stability and savings, sufficient funds must be provided for recipients to do so. During the pandemic, data on household savings from the Federal Reserve[8] showed us that cash transfer programs can boost savings for households that have enough stable income for their family's expenses. However, the ability of low-income, BIPOC clients served by FOCs to achieve both objectives was mixed, and overall the sentiment was that the cash transfers provided were not sufficient to help clients make ends meet, let alone save for the future. Focus group conversations revealed that the average amount of direct cash transfers needed to for clients to stabilize is $800 per month. In order to ensure clients are able to move beyond basic financial stability and build assets, the recommended target amount for direct cash transfers raised to $1,750 per month.

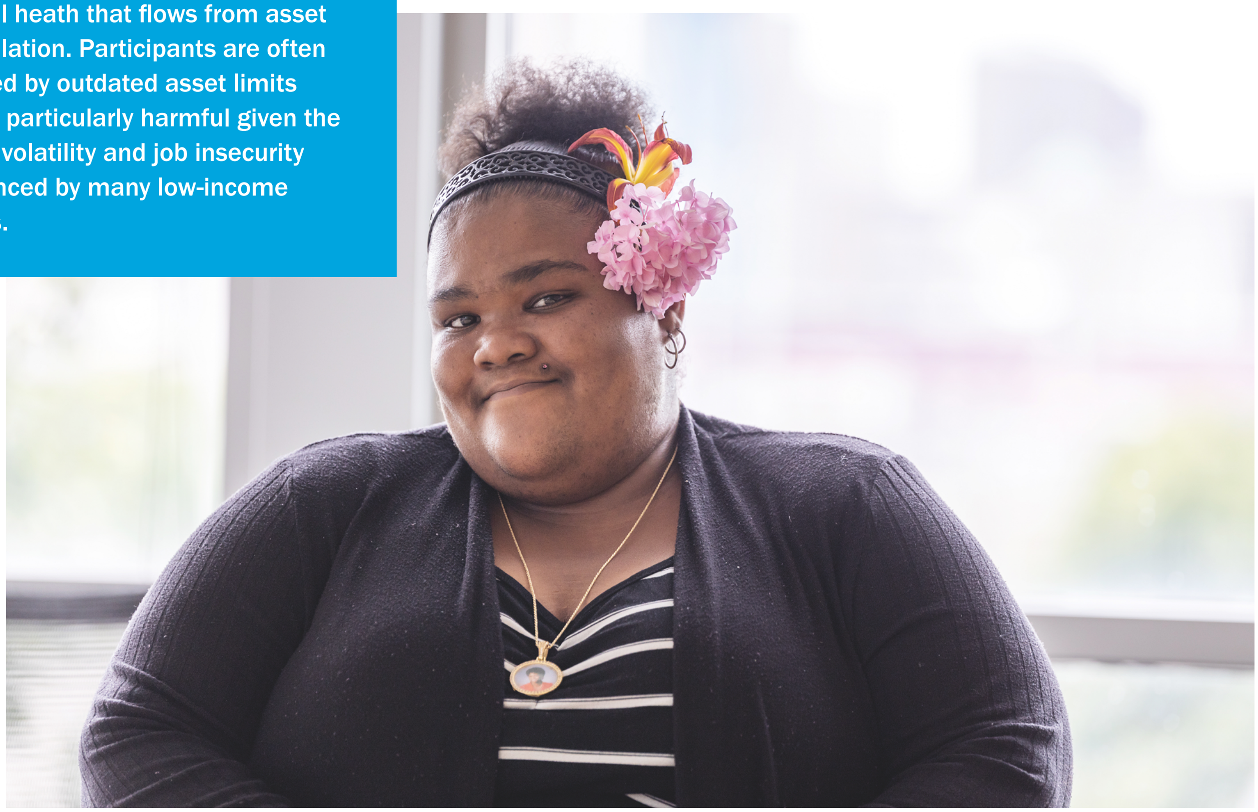
2. **Provide cash transfer program recipients with the opportunity to access additional training and support.** Just like integrating financial coaching with employment training and work supports increases an individual's financial stability outcomes, providing direct cash transfers in tandem with comprehensive financial coaching services and job training would ensure recipients have ongoing support as they stabilize and start to (re)build their savings.[9] For example, direct cash transfers in the form of stipends, when coupled with upskilling programs such as a Bridges[10] training program, can ensure families have the financial means to raise their earned income. It is important to note that these additional supports and opportunities must be optional, rather than conditional in order to reduce harm to recipients.[11]

3. **Leverage both private and public investments in an effort to ensure programmatic flexibility.** For cash transfer programs to have long-term sustainable funding streams, advocates often look to public funding sources and public-private partnership opportunities. There are already a number of federal and state cash transfer programs, from the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and income supports like Temporary Transfers for Needy Families (TANF) and Supplemental Nutrition Transfers Program (SNAP) that have the potential to increase their impact on household financial stability and savings with continued improvements and expansion. The following LISC policy priorities would support enhanced cash transfer programs, and the potential for clients to increase savings and build wealth:

   - Expand and improve Earned Income Tax Credit and Child Tas Credit programs
   - Expand access to Volunteer Income Tax Assistance (VITA) programming
   - Strengthen the Supplemental Nutrition Assistance Program
   - Provide robust funding levels for SNAP Employment and Training Program
   - Support for Matched Savings Accounts[12]
   - Enhance income supports to ensure the safety net is supporting those who need it most
   - Remove asset limits from benefits eligibility requirements
   - Expand U.S. Department of Labor and Economic Development Agency investments to allow for unconditional cash transfers to participants enrolled in job training programs

4. **Eliminate oppressive restrictions that weaken the potency of cash transfer programs and keep people in poverty.** Oftentimes, the numerous rules and regulations directing how and when cash transfers can occur stand in the way of households achieving financial stability. For example, when families experience a relatively minor increase in earnings, the dramatic loss of public benefits and cash transfer programs, known as the "benefits cliff" or "cliff effect" can result. While participants generally advocated for cash transfers to be unconditional in order to allow households to have control over their financial decisions, they also raised a spectrum of goals for current cash transfer programs, including:
    - Ensuring enough quality food for their household
    - Bridging a gap in income due to unemployment
    - Covering childcare or other expenses for children and dependents
    - Covering living expenses to attend a workforce training program or job interview
    - Covering living expenses to attend community college or enroll in skills training
    - Supporting savings for an emergency, asset, or other wealth-building goal

Asset limits place restrictions on the amount of savings and other assets a person or family can have and still qualify for income support programs, including cash transfers. While intended to direct resources toward those most in need, in practice these limits often serve as a barrier to accessing critical support for those working towards long-term financial heath that flows from asset accumulation. Participants are often impacted by outdated asset limits that are particularly harmful given the income volatility and job insecurity experienced by many low-income families.



MOVING FORWARD

Cash transfer programs play a critical role advancing economic security and inclusion for low- to moderate-income households. In order to ensure that cash transfer programs move families beyond stabilization to savings, they should be ongoing, integrated with existing financial health programming, and unconditional so as to allow families the ability to address income volatility in ways they need.

Sustained investment in asset-building initiatives will also be necessary to leverage the potential of direct cash transfer programs to support individuals in achieving long-term financial health. For example, as clients achieve financial stability and livable wages, there is a need for financial health services to meet these clients where they are and to connect recipients with products that support them at every step in the journey. This will also require financial institutions to diversify product offerings to assist clients with managing direct cash transfers such as:

- Leverage or develop quality, non-predatory products that can build savings and credit at the same time;
- Target savings goals that foster intrinsic motivations to save; and
- Increase access to high-yield savings products offering easy access and limited fees.

Finally, removing asset limits is a critical component of unlocking the potential of cash transfer programs to combat wealth inequality. Fostering more equitable asset-building opportunities requires investments in cash transfer programs that drive asset accumulation but also, critically, ensuring that such programs do not disincentivize participant gains. Currently, recipients of cash transfers from TANF, one of the largest federal cash transfer programs, are subject to a median savings cap of $2,000, with nine states capping the asst limit as low as $1,000. Research shows that these limits discourage savings and bank account ownership among TANF recipients.[13]

LISC supports efforts to remove asset limits to ensure those who receive income supports are better positioned to save and access economic opportunity rather than being penalized. Removing asset limits would not only promote greater financial security for low-income households but also increase access to important benefits and services, reduce administrative costs and complexity, and promote economic mobility.

Endnotes

1 Inequities exposed: How COVID-19 widened racial inequities in education, health, and the workforce. June 22, 2020.

2 Study shows surge in savings during the pandemic. Federal Reserve Bank of Kansas City. April 29, 2021.

3 Excess Savings during the COVID-19 Pandemic. Federal Reserve. Oct 21, 2022.

4 Robust COVID Relief Achieved Historic Gains Against Poverty and Hardship, Bolstered Economy. June 14, 2022.

5 When Emergency Cash is What's Needed Most. 10.1.2020.

6 This included a focus group of eight program officers and a member of the Family Income and Wealth Building Team and two in-depth interviews with individual program officers.

7 For Formerly Incarcerated Women in Arizona, a Fair Chance at Financial Wellness. 12.3.2021.

8 Ibid., 3

9 https://www.lisc.org/media/filer_public/f7/f7/f7f7402d-690d-47f5-a7fa-537ab7b793c4/16024-first-steps_r5-report-web.pdf

10 Bridges programs are embedded in community-based organizations that operate LISC's Financial Opportunity Center® model. Bridges combines contextualized math and literacy training designed to help participants succeed in skills training and credentialling with a comprehensive set of complementary services including access to income supports and financial coaching to help manage expenses during training and set long-term goals for stabilizing finances and building assets as they advance in their new careers.

11 https://ssir.org/articles/entry/how_to_deliver_cash_transfer_programs_more_effectively_to_hard_to_reach_populations

12 Matched Savings Account programs incentive individuals to save money to fund short-term or long-term asset-building goals, and assist participants in developing positive financial habits and building sound financial management skills.

13 https://www.clasp.org/sites/default/files/publications/2018/04/2018_eliminatingassetlimits.pdf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