MAKING WORK PAY
Building Financial Health Improves Employment Outcomes

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In the world of community development, we have come to understand that revitalizing a neighborhood demands a holistic approach. Affordable housing, community safety and health, economic development, quality education, financial opportunity—each of these forms a mutually reinforcing strand in the well-being of a place and the people who live there. A neighborhood cannot transcend poverty without comprehensive support in all of these areas. The same truth applies for individuals. Supporting people along the path to financial health requires tackling all the facets of financial life. A job, though essential, is not enough.

At the outset of my career, I was assistant commissioner for the New York City Department of Employment and observed dozens of job training and workforce development programs brimming with good ideas and intentions. They placed thousands of New Yorkers in jobs every year. But what these programs could not do, despite offering skills training, on-the-job support, and all manner of follow-through, was to ensure that people kept those jobs and remained steadily employed. We saw clients chronically losing or leaving work, exacerbating the very cycle of debt and poverty we were trying to break. We understood why people became unemployed. If a child got sick or a car broke down, a worker might not have the means to hire a caretaker or repair the car, leaving him or her at risk of missing work and losing pay or being fired. What we didn't know was how to reverse the trend.

During the past 10 years, we at the Local Initiatives Support Corporation (LISC), the nation's largest community development intermediary, have been working to break the cycle of job placement and abandonment. To do so, we have embraced a comprehensive approach, carried out through our Financial Opportunity Centers (FOCs), that recognizes the multi-faceted nature of financial well-being.

REAL RESULTS FOR REAL PEOPLE

Inspired by the Center for Working Families model developed by the Annie E. Casey Foundation, FOCs offer an integrated, or "bundled," set of three essential elements: employment services, financial education and coaching, and access to income supports. The centers' immediate aim is to help clients increase their monthly net income by reducing expenses through budgeting and improvements in credit scores; securing a sustainable job for those who are unemployed or a higher-paying job for those whose wages or hours worked do not meet monthly expenses; and using income-boosting benefits such as food stamps, utility assistance, or children's health insurance. In five years, LISC's seed funding and ongoing technical assistance have enabled FOCs to grow from just four centers in Chicago to more than 75 centers in some 30 cities, and these number continue to grow. Across the country, a wide spectrum of neighborhood-based nonprofits—including workforce agencies, faith-based organizations, housing counseling groups, prisoner re-entry programs, and community colleges—have also incorporated the FOC model into their programming.

For many people, the cycle of negative monthly net income creates a sense of futility around finances and work. But when monthly cash flow moves from negative to positive, sticking with a job and working toward career advancement become part of a larger picture of financial stability. FOC clients feel encouraged and empowered to take on credit, savings, and longer-term career planning. In this way, the core FOC services build on one another.

HOW IT'S DONE: THE FOC PROCESS

We have discovered that financial coaching combined with job training and placement services is particularly effective (for more on financial coaching, see Michael Collins' essay in this book). A recent LISC report analyzing nearly three years of client data from 62 FOCs showed that for half the clients entering the program, their incomes were not enough to cover their expenses.[1] The median initial income was $800 monthly, while median initial expenses were $924. But by the time they completed the program, 76 percent of clients were in a better position. For clients who accessed both financial and employment counseling, average monthly net income grew by $518. For those who took advantage of all three services—financial, employment, and income supports—average net income climbed by $528. Data also indicate that the more intensive the coaching, the more job retention rises. Seventy-four percent of clients who committed substantial time and effort to all three areas of coaching were able to find jobs, and 78 percent retained those jobs for at least six months. Not surprisingly, this group significantly boosted their net income, posting gains that were 2.5 times that of other clients.

It is also important to ensure that clients receive the bundled services in an effective, consistent way. In nearly all centers, clients begin with an orientation of how the FOC works and learn about the three types of counselors—a financial coach, an employment coach, and an income support coach. Many clients want to start with employment services, but our model usually begins with a financial coach. Clients then continue to work with that coach as they move on to employment training. We use financial coaching as the FOC entry point because we understand its importance for long-term financial stability, and experience suggests that clients who receive employment services first may not return for financial coaching.

Making a Plan

At the initial visit, the client and financial coach conduct a thorough review of the client's finances and create a plan for budgeting and building credit. Improving one's credit history and planning for asset building are crucial early steps in managing expenses. Coaches remark that this first meeting is eye-opening for most clients and often the first time they have taken a comprehensive look at their finances. "The first thing I usually hear clients say is 'I don't have money, so I don't need money management,'" says Christopher Vargas, manager of financial services at the Jane Addams Resource Corp FOC in Chicago. "But when they sit down and do

1 Sarah Rankin, "Building Sustainable Communities: Integrated Services and Improved Financial Outcomes for Low-Income Households." (Local Initiatives Support Corporation, April 2015).

a self-assessment and reflect on the fact that they do have a financial life, they're amazed. They see that they have some control over their outcomes."

Tackling Credit and Assets

Part of the job of a financial coach is to point out how the client's money management technique may be sapping their income. Low-income people who lack emergency savings or a decent credit score often turn to the few alternatives available to them: payday lenders, check-cashing services, high-interest auto lots, and rent-to-own stores. The fees, deposits, and high interest charges demanded by these providers take a significant bite out of monthly cash flow. In many markets, utilities and cell phone providers also require hefty up-front deposits to establish service for people with poor credit or no credit. Together, the coach and client go over ways to stanch these expenses, build credit, and, ultimately, start saving.

Employment and Other Services

After their initial meeting, the financial coach might refer the client to an income support counselor while also matching him or her with an employment coach who will provide services such as resumé preparation, job-readiness workshops, "soft skills" training, and educational or vocational programs. At some sites, participants also enroll in financial education classes to broaden their knowledge of such topics as budgeting, credit building, banking products, and short- and long-term saving. As clients progress toward their employment goals, they return to the financial coach to update budgets and continue to address assets, debts, and credit.

The Importance of Client Empowerment

The FOC process is client-driven. Resources are made available, but each participant maps out and is responsible for following his or her own path through those options. Accountability and self-reliance, say coaches, can bloom during the financial training phase. "Financial coaching helps remove the barriers to whatever is keeping the client back, with or without money," says Vargas. "That awareness allows them to understand that they have a relationship with their money, that the relationship is a process, and that taking ownership of that process can lead to something stable."

FOC CLIENTS ARE NOT ALONE IN THEIR STRUGGLES

Millions of Americans are like our clients. Dig below the surface of official unemployment rates and it becomes apparent that many jobs do not lead to financial stability. Although job figures as of spring 2015 look encouraging, the "real" unemployment rate, according to the Bureau of Labor Statistics, is nearly 12 percent. This figure includes some 8 million people termed "marginally attached to the labor force" or "discouraged workers," those who were not looking for jobs at the time they were surveyed, in part because they believed they lacked adequate skills. That number is greater than the populations of Massachusetts, Washington, and Arizona combined.

These are the very people that FOCs work with—people deemed "hard-to-employ" by the Department of Labor. They may have limited education, little or no work history, and few, if any, marketable skills. They may be homeless or formerly incarcerated, which can prejudice employers and make entering or re-entering the workforce particularly hard. They are people with low or no credit ratings and, given that businesses often do not employ applicants with poor credit, they may have been barred from jobs as a result.[2] Indeed, few FOC clients have savings accounts or credit cards, and 87 percent are in the bottom one-fifth of the U.S. income distribution.

In their groundbreaking book, *Scarcity: The New Science of Having Less and How It Defines Our Lives*, Sendhil Mullainathan, an economist, and Eldar Shafir, a behaviorist, describe how getting by with less than we need puts us in a kind of cognitive tunnel. It depletes our self-control and makes us more impulsive. This kind of psychological scarcity—a narrowing of mental bandwidth, as the authors say—is at play for many financially strapped people. A person's work habits and ability to make decisions on the job suffer when he or she is distracted by mounting medical bills or a debt collector's harassing calls. Having limited bandwidth can make it very difficult to summon the drive and optimism required to stick with and advance in a job.

A related outcome of crushing financial stress is a shortened "time horizon." When income is not enough to meet monthly expenses, it is

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2 Carolyn Heinrich and Timothy Smeeding, "Helping the Hard-to-Employ and their Families." (Madison, WI: Institute for Research on Poverty, September 2014).

much harder to think about the long-term benefits of training for and keeping a job or saving and building good credit. Yet developing a longer time horizon—planning for the future, making choices that will result in long-term financial stability—can help an individual pull out of poverty.

Financial coaching targets these key psychological components of bandwidth and an orientation toward the future. The basic act of sitting down to take a realistic look at income, assets, and expenses and creating a budget with an informed, neutral party can be profoundly empowering. It is a crucial start toward exercising control of finances and grasping the impact of one's financial decisions. An FOC client might see on paper how taking a job could boost her income by $1,000 per month, and that giving up cable will cut expenses by $100, thereby lifting net income by $1,100. This kind of perspective on how to arrive at financial well-being can be a major incentive in sticking with employment once a person has landed a job.

A TWO-WAY STREET: EMPLOYMENT AS A SPRINGBOARD FOR FINANCIAL HEALTH AND VICE VERSA

James Skiles, a Chicago man in his early 40s, was overwhelmed by years of financial difficulties and, as he put it, having "no skills, no confidence." In 2013, Skiles was living in a homeless shelter on the north side of Chicago. He was shouldering $7,000 in medical debt and plagued by collection agencies. Delinquent student loans from a vocational school were adding to his pile of stressors and damaging his credit score.

Then Skiles learned about the Jane Addams Resource Corp (JARC), a workforce development center with an FOC integrated into its programming. JARC offered Skiles technical skills training to help him land a full-time, living wage job in manufacturing. Just as important, he received the coaching services he badly needed to build financial stability, all under one roof. Experience has shown that clients are far more likely to take advantage of bundled services when they are seamlessly integrated and co-located with employment programs.

Skiles first enrolled in a "bridge" program to build up his baseline math and reading ability in preparation for JARC's advanced job training. He quickly moved into a technical job-training course and concurrently practiced work-readiness skills through mock interviews, resumé-writing consultations and drafting cover letters. Skiles met regularly with his financial coach to assess and organize his finances. Through this process, he was able to reinstate his student loans and apply for a repayment plan. His medical debt was forgiven. He increased his credit score from 517 to 598, and was accepted into JARC's Twin Accounts program, a low-interest loan that helps clients simultaneously build credit and savings.

Sheryl Morris, director of JARC's FOC, recalls how Skiles went from lamenting that he lacked skills or employment prospects to taking the reins of his financial life. "People come in with so many barriers—not just in terms of education and skills gaps, but in terms of confidence," says Morris. "They lack confidence about their ability to perform on a job, but also as it relates to financial life. We saw that in James. But once he started to see the progress, he became hungry to see more progress. That's what keeps people coming back."

In May 2014, Skiles was hired as a drill press operator by the Howe Corporation, a Chicago-based refrigeration company, at a starting wage of $12 an hour. He has since earned the respect of his supervisors and peers, and a raise. He continues to work with his job developer at JARC, who coaches him through troubleshooting on the job. Lately, Skiles has been trying to boost his productivity at work in the hope of advancing further. And after living in a shelter for 13 months, Skiles recently moved into a place of his own, where he lives with his partner and her son. By drastically reducing the draining interest payments on his debts, curtailing other expenses related to poor credit, and bringing in adequate, full-time income, Skiles has a positive monthly net income for perhaps the first time in his life. Because Skiles' job provides enough income for him to make ends meet, it is not just economically sound—it also feels worthwhile.

As James Skiles discovered, the change in net income for FOC clients who have received bundled services can make a profound difference in both employment and family outcomes. It is impossible to save and build assets without steady income. Getting a job is a first step, but keeping that job and managing expenses are equally important to financial well-being. People who work yet still struggle to make ends meet may often see public assistance as a far more practical and tolerable route to putting food on the table.

This is how LISC's FOCs have proved so transformative. People who are able to see the impact that employment has on their financial health are more likely to stick with and advance in their jobs. And that is at the heart of our mission: helping low-income people build a more confident, productive future—one that lifts their individual prospects and helps them contribute to a stronger, more sustainable community.

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MICHAEL RUBINGER, *president and CEO of LISC, has been at the forefront of community development for 40 years. One of LISC's founding staff members in 1980, he took its helm in 1999 and has since led the organization in revitalizing inner-city housing, expanding into neglected rural areas and developing a comprehensive approach to creating safe, healthy neighborhoods known as Building Sustainable Communities. Rubinger has also served as executive vice president of the Pew Charitable Trusts and as New York City's assistant commissioner of employment and training. Prior to that, he worked with the Manpower Demonstration Research Corporation and the Ford Foundation.*