Social Policy Initiatives for Low-Income Families

This issue of Poverty Research News asked JCPR affiliates to describe one innovative and fairly concrete policy idea that they would like policymakers to consider. The generous response reflects the wide-ranging interests and expertise of our affiliates. Each article blends a brief description of the idea with background about why the idea is needed and why it would solve problems that past policies have failed to solve. Page constraints allow us to print only a sample of the ideas submitted. In future issues, we will publish the remaining policy suggestions as an ongoing feature.

**Child Poverty as a Basis for Child Welfare Services Funding**  
*Mark E. Courtney, University of Chicago*  
Courtney suggests basing federal funding for child welfare services on the number of poor children in a given state.

**Making a Real Commitment to Prevention Efforts: Reforming the "Front-End" of Child Welfare**  
*Kristen Shack Slack, University of Wisconsin, Madison*  
Shack outlines a tailored approach to child welfare service delivery, which views the risks and service needs of families along a continuum.

**Promoting School Readiness among Young Children**  
*C. Cybele Raver, University of Chicago*  
Raver argues for better evaluations of interventions to promote school readiness, with a strong focus on those that seek to enhance social and emotional development.

**Improving the High School to Work Transition**  
*James Rosenbaum, Northwestern University*  
Rosenbaum offers suggestions on strengthening the school-to-work link in American high schools.

**An Initiative to Raise Employment among Young Minority Men**  
*Harry Holzer, Georgetown University*  
Holzer outlines steps to improve employment outcomes among less-educated, and especially minority, young men.

**Making Unemployment Insurance Financing More Fair**  
*Patricia M. Anderson, Dartmouth, and Bruce D. Meyer, Northwestern University*  
The authors offer suggestions to eliminate regressivity in the Unemployment Insurance system, and to reduce the number of wage earners who pay more in UI taxes than they receive in benefits.

**Increasing Saving among the Poor: The Role of Financial Literacy**  
*Annamaria Lusardi, Dartmouth College*  
Lusardi offers several steps to enhance financial literacy among poor families as a way to increase their savings.

**The New Emergency Financial Aid: A Policy Proposal**  
*Michael R. Sosin, University of Chicago*  
Sosin recommends a new emergency assistance program that would cover emergency outlays not covered by the major safety net programs.

**Policy Initiatives for the Informal Child Care Sector**  
*Juliet Bromer and Julia Henly, University of Chicago*  
Bromer and Henly offer policy initiatives targeted to informal child care providers and the informal sector of the child care market.

**Paving the Road to Self-Sufficiency**  
*James P. Ziliak, University of Oregon*  
Ziliak suggests adjusting asset limits in the TANF, Food Stamp, and SSI programs as a way to stimulate saving among the poor.

**Competitive Bidding in Medicare Managed Care**  
*John Cawley, Cornell University, and Andrew B. Whitford, University of Kansas*  
To avoid disenrolling vulnerable Medicare recipients, Cawley and Whitford suggest a competitive bidding payment in the optional Medicare program, Medicare+Choice.
Increasing Saving among the Poor:
The Role of Financial Literacy

Annamarie Lusardi, Dartmouth College

A first step to encouraging saving among the poor is to improve financial literacy. Reaching the poor can be difficult, and simply mailing a booklet of information is likely to be ineffective. Government institutions that provide support to the poor should be encouraged to promote initiatives to improve financial literacy, as well as provide simple and basic financial advice on-site. The information should relay the benefits of savings, the hidden costs of nontraditional savings methods (such as payday loans), and offer an introduction to financial institutions.

It is a long-standing puzzle why so many low-income families do not save and hold little or no assets. Often these families, which are disproportionately single-parent black or Hispanic and headed by those with little education, do not hold wealth at any stage of their life. Thus, not only have poor families little to rely on for their retirement, but they also have no buffer to shield against shocks when young or middle aged. One of the important determinants of saving behavior is financial literacy, and public policies that aim to increase financial security among the poor should find ways to remove this major obstacle to saving.

Studies have shown that many low-income families not only have no stocks, Individual Retirement Accounts (IRAs), or bonds, but they also hold no basic assets, such as checking or saving accounts (Hurst and Ziliak, 2001). About 10 million Americans have no bank accounts. They pay hefty fees to cash checks or pay bills, and more important, they are not building the credit records needed, for example, to buy a house or to secure a loan to start a business.

Financial Literacy

One of the reasons why poor people do not save is that they lack experience and expertise in dealing with financial matters (Bernheim, 1994). Financial illiteracy is particularly acute among the poor, and women, in particular, report having little financial knowledge. A growing number of employers have launched initiatives to promote financial literacy, from distributing brochures to information sessions and retirement seminars. The Department of Labor has launched a national pension education program aimed at “drawing the attention of American workers to the importance of taking personal responsibility for their retirement security.”

Although these initiatives are important and document how widespread the problem of financial illiteracy is, they are unlikely to affect the poor. Minority groups, single mothers, and individuals with little education are unlikely to work at firms that offer such initiatives.

The poor are not only excluded from employer-sponsored initiatives, but they are also unlikely to benefit from the experience of others around them. Several recent studies show that family background plays an important role in the amount and type of assets households own. Individuals, and women in particular, learn about financial matters from parents and siblings (Lusardi, 2000; Chiteji and Stafford, 1999).

Reaching Low-Income Families

Reaching out to low-income families may be particularly difficult and, as the experience of employers shows, mailing a booklet of information is likely ineffective. Government institutions that provide support to the poor, however, can promote initiatives to improve financial literacy, as well as provide simple and basic financial advice on-site. Government agencies in charge of unemployment benefits or welfare programs, charities aimed at supporting the poor, and social workers could promote initiatives on financial education aimed explicitly to the poor. These initiatives should aim to:

• Demonstrate the advantages of saving;
• Explain the costs incurred in the lack of saving and the money management practices chosen by poor families, such as check cashing shops, pawn shops, payday loans, and purchases on installments;
• Suggest how to implement saving decisions and, thus, how to take steps to start saving and use banks and traditional financial markets.

Each of these pieces of a financial education program is important. The benefits of saving may not be apparent to families that have never saved. Similarly, the costs incurred with different methods of saving and borrowing are often unknown to those who have never consulted a bank or invested in financial assets. Finally, providing clear suggestions on how to imple-
ment saving decisions as well as money management is very important. There is some anecdotal evidence that poor families fear or distrust banks, and they are unaware of the effective interest rate charged by payday loans. In addition, families may need commitment devices other than cash savings (such as signing up for direct deposit or automatic transfers, etc.) because visible cash savings may tempt families to spend it.

Another useful initiative is to institute educational policies in school about saving. Again, teaching about the benefits of saving and the actions needed to save may be very important for children in families that have never saved. These children can, in turn, teach their parents, providing another way to reach families.

There is growing evidence that financial education has an effect on saving. For example, retirement seminars are found to affect both the level of saving and the way households allocate their portfolios. Similarly, children exposed to financial education in school are found to have higher saving in their adulthood (Bernheim et al., 2001). Thus, to be effective, public policies should aim to promote not only tax incentives for saving, but also the understanding of the benefits of saving. Some of the education policies implemented to date have aimed at the population at large; however, to be even more effective, they should be targeted to the segment of the population where saving is scarce.

References


