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Improving Financial Literacy: The Role of Nonprofit Providers

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and the Financial Marketplace”**

Overview

- Financial literacy, education, counseling, etc.
- Goal: increase personal financial capacity
 - Often implemented by nonprofit organizations
- Rationales for use of nonprofit organizations?
- Scale of this 'industry'?
- Trends in the field

Questions

- Why nonprofits?
- What organizations are providing financial literacy-related services?
- Is there evidence nonprofits add value?

Data

- Literature Review
- Key Informants

- IRS Tax Records
 - 990 Forms from GuideStar.org
 - Each nonprofit lists up to four of largest programs
 - National Taxonomy of Exempt Entities Core Codes
 - Text-based description of:
 - organizational mission
 - Programs
 - Limitations:
 - Non-reporting under \$5,000 / \$25,000
 - Date lags: FY vs. TY + filing extensions.
 - Used June 2007-May 2009

Defining 'Nonprofit'

- Based on Tax Status
- “Not for profit” = broadest class
- 501(c)(3) nonprofit = subset; “traditional charity”

Also...

- Foundations 501(c)(3) - operating / non operating
- Leagues 501(c)(4)
- Credit Unions 501(c)(14)

Policy Rationale / Concern

Nonprofit financial literacy services:

- No vested interest in consumer financial choices (no profit to shareholders = signal effect)
- Potential to serve a plurality of populations with special financial needs
- Maybe lower costs / higher quality
 - Hard case to make from literature in other fields
- Concerns of crowding out private market firms or capture by private market firms

Prior Studies

Few studies provide overview of 'field' in general - most focus on specific subsets. For example:

- Herbert, Turnham et al. (2008) - comprehensive review of the housing counseling field
- HHS (2008) - Assets for Independence (AFI) grantees
- Vitt, Anderson, Kent, Lyter, Siegenthaler and Ward (2000) - 80 different programs in existence
- No study appeared to use tax records

Identifying 2,128 Organizations

Table 1

2007-2009 Guidestar Records for Tax Exempt Organizations by Search Term

Search Term	Number	Percentage
"credit counseling"	188	8.8
"financial counseling"	949	44.6
"financial education"	207	9.7
"financial literacy"	524	24.6
"housing counseling"	260	12.2
Totals	2,128	100

Source: Guidestar Extract, Author's calculations

Tax Status: 'Nonprofit'

Table 4

2007-2009 Financial Literacy Extract from Guidestar Records by IRS Tax Status

Tax Status	Number	Percentage
501(c)(14) Credit Unions	7	0.3
501(c)(19) Post or Organizations of War Veterans	2	0.1
501(c)(3) Private Nonoperating Foundation	71	3.3
501(c)(3) Private Operating Foundation	20	0.9
501(c)(3) Public Charity	1,990	93.5
501(c)(4) Civic Leagues and Social Welfare Orgs	25	1.2
501(c)(6) Business Leagues, etc.	11	0.5
501(c)(7) Social and Recreation Clubs	1	0.1
501(c)(9) Employees Associations	1	0.1
Totals	2,128	100.0

Source: Guidestar Extract, Author's calculations

501(c)(3)
nonprofit =
traditional
charity

94% of
records are
501(c)(3)s

Most of rest =
foundations

Most Frequent Program Codes

Table 3

2007-2009 Guidestar Records for Tax Exempt Organizations by Program Category (top 10 most frequent)

Major Program Category Code	Number	Percentage
→ Financial Counseling, Money Management (P51)	847	39.8
Housing Development	97	4.6
Human Services-multi	35	1.6
→ Community-Neighborhood Development	40	1.9
→ Human Services-other	482	22.7
Education-other	32	1.5
Housing-other	31	1.5
Housing Rehabilitation	25	1.2
Homeless	28	1.3
Family Services	25	1.2
→ Other	486	22.8
Totals	2,128	100.0

Source: Guidestar Extract, Author's calculations

Note: Program categories based on NTEE codes

Financial Focused Organizations Smaller than Housing or Human Services Organizations

Annual Revenue, Expense Ratio and Percentage Reporting Financials

<u>Program Code</u>	<u>Revenue</u>	<u>Revenue Expense Ratio</u>	<u>Total Number</u>	<u>% Reporting Financials</u>
Financial Counseling, Money Management	\$ 260,913	0.44	847	47%
Housing Development	\$ 1,433,816	1.23	97	94%
Education-other	\$ 255,450	0.91	32	53%
Human Services-multi	\$ 893,748	0.95	35	69%
Family Services	\$ 528,852	1.09	25	96%
All Records	\$ 699,699	0.82	2,128	67%

Note: Organizations under \$25,000 in revenue not required to report detailed data

Findings from Tax Records

Highly heterogeneous field

- By type of organization
- By type of program
- By financial size
- No regional patterns emerge

Two types of programs

1. Housing & Human Services organizations...
 - larger programs “adding on” financial literacy

2. Financial counseling and management focused organizations...
 - smaller in budget size; revenues short of expenses

Types of Content

Widely Used:

1. Developing goals
 - facilitates people to take control of financial choices
2. Managing a budget
 - promotes monitoring spending in order to save or pay off debt

Often Used:

3. Credit management
 - repairing past problems and reconfiguring existing liabilities
4. Accessing financial services
 - transaction and saving accounts / borrowing

More Specialized:

5. Income tax preparation-based
 - strategies for using a refund
6. Saving for the future
 - access to retirement benefits/ targeted savings

Conclusions

From Literature / Interviews:

- Little/No evidence that nonprofit financial education or counseling has stronger impacts on financial behavior
 - In part because little evidence any interventions have impact
 - Only one head-to-head study
 - Results show strong selection by mode
- Little evidence of cost/quality advantage
- Few concerns about crowd out / some about capture

Based on IRS data:

- 2,128 nonprofits with some financial literacy activity
- Only two-thirds active enough to report financial data
- Financial literacy often not a primary focus



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