Empowerment Accounts: A Holistic Approach to Poverty Relief and Self-Sufficiency

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Since the mid-1960s, the U.S. has spent an estimated $25 trillion (adjusted for inflation) on more than 80 federal safety-net programs—with too many disappointing results. These programs have become rife with improper spending, complicated eligibility criteria, and excessive administrative bloat that ensnare recipients into dependence on government. The Foundation recommends the enactment of "Empowerment Accounts" (EAs) to replace some if not all traditional safety-net programs whereby a recipient manages (under the supervision of a community navigator) an account with state funds available for increased flexibility to purchase basic necessities along with improvements to help recipients achieve long-term self-sufficiency.

> *Current safety-net programs in Texas face an array of issues that prevent those in need from being equipped for long-term success. An Empowerment Account serves as a unique remedy to these struggles.*

Improper Spending: As an example, the payment error rate that includes over- and under-payments for the SNAP program in Texas was 6.6%, or $317 million, in FY 2019, which was below the total error rate for the nation of 7.36%. EA funds would be restricted to purchase reasonable government-approved items, but with flexibility to purchase needed items across traditional programs to meet unique needs while learning from financial literacy programs, the success sequence, and a community navigator.

Eligibility Requirements: Current safety-net programs require recipients to earn below a certain income threshold, which can create "benefit cliffs." This happens when recipients realize greater losses in total safety-net payments than from increased earnings. To avoid a benefit cliff, the program would be time limited and saved funds could be retained after exiting the program, helping reduce the fear of a loss in net income.

Administrative Costs: The $684.8 million, or 9.1%, of the $7.5 billion cumulative price tag of assistance programs in Texas go to administration. EAs could help reduce administrative costs to the state through its use of a nonprofit community-based navigator. The state's role is reduced to oversight and distribution of funds, freeing up additional resources to help recipients with likely less funding overall to navigators.

TPPF RECOMMENDS AN EA PILOT PROGRAM. Legislation could use currently available flexible federal block grants (thereby avoiding federal restrictions) to create an EA pilot program for at most 1,000 people who are currently eligible for select safety-net programs (e.g., TANF, SNAP, WIC, and housing vouchers) in determined geographic areas (e.g., large cities). Texas could also use general revenue supplemented with private donations as necessary, *as long as the program is ultimately cost-neutral to the state (i.e., taxpayers).*

Eligibility: There would be a single, consistent eligibility criterion based on income, assets, dependents, and other factors, which would be modeled on the replaced safety-net programs. The pilot program would have a requirement for at least part-time work, with training or education completed to attain full-time employment. The recipient would agree to be removed from traditional safety-net programs during the EA pilot.

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Logistics: The pilot program would connect recipients with a community-based navigator from a qualified non-profit organization (e.g., faith-based organization) that will provide support from a community that could last long past their eligibility period. Participants would be provided a debit card to meet basic needs, similar to a health savings account (HSA). Each debit card would be combined with a financial application and literacy lessons that would allow the recipient to learn budgeting and life lessons (e.g., success sequence). Any amount left over in the EA will remain with the recipient to incentivize savings and help avoid any "benefit cliff" arising while exiting the program.

The time is now for a new approach to improve long-term self-sufficiency that will ultimately help mitigate poverty and reduce dependency on government programs. An EA would help eliminate administrative bloat, build social capital, increase accountability, incentivize work, and impart lasting lessons on financial literacy and savings that other programs have historically failed to sufficiently do.

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