



Key Elements of Service Integration of Asset Building Services at Tax Time

Introduction

Across the asset building field, key questions over the past several years have been, “How do we turn tax time into more than just a transactional moment for clients?” and “How can we leverage this moment to help low-income clients get on the pathway to improving credit, reducing debt, increasing savings and enhancing income?” At MEDA, asset building¹ programs are those needed to help clients thrive and grow long-term wealth for themselves, their families and their community. MEDA asset building programs include: taxes; financial capability; workforce development; business development; access to capital; and affordable housing opportunities, including pre- and post-purchase, foreclosure prevention and rental assistance. In 2014, with support from Citi Community Development, MEDA explored these questions as it implemented an integrated services model during tax season—a model designed to connect clients with services and products to help them achieve their financial goals.

Mission Economic Development Agency (MEDA) is the highest volume Volunteer Income Tax Assistance (VITA) site in the San Francisco Bay Area, and the only site that provides year-round back tax return assistance in Spanish. This is particularly valuable as MEDA’s Plaza Adelante VITA tax site is located in the heart of San Francisco’s Mission District, a historically low- to moderate-income Latino neighborhood and an important hub for social services for the Latino community throughout the Bay Area. Ninety-two percent of MEDA’s clients are low- to moderate-income, over 65 percent are Latino and 56 percent indicate Spanish as their preferred language.

MEDA provides the following asset building services to over 6,300 clients annually. Through MEDA’s participation in the United Way of the Bay Area’s SparkPoint initiative, we know that clients who engage in two or more services are two or three times more likely to achieve their financial goals; therefore, MEDA has prioritized educating clients about service bundling, and encouraging clients to engage in more than one asset building program, always including financial capability.

The following chart summarizes MEDA’s outcomes in serving tax clients and connecting them to asset building programs and financial products in the 2014 and 2015 tax seasons:

| 2014 and 2015 Outcomes | | | |
|---|---------------|---------------|--------------|
| | 2014 | 2015** | Total |
| # tax returns prepared | 3,831 | 3,929 | 7,760 |
| \$ returned to the community in tax refunds | \$5.5 million | \$4.5 million | \$10 million |
| # accessing asset building services | 60 clients | 44 clients | 104 clients |
| # savings and credit products accessed* | 120 products | 86 products | 206 products |
| *All clients accessing products also accessed a service. **Decline from 2014 to 2015 due to shift to deeper process focus on retention of clients, product engagement and financial education curriculum. | | | |

¹Hereafter, “asset building” programs and/or services will refer to all or some of the following: taxes; financial capability; workforce development; business development; access to capital; and affordable housing opportunities including pre- and post-purchase, foreclosure prevention and rental assistance.

Client Success Story

Guatemalan immigrant Jose and his wife, Claudia, who first came to MEDA in 2011 to do their Individual Taxpayer identifications Number (ITIN) applications. Jose was the family’s sole wage earner, with a modest annual income of just \$20,000. Preparing the family’s taxes garnered them a refund of nearly \$800—a large percentage of their annual income.

Jose and Claudia have returned to MEDA to do their taxes every year since, as they are satisfied with the free tax preparation services they are receiving. In June of 2014, by way of the new “Taxes Plus” model, MEDA staff discovered that Jose did not have a FICO score established, common with immigrants who have not accessed credit in this country. MEDA’s Financial Capability program suggested Jose open a secured credit card, which he immediately did. Flash forward a mere five months later and Jose’s credit score was already 735 (a credit score over 720 is deemed excellent.) The family was now on its way to financial strength that can be leveraged to build assets in the future, thanks to the tax team finding a need and referring the clients to another program at MEDA.

VITA programs have historically been transactional in nature, providing just the single service of tax preparation. This results in a lost opportunity for clients to leverage their often-significant tax refunds to help gain ground toward financial stability. MEDA has strategized on how to transform the tax program into a point of entry for other asset building service bundles, and developed several lessons learned based on our implementation of these strategies.

For the 2014 and 2015 tax seasons, MEDA enhanced its process and program design to integrate asset building programs into the service of free tax preparation. MEDA has branded these integration efforts “Taxes Plus: Go Further with MEDA!” MEDA’s integrated “Taxes Plus” model includes:

- Marketing an integrated services tax program to the public;
- A common intake process that uniformly screens clients;
- Allocation of dedicated staff during the tax season, and cross-trained staff year-round that support tax client connections to the other MEDA asset building programs; and
- A consistent referral mechanism to asset building programs, savings and credit building financial products during the tax season.

In MEDA’s “Taxes Plus” model, all tax clients are offered a structured pathway to enroll as a MEDA asset building programs client. Tax clients are asked: “How can MEDA help you build assets for you and your family?” Tax clients receiving a refund are now also asked: “What will you do with your refund?” These simple questions prompt tax clients to think about their financial planning (or lack thereof), and allow MEDA staff to begin a conversation with each client about the increased benefit to themselves and their families from actively engaging in additional asset building programs.

Those receiving tax refunds are supported through a streamlined process of splitting their refunds into savings products, and/or a secured credit card, to build or repair credit. Clients not receiving a refund are also guided through a financial coaching process to create and implement a plan to access these benefits, services and products.

Key Findings

Based on two years data (2014 and 2015), the lessons that MEDA has learned that allow us to effectively integrate asset building services and products during tax time include: the need for intentional systems to connect clients entering through the tax program to multiple asset building services, ongoing organizational capacity for follow-up, explicit on-site connections through strategic marketing and effective process design and the leveraging tax refunds for increased financial client outcomes.

Organizations must have processes intentionally designed to screen, assess, offer services and products and follow-up in an integrated way at tax time.

Tax preparation is traditionally highly transactional. Tax clients often come for a tax service and have no other expectation for their visit than to walk out with a filed return. During these transactional encounters, MEDA's tax volunteers may have identified a need or opportunity for a family to benefit from other asset building services offered at MEDA; however, these were often missed opportunities as staff did not have a clear process to follow to connect these clients to other asset building services and products during the tax session.

To combat this during the past two tax seasons, MEDA employed a dedicated asset specialist to determine tax client needs, make relevant referrals, and promote asset building products and services at the tax site. Additionally, MEDA cross-trained existing staff on how to identify client needs and provide appropriate referrals to other asset building programs. MEDA also partnered with community financial institutions to offer a menu of financial products, such as secured credit cards tailored to MEDA's client base. During this same time period, MEDA began a marketing strategy to advertise the "Taxes Plus: Go Further with MEDA!" model, so that clients were aware of this new model prior to their tax session. This prepared tax clients for the staff recommendations to engage in additional asset building services and products, with some clients even inquiring about and requesting connections to additional programs during their tax visit.

During these two years, 59 tax clients were approved for a secured credit card, compared to 34 non-tax MEDA clients. This indicates that 74 percent more tax clients were approved, having benefited from the focused tax season process, over non-tax MEDA clients that connected to secured credit cards outside of the tax season protocol.

Clients experience tax interactions as an introduction to MEDA's core asset building services, particularly financial capability.

As discussed, the tax season is prime time to connect clients with additional asset building services, particularly financial capability. Once a tax client engages in an additional service and becomes an asset building program client, their financial health outcomes are collected and tracked every three months to show progress. Financial capability outcomes include debt reduction, income increases, savings increases and credit improvement (referred to at MEDA as "DISC" outcomes). Because MEDA utilizes an integrated financial capability model, a tax client who seeks services from asset building programs is encouraged to utilize their tax experience as a launching pad for increased financial health, particularly if they are receiving a tax refund. MEDA is methodical about framing tax refunds as opportunities to increase income, savings, credit and reduce debt.

For many MEDA clients, a tax refund is the largest lump sum of money they will receive all year. MEDA integrates financial capability as its core service to support clients in maximizing benefits from their taxes. As a result of intentionality around connecting tax clients to financial capability services, in 2014 and 2015, 653 unique clients engaged in additional asset building programs, with 472 (72percent) of them engaging in financial capability. This is a reflection of the needs of MEDA clients, which is often foundational financial capability work—establishing budgets, building savings or accessing credit. By MEDA having an intentional pipeline from taxes to financial capability, MEDA is ensuring that its low-income tax clients can build a foundation to get ready for longer term goals such as homeownership, education or small-business creation. This foundation can be

accelerated in its development when financial capability is leveraged with refunds that often represent a significant proportion of the family's annual income.

MEDA's Tax Program Manager Max Moy-Borgen explains, "We have often seen that the paid tax preparers that our families seek out are focused on higher-earning individuals. This means preparers may not

"Knowing the IRS laws, specifically as they meet the needs for our families, from tax credits to allowable deductions, is what allows our team to maximize refunds for our community."

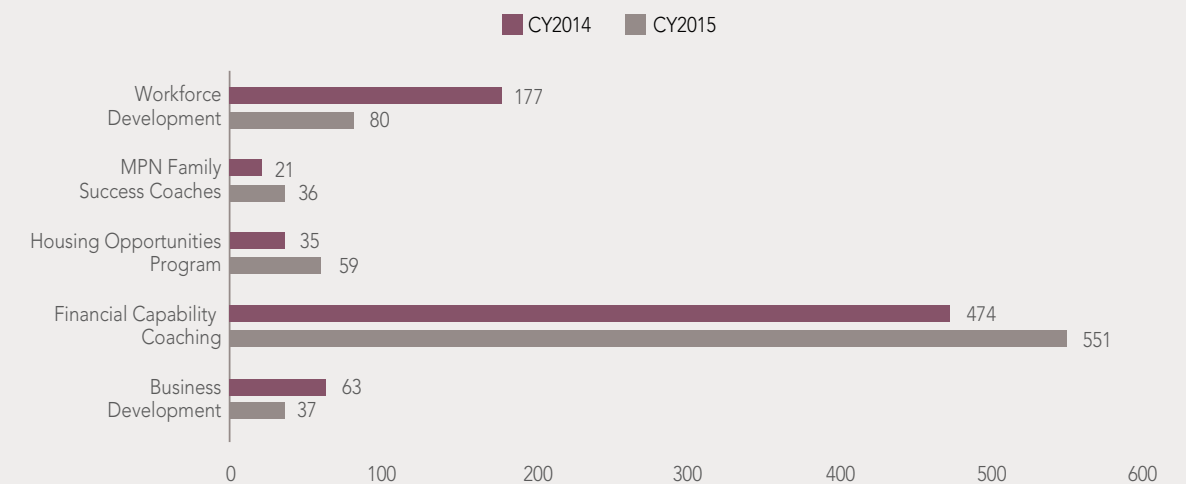
—Max Moy-Borgen, Tax Program Manager

have known about certain credits or may have not correctly filed the taxes. Knowing the IRS laws, specifically as they meet the needs for our families, from tax credits to allowable deductions, is what allows our team to maximize refunds for our

community. Some clients get 25 percent of their yearly income back as a refund. This money is vital for these families."

Most refunds come from the Earned Income Tax Credit (EITC), a refundable tax credit for low- to moderate-income working individuals and couples. The amount of EITC benefit depends on a recipient's income and number of children. The MEDA tax team is uniquely well versed in the EITC, as well as the many other tax credits available to the low-income community. This is an added value to MEDA's clients, as this expertise helps to ethically maximize their annual refunds.

ADDITIONAL PROGRAMS IN WHICH TAX CLIENTS ENGAGE



Organizations must be prepared for the post-tax season client pipeline to asset building programs, and the follow-up capacity needed to complete this.

With MEDA being such a high-volume VITA site, one challenge has been maintaining organizational capacity to follow-up on each tax client who expresses interest in connecting with additional asset building programs. This challenge is exacerbated due to the temporary and seasonal nature of tax employees, who are retained only for the high-volume tax season. Each year, MEDA's VITA program requires 120 to 150 volunteers, complemented by five to eight temporary staff, to meet operational demands during the tax season. When operating on a leaner staffing structure during the remainder of the year, MEDA relies on its long-term permanent staff to follow-up with tax season clients. In prior years, despite maximizing the work of permanent staff to follow-up with the tax client pipeline post-tax season, there have been up to 650 tax clients interested in asset building programs in the pipeline at a time for follow-up. As MEDA prepares taxes year round, the permanent staff found it difficult to juggle follow-up from the tax season with the daily appointments throughout the year. As a new strategy, MEDA will be utilizing a system of engaging cross-trained asset building staff from other teams to assist with the follow-up and connection to other services. This greatly increases the follow-up capacity, but also provides tax clients an opportunity to witness MEDA's integrated services model earlier and learn about other programs directly from staff who will be serving them in those other areas.

MEDA was fortunate to be able to hire a temporary tax season asset specialist, Laura Ospina-Jaramillo, as a full-time financial coach, allowing asset building programs to retain the tax season focused connection process expertise in-house year round, which has significantly added to its capacity to provide follow-up to clients. Laura describes her experience as having "helped the financial capability program with such different projects as setting appointments with their clients and updating their credit information. I have also helped the asset building program gather information to facilitate their different programs' internal reviews. I helped by updating information of clients that are part of an ongoing Secure Credit Card project." Laura's deep understanding of the dynamic tax and other asset building programs' operations allows her to identify clients' needs, efficiently recommend services and products best suited to their financial goals and execute these connections. Laura's multi-faceted expertise is one example of how cross-training and retaining staff goes a long way in establishing trust and credibility with clients around sensitive topics such as taxes and finances. We know that clients may be more likely to engage in

“I have also helped the asset building program gather information to facilitate their different programs’ internal reviews.”

—Laurina Ospina, Volunteer turned MEDA Financial Capability Coach

additional services recommended by a trusted, reliable source and MEDA staff builds this needed rapport with clients. This then allows clients to feel more comfortable to engage with

previously unfamiliar services or technologies.

Also to leverage more capacity for the VITA operation, MEDA has focused on retaining volunteers and temporary staff year to year so as to minimize the intense resource demand to train fresh each tax season. MEDA is also now experimenting with earlier volunteer engagement and training outreach, moving the start from January to November before each tax season. MEDA tripled the amount of staff certified to complete Individual Taxpayer Identification Number (ITIN) applications, which are also a crucial, but resource and time intensive process, for MEDA clients and staff. Aside from increasing capacity through cross-training, MEDA will also be piloting new technology initiatives to increase efficiency, such as text messaging communication to clients, as well as the development of the Citi funded MEDA Pulse software application which is being built to replicate various components of staff outreach and follow-up. MEDA expects clients will welcome these new options as they will be layered on the existing relationships with MEDA and its staff.

Tax refunds can be leveraged to build savings and credit when coupled with ongoing financial coaching.

As mentioned, for many MEDA tax clients, a tax refund may be the largest sum payment they may receive from any source throughout the year, they may not have a plan around how maximize the benefits of such a refund and, specifically, are less likely to recognize the opportunity to leverage their refund to build savings and credit. MEDA educates clients in all of these areas, and stresses the importance of not only engaging with savings and credit building products, but also with financial coaching as a key to maintaining long-term progress. Regardless of which asset building programs a tax client engages in after the tax season, whether it is workforce or small-business development, they will receive the same core financial coaching in line with MEDA’s financial capability service integration model. This system is predicated on the understanding that any financial gains within the asset building continuum are much more sustainable when in tandem with financial coaching.

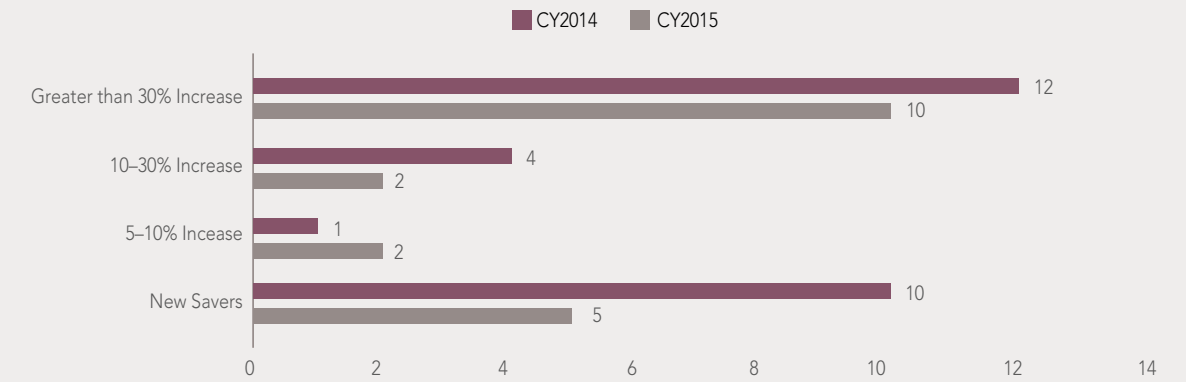
MEDA connects clients to a secured credit card through its Center for Financial Services Innovation (CFSI) partnership, which couples savings with credit. When a client opens a secured credit card, the cash collateral is placed in a frozen savings account that is released back to the client after successful closure of their card. Client Mariana came to MEDA for tax preparation and was assisted in using part of her refund to open a secured credit card to build credit as she had no credit score. Mariana became actively engaged with a financial coach, meeting at least quarterly to monitor her financial progress and timely payment of her secured credit card. After approximately one year of consistent payments, Mariana achieved a 725 FICO credit score, successfully closed her secured credit card and transferred the collateral into savings, and obtained an unsecured American Express credit card.

MEDA’s experience has shown that for clients accessing new, unfamiliar products, they may be less successful in achieving their financial goals when they do not access the financial coaching in addition to the product. Client Rosario came to MEDA to have her taxes prepared and used a portion of her return to open a secured credit card. Rosario did not maintain appointments with her financial coach, and did not heed alerts regarding overuse of her credit limit. Rosario’s credit card went into default, was closed by the creditor, and the cash collateral was seized, with detriment to her credit score. Thus, MEDA has learned that the pairing of financial coaching with products is crucial to facilitate the responsible use of financial products—especially credit—so that they can in fact become assets.

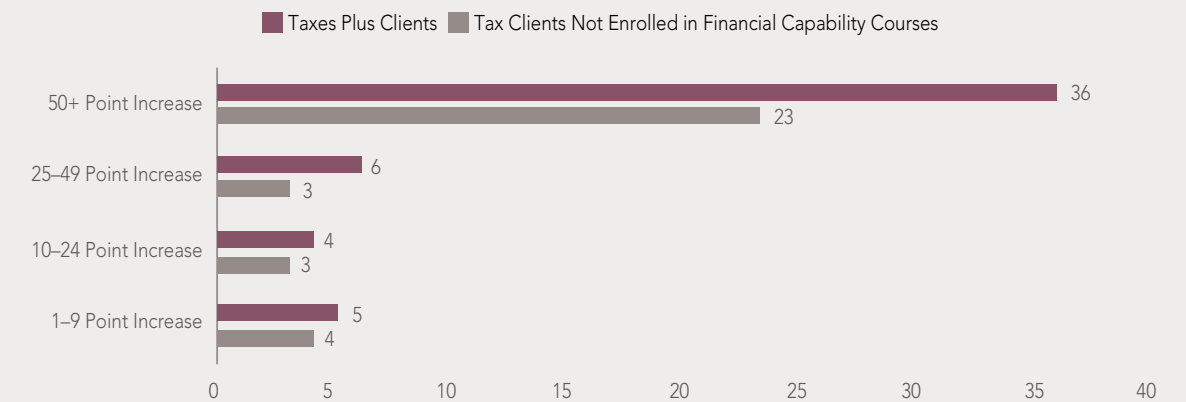
MEDA also intentionally supports clients in traditional savings products. Client Deann did not have a savings account, and no savings, due to overspending each month. After having her taxes prepared at MEDA, Deann received a tax refund and connected with a financial coach. With her financial coach, Deann created a monthly budget which rendered over \$200 per month to place into savings. Additionally, Deann saved a large portion of her tax refund and opened more than one

savings account to save separately for long-term and short-term goals, like purchasing a home and taking a vacation. Deann was so excited about her financial progress, she referred her two adult daughters, and they are now working with financial coaches as well.

NUMBER OF TAX CLIENTS WHO SAVE AFTER PARTICIPATING IN FINANCIAL COACHING



CLIENTS WITH A SECURE CREDIT CARD WHO ACHIEVE A CREDIT INCREASE



Conclusion

MEDA’s clients are able to experience financial growth at tax time beyond simply receiving a refund. They are increasing their income, reducing their debt, increasing their savings improving their credit and reaching their financial goals. Making this happen requires a well-structured service integration system and the organizational capacity to execute and follow-up.

For MEDA’s “Taxes Plus: Go Further with MEDA!” program, this translates into aligning staff, marketing, program design and client flow, all to identify client needs and match them to the right financial products and services. Promoting MEDA’s core asset building services as part of the tax experience through a “Taxes Plus: Go Further with MEDA!” approach make it possible for MEDA to enroll consumers into other programs as MEDA clients and track their financial health over time. Having a structured screening and referral system that intentionally funnels tax clients through an asset building pipeline pays dividends to clients’ financial health. When clients are connected with financial capability as a core service, they are more likely to make informed financial planning decisions, to effectively make use of financial products, and to make strides particularly with regard to savings and credit.

Follow-up and tracking with a financial coach are also crucial parts of this process, to ensure tax consumers who express interest in becoming MEDA asset building clients are supported in doing so, and that data can continue to be used to evaluate these efforts.

Service Integration Creates Family Financial Stability

Karina first engaged with MEDA in 2013, visiting only with the intention of having her tax return prepared.

This changed in 2014, when MEDA's expert tax staff found that although Karina received W-2's from Medicaid for



In-home Supportive Services caregiving work for a relative, Karina was not required to pay taxes on this income. MEDA tax staff was able to complete back-year tax amendments for Karina and, instead of owing \$300, she was surprised to find out she was actually going to receive a \$2,000 tax return.

In line with the "Taxes Plus: Go Further with MEDA!" model, Karina was asked: "What will you do with your refund?"

Karina was not sure what she would do with her refund, but she knew she had credit accounts in collections, rent that had tripled in the local housing crisis, and a son in elementary school with special educational and health needs. MEDA staff suggested that Karina connect with a financial coach on the asset building team and she agreed, having seen the results achieved with her taxes.

As a result of working with a financial coach, Karina opened a secured credit card and a Fresh Start Saver loan and has rebuilt her credit.

Karina also developed a detailed budget to ensure the rest of her finances were in order, and, as of 2015, has been able to save \$7,000 with her partner. Karina contributes monthly, via direct deposit, into a "Kindergarten to College" savings account for her son.

Karina has been diligent in following up with her financial coach with regard to her various goals, one of which being obtaining more affordable and stable housing for her and her son. Karina has applied and been approved for various Below Market Rate (BMR) housing developments through the City of San Francisco.

In the summer of 2015, after months of patiently waiting, Karina was awarded a unit through the program's lottery system. Before the end of 2015, Karina and her son will be moved into a condominium in San Francisco's Financial District, paying a manageable \$900 to \$1,000 per month, which is less than one-third of the market rate for such a residence.

Karina is excited about the future she launched via the "Taxes Plus: Go Further with MEDA!" integrated service model, and has been referring others from the community to MEDA.

Karina's next goals include purchasing her own home, and continuing to save for her son's success.

Generously supported by



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