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THE ROLE OF PUBLIC POLICY IN REDUCING POVERTY AND EXPANDING ECONOMIC OPPORTUNITY

The Case for Building and Protecting Assets

By Andrea Levere, President, CFED,
Jennifer Brooks, Leigh Tivol and Carol Wayman

Policy Levers to Reduce Poverty and Build Prosperity
in the Upper Midwest and Pacific Northwest

INTRODUCTION

Public policy matters in people's lives. That is the guiding principle of *PolicyMatters*, a new series of issue papers underwritten by the Northwest Area Foundation.

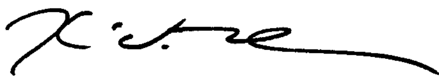
As we launch *PolicyMatters* in 2009–2010, the Foundation is celebrating its 75th year of service to the Northwest area: Washington, Oregon, Montana, Idaho, North Dakota, South Dakota, Minnesota, and Iowa. We seek a future for this region in which those who have been impoverished and marginalized, whether in urban, rural, or American Indian reservation communities, share in real opportunity and lasting prosperity. We work toward that future by making grants and mission-related investments. But we are also committed to sharing knowledge of what works, convening conversations about the region's progress, and advocating for change. In that spirit, *PolicyMatters* is intended to spark reflection, discussion and innovation.

Why focus on policy? Because policy decisions shape the flow of the people's resources through government expenditures, with profound consequences in our communities. Public policy touches on issues as diverse as asset accumulation, early childhood and K–12 education, college access, housing, immigration, workforce development, tax and budget policy, and retirement security. In all of these areas and many more, the people's resources are flowing in patterns shaped not by some invisible hand, but by decisions made by human beings. A critical question is: Whose perspectives inform those decisions? Our Foundation cannot achieve its mission if the proven and promising organizations we work with – or low-income people themselves – are absent from the policy debates of our time.

PolicyMatters, therefore, will lift up voices from the field. We hope these perspectives will be useful to practitioners, advocates and decision makers as they work toward policies to reduce poverty and build sustainable prosperity. Motivating us in this and all our endeavors is a vision for the future of the Northwest area:

- We see a region known for its highly skilled, well-educated population, its living-wage jobs, and its healthy, vibrant communities.
- We see a region characterized by thriving local economies within thriving natural ecosystems.
- We see a region whose strong public institutions, business community, and nonprofit sector collaborate to address pressing needs and help build pathways to prosperity for all residents.
- We see a region whose people are organized and empowered to lift their voices and actively shape the civic, social, political and economic life of their communities.
- Ultimately, we see a region whose rich culture of engagement and opportunity makes it a prized place to visit, to invest, and to live, and where all residents have a fair chance to live free of poverty.

Innovative public policies are essential if that vision is to become a reality. Let us know whether you find *PolicyMatters* helpful in spurring the development of such policies. But more importantly, make sure your voice is heard in what we hope will be a vibrant, ongoing public conversation about the future of our region and our nation.



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THE ROLE OF PUBLIC POLICY IN REDUCING POVERTY AND EXPANDING ECONOMIC OPPORTUNITY:

The Case for Building and Protecting Assets

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Helping America's low-income families build assets is one of the most cost-effective and sustainable improvements we can make as a society. While policymakers seeking to reduce poverty have traditionally focused on income, spending and consumption, a new vision has steadily gained prominence in recent years, focusing on savings, investment, and asset-building policies that work in conjunction with, *not instead of*, traditional anti-poverty policies and programs.

From our perspective, a critical component of poverty reduction lies in promoting public policies that support an individual's ability to build and protect assets. In the sections below, we set the context with a case for assets, a description of asset disparities in the United States, and a review of the current policies that create these inequitable outcomes. CFED sees a window of opportunity for making policy change at the federal, state and municipal levels that will reduce poverty and expand opportunity, and we conclude with an effective strategy for maximizing the impact of this policy window.

Assets and Poverty Alleviation: Why Assets Matter[1]

Assets matter. In many respects, they are a critical underpinning of household economic security, opportunity and progress. They represent the ability to invest in the future – to build skills to earn a decent income, acquire the security of a home, access the marketplace with a new idea or venture, and invest in oneself or one's children.

"Getting by" may require only a paycheck, but "getting ahead" requires assets. Without savings and assets, families live month to month, struggling to meet current expenses and pay debts. Assets – such as stable and secure homes, investments in postsecondary education, and business ownership – bolster financial security for families of moderate and low incomes. In fact, the way most individuals, families and communities move forward economically is through asset building.[2]

Just as important, assets reframe families' future orientation and make a substantial difference in the long-term outcomes for vulnerable children. A growing bank account provides families with a reason to believe in themselves and their potential, the opportunity to imagine a future better than the present, an ability to plan and prepare for that future, and a chance to invest in their children. Indeed, overwhelming evidence[3] indicates that asset holding increases economic security, encourages initiative and risk-taking, increases economic confidence, increases home and business ownership, increases financial skills, strengthens families and communities, and improves the prospects of future generations.

Asset Disparities

In the United States, the distribution of assets is highly unequal – far more unequal than the distribution of income. In 2004, 58 percent of all earned income went to the top 20 percent of earners, while 80 percent of all assets were owned by the top 1 percent of wealthholders.[4] As this small subset of Americans grows increasingly wealthy, more and more Americans have virtually no personal wealth at all. Sixteen percent of American households owe more than they own, and almost one in four is asset poor, meaning they do not have enough savings to survive for three months without income *at the poverty line*. The outlook is even more dire in communities of color and for single mothers: 40 percent of minority and 38 percent of female-headed households with children are asset poor.[5,6]

Disparities in net worth reflect disparities in ownership of underlying assets. Thus, although 72 percent of white households own their own home – the major source of wealth for most households – fewer than half of minority households do. While nearly 30 percent of whites have some college education – now the major determinant of the ability to command a living wage in today's economy – only 22 percent of minorities do. Similarly, minority business ownership rates, revenues and equity lag by substantial proportions behind those of white citizens.[7]

Asset Policy Today

Public policy has played a central role in creating and maintaining these significant inequities. Federal policies and programs that subsidize individual asset building are expensive, and the benefits are highly skewed by income. The federal government provides at least $367 billion annually in programs and tax incentives that promote individual asset building, with most of the benefits going to upper-income Americans. Those benefits bypass the majority of Americans who need the most help. In 2005, taxpayers earning less than $48,000 (about 60 percent of all Americans) shared a little less than 3 percent of these benefits. Meanwhile, the top 1 percent of households, whose average income exceeded $1.25 million, received more than 45 percent of the subsidies. Put another way, the poorest fifth of the population received, on average, $3 in benefits from these policies, while the wealthiest 1 percent received, on average, $57,673. Households with incomes of $1 million or more got an average benefit of $169,150.[8]

Over the past decade, federal and state policymakers have recognized these disparities and instituted measures to help lower-income families build and protect assets. However, these policies come nowhere near the scale or scope necessary to reach the 37.3 million people who were living below the poverty line in 2007.[9]

At the federal level:

- In recent years, federal policymakers have taken important steps to strengthen the savings infrastructure, including facilitating automatic enrollment of employees into employer-provided retirement programs and enabling taxpayers to split their refund into more than one account. These infrastructure elements are essential "building blocks" for asset building; however, to fundamentally change the opportunity for low- and moderate-income people to build wealth, they must be paired with other incentives to encourage saving.

- Approximately 150,000 low-income people nationally have received federal incentives to help them build wealth and financial independence through matched savings accounts, but millions more would qualify for and benefit from these opportunities if adequate resources and options were available.[10]

- Five million low- and moderate-income people receive the Saver's Credit to incentivize retirement savings; however, up to 50 million more could benefit if it were made refundable.

- The 2008 Farm Bill included an important provision that helps mitigate the disincentives to save for families receiving Supplemental Nutrition Assistance (formerly Food Stamps) by exempting Individual Retirement Accounts and tax-preferred college savings accounts from asset limits. Yet until asset tests are eliminated completely, the federal government continues to send the message that poor people should not save.

- The federal government recently ramped up efforts to address predatory lending and foreclosures. Unfortunately, policymakers took no meaningful action until foreclosures had reached the level of a national crisis, and millions have lost their homes while waiting for federal policymakers to agree on an appropriate solution.

At the state level:

- Thirty-nine states have at one point or another provided support for Individual Development Accounts (IDAs). However, state support has not been consistent – only 18 states are now funding their IDA programs – and the level of support is not even close to meeting the need.[11] In addition, the enormous shortfalls in state budgets are likely to result in cuts to IDA programs in many states.

- Sixteen states have eliminated the disincentive to save by removing asset limits in the Supplemental Nutrition Assistance Program (SNAP);[12] four states in the Temporary Assistance to Needy Families (TANF) program; and 22 states in the Medicaid program.[13] Unfortunately, however, most states still discourage families receiving public benefits from creating their own safety net through savings.

- Twenty-four states and the District of Columbia have anti-predatory mortgage lending laws that are stronger than federal law; however, fully half of states still do not offer these protections to their homeowners.[14]

On balance, we can point to a number of important policy breakthroughs and victories. However, significant challenges remain, particularly in light of the shifting economic landscape. To truly open up asset-building and asset-protection opportunities, we must build momentum among practitioners and advocates nationwide for progressive change and take advantage of the new political and economic realities before us.

A Window of Opportunity

We are in a critical period for this country and for advancing asset policies at the federal, state and local levels. Over the next two years, a combination of factors – related to economics, politics, policy and groundwork laid by the field of advocates – must converge to create the opportunity to pass major assets policy at the federal level, along with significant changes at the state and local levels.

Economics. Even before the economic meltdown, the financial position for many Americans was far from secure. In the years immediately preceding the downturn, the nation recorded a near-negative personal savings rate. One in seven families was dealing with a creditor. A child in the United States was more likely to see his parents declare bankruptcy than divorce.[15] Today, the unemployment rate continues to rise and foreclosures are threatening the financial security of entire communities. As a result, there has been increased public attention to asset insecurity and the rising wealth gap. Both the media and policymakers are open to discussing savings, wealth-building, and wealth-preservation issues.

Politics. A new President and Congress provide an important opportunity to spotlight the moral, financial, and political costs of the growing wealth gap and the imperative for the nation to address it. Asset building has garnered unprecedented attention by national leaders. In the 2008 election, nearly all of the Democratic candidates for president, and some of the Republican candidates, had platforms that supported asset building. They embraced various approaches, ranging from savings matches and universal savings accounts to homeownership credits and children's development accounts. As president, Barack Obama has already begun to demonstrate support for asset building though the choice of several high-level advisors with expertise in retirement security and savings issues and through his FY 2010 budget, which includes critical wealth-building and entrepreneurship provisions specifically targeted to low- and moderate-income Americans.

Asset-building policy proposals have heretofore benefited from bipartisan, bicameral support. The new Administration's interest in asset policy solutions will provide the leadership necessary to secure a major policy victory.

Policy. At the end of 2010, the Bush administration's middle-class tax cuts are set to expire, which means that Congress will need to either extend or eliminate these tax cuts. The inevitable legislation will provide a policy vehicle on which to carry a major investment in wealth-building incentives targeted to lower-income families. At the state level, legislatures are grappling with budget shortfalls, which limit the potential to enact large new investments in asset building. However, the federal American Recovery and Reinvestment Act[16] both mitigates state budget gaps with an infusion of funding and creates opportunities to improve asset-related policies, including removing asset limits in public benefit programs, increasing the uptake of the Earned Income Tax Credit, and extending health care coverage to laid-off workers.

Groundwork. For the past several years, we have been building the evidence base that asset policies are effective. Several recent evaluations of Individual Development Account (IDA) programs reported substantial positive benefits for savers. A five-year evaluation of the federal Assets for Independence (AFI) program, which funds IDA programs nationally, found that those who participated in the program were 35 percent more likely to become homeowners, 84 percent more likely to become business owners, and nearly twice as likely to pursue post-secondary education or training than their non-AFI counterparts.[17] Other research shows that more than half of IDA program graduates who had previously received public assistance no longer received assistance after completing the program, and nearly all still own their homes two years after purchase.

A more far-reaching study shows that the passage of asset legislation increases the wealth and savings of low-income families.[18] CFED's policy research shows a track record of success in enacting such state asset policies.[19]

Simultaneously, we have collectively been building a field of practitioners and advocates who work at the local, state and federal levels. A consensus is emerging among them that a comprehensive asset agenda is essential to achieving victories on asset policies. As a result, many more allies have come to the table with a common vision supporting an array of policies – from an expansion of retirement accounts and the Earned Income Tax Credit to preventing predatory lending to supporting matched savings accounts.

Economics + Politics + Policy + Groundwork = Opportunity. Together, these factors provide a rare "policy window" to organize the political will to achieve legislative change. To take advantage of this window, we must act now to build the capacity of assets programs and advocates on the ground in politically important congressional districts. These groups will be in the best position to show policymakers

that asset policies alleviate poverty and expand economic opportunity. The external and political environments are conducive, the policy mandate is upon us, we have the evidence and the momentum is building. Now, we must seize the opportunity.

Policy Recommendations

Federal, state and municipal policy each play a role in asset building and protection. At each level of government, there are also unique opportunities for, and barriers to, effecting policy change. A federal policy change has the advantage of potentially affecting the entire country with one action. Yet, by design, federal policy changes are few and far between. A state policy change, by contrast, may be easier to come by, though it would affect fewer people. As "laboratories of innovation," states may be more likely to try out bold new ideas, but have less flexibility to create new spending programs because of the need for a balanced budget. At the municipal level, there is perhaps the greatest opportunity to test how policies can be implemented on the ground, but also the greatest restriction on resources. Consequently, CFED posits that it is critical to work at all levels of government. Below, we offer a set of federal, state and municipal policy recommendations to take advantage of the unique opportunities before us.

FEDERAL POLICY RECOMMENDATIONS

Our recommendations fall into four broad categories: building the infrastructure for asset building, incentivizing savings, protecting the assets people already have, and removing disincentives to save. These recommendations take a variety of approaches and serve a variety of populations. They have bipartisan support and include both low-cost legislation that may be more easily adopted, as well as more ambitious, comprehensive, and far-reaching policies.

Building the Infrastructure for Asset Building

Create Automatic IRAs. Research shows that low-income young and minority workers are less likely to participate in their companies' retirement plans, and suggests that if saving for retirement were more automatic, convenient and easy, there would be a considerable increase in participation rates. One study found that employees earning less than $30,000 who were hired into firms that automatically enrolled workers into retirement plans had a participation rate of 77 percent, compared with a participation rate of 25 percent for similar employees in firms with voluntary enrollment policies.[20]

To encourage greater participation, Congress should extend payroll-based retirement saving opportunities to a majority of the 75 million employees currently without access to a retirement plan at work. Employers who do not sponsor a retirement plan would facilitate direct-deposit payroll deductions to an IRA and receive temporary tax credits to offset administrative costs. The law could affect all employers in business for more than two years and with more than 10 employees.

President Obama included an automatic enrollment proposal in his FY2010 budget.

Align preretirement uses in retirement accounts. Current law allows savings in Individual Retirement Accounts – and to some extent 401(k)s, 457s, and 403(b)s – to be used for other asset-building purposes in addition to retirement. IRA funds can be used without penalty to support college education, and up to $10,000 can be used for first-time homeownership; savers may borrow from 401(k)s for these purposes, but the loans must be paid back. The law should apply IRA rules for withdrawals for homeownership and education to 401(k)s and other employer-provided accounts. Doing so would clarify rules for savers, remove management burdens for employers, bring federal policy into alignment and, ultimately, encourage savings for all of these uses. In addition, the $10,000 lifetime limit for homeownership withdrawals should be doubled to provide adequate capital for downpayment.

Provide "affirmative permission" for utility and telecommunications companies to report on-time payments to credit bureaus. Having a low credit score – or no credit score at all – relegates many borrowers to the subprime mortgage market, even though they may be a good credit risk. The current practice of reporting only late utility payments, rather than both on-time and late payments, has the effect of lowering the credit scores of many African Americans, Latinos, and young and elderly people. Full reporting of utility and telecom payments to consumer reporting agencies could raise the credit scores of approximately 54 million Americans. These payments are similar to credit, are predictive of creditworthiness, can be reported easily and help consumers build stronger credit ratings. Currently, many utility firms' counsels discourage full payment reporting, due to a concern that it is prohibited by *The Telecom Act of 1996* (PL: 104-104). Congress should clarify the law by affirming that positive payment reporting is permitted.

Create Roth IRAs for youth. Congress should permit adults to use a portion of their Roth IRA allocation to open accounts for youth. Current law requires that deposits to Roth IRAs be made from earned income, which means that children cannot contribute to a Roth. The federal government should allow adults to contribute to Roth IRA accounts for children, not just for themselves. These "Young Savers' Accounts" would help increase use of the familiar, popular IRA product.

Return savings bond option to tax returns. Congress should work with the Internal Revenue Service (IRS) to allow individuals to purchase savings bonds directly on their tax form when they file. Congress should require the IRS to notify individual tax filers of their options to save and invest at tax time, including purchasing savings bonds directly from returns as occurred forty years ago.

Incenting Saving

Promote lifetime savings by providing matching funds.[21] Matching the savings of low-income people enables them to enter the financial mainstream, save for an asset and build wealth. The match for these savings comes from a variety of private and public sources. In recent years, several approaches to providing a match for low-income people have emerged, including creating matching accounts for children and youth, expanding the Saver's Credit, expanding IDAs, creating a tax credit to encourage deposits into retirement savings accounts, and creating accounts to encourage savings among special populations.

Congress should enact a universal, progressive lifetime savings account program providing an initial deposit for all newborns and matching deposits for low- and moderate-income children for education, homeownership, retirement and entrepreneurship.

Expand the Saver's Credit. More than 50 percent of Americans report having saved less than $25,000 for retirement. Among families in the lowest income quintile, only 10 percent have retirement accounts. Just 35 percent of families in the next lowest income quintile have retirement accounts, compared to 90 percent of families with income in the top ten percent. The Saver's Credit was enacted by Congress in 2001 to help low- and moderate-income working families save for retirement. The credit is based on contributions

CHILDREN'S SAVINGS ACCOUNTS

Several child savings bills have been introduced in recent sessions of Congress, including the America Savings for Personal Investment, Retirement and Education (ASPIRE) Act. The ASPIRE Act would ensure that all children have the opportunity to acquire assets and wealth, though it would most benefit low-income children. Each account would be endowed with a one-time $500 contribution. Children born to families earning below the median income would be eligible for a supplemental contribution of up to $500, and matching funds up to $500 per year until the child reaches 18.

to a 401(k), other employer plan, or an Individual Retirement Account (IRA). Five million Americans currently benefit from the Saver's Credit. However, as enacted, the Saver's Credit is nonrefundable – thus denying it to some 50 million families who pay employment taxes, but whose income is low enough that they owe no federal income taxes.

President Obama has proposed simplifying and expanding the Saver's Credit. The Administration proposes providing a 50 percent match to households earning less than $65,000 who save up to $1,000 in a retirement account and making the credit refundable. Legislators have recommended automatically depositing the credit into a designated retirement savings account and indexing the contribution amounts to inflation. In addition to making these improvements, Congress should also provide the credit for savings in college savings accounts, qualified savings bonds or IDAs.

IMPROVING THE SAVER'S CREDIT

The Savings for American Families' Future Act (H.R. 1961) proposes to expand retirement savings incentives to more than 50 million Americans by making critical improvements to the Saver's Credit. H.R. 1961 would make the Saver's Credit refundable; provide a flat 50 percent match on qualified contributions up to $500/$1,000 for a single/joint filer; increase the income eligibility requirement to $65,000 for joint filers and $32,500 for single filers; and automatically deposit matching contributions into the designated retirement account through IRS Form 8888.

Reauthorize the Assets for Independence program. Congress should reauthorize the Assets for Independence program, which provides savings matches for homeownership, college education and small business through IDA programs. Changes recommended by IDA practitioners include raising the authorization limit to allow a funding increase, lowering the amount of non-federal match that grant applicants must bring to the table in order to access federal funds, expanding financial education investments, expanding eligibility standards, and implementing technical changes.

President Obama included $24 million for AFI in his FY2010 budget request.

Enact the Individual Development Account tax credit. *The Savings for Working Families Act* (SWFA) provides a tax credit to financial institutions that match the savings of at least 2.7 million low-income families who are saving to purchase a home, start a business or go to college. Accountholders' savings would be matched dollar-for-dollar, up to $2,000 over four years. SWFA also provides $120 million for nonprofits to deliver financial education to accountholders.

Support rural savings incentives. Low-income communities in rural areas face special challenges in building assets. Compared with urban centers, rural areas have more limited economic investments, fewer high-paying job prospects, and more limited opportunities for education and training. Matched savings accounts can be an effective tool to build capacity, reduce poverty, and improve long-term well-being among low-income rural households. The 2008

EXPANDING ACCESS TO IDAS

The Savings for Working Families Act (S. 985/ H.R. 2277) is the central legislative vehicle for bringing IDAs to scale. It would offer a one-to-one tax credit for 2.7 million IDAs. This IDA tax credit would encourage savers to deposit up to $500 per year for four years. Financial institutions would provide deposits into a separate, parallel account that matches what the individual saves, dollar for dollar. Financial institutions would receive a tax credit for the matching funds that they provide, as well as a $50 annual credit for each IDA that they administer. Nonprofits, tribes and community organizations would receive $120 million to provide financial education to participants.

Farm Bill included the *Beginning Farmer and Rancher Opportunity Act*, which authorized $5 million for savings matches and financial education. Congress should appropriate full funding for the program, which would allow savers to receive up to $6,000 in matching funds to purchase farming or ranching equipment, supplies, training, livestock, land, buildings, or other necessary items.

Expand asset-building funding for families receiving federal housing supports. The U.S. Department of Housing and Urban Development's Family Self-Sufficiency (FSS) program is a proven approach for helping families in public housing and those in the Housing Choice Voucher (Section 8) program to build assets and make progress toward financial independence and homeownership. FSS works by combining three elements: (1) stable, affordable housing; (2) service coordination to help families access services needed to overcome barriers to work and achieve other goals; and (3) a matched escrow account that grows as families' earnings grow. Public housing funding issues, however, have precipitated a net decline in FSS participation of some 4,000 families over the last decade. Legislation to fix public housing funding could dramatically increase FSS participation among low-income families, and should be supported.

The Family Self-Sufficiency Act of 2009 (H.R. 46), would provide an administrative fee to public housing agencies to cover the costs of administering family self-sufficiency programs in connection with the housing choice voucher program. The bill, which passed the House of Representatives and has been referred to the Senate, also permits the Secretary to reserve certain amounts to provide support to or reward family self-sufficiency programs that are particularly innovative or highly successful in achieving program goals.

Invest in microenterprise for low- and moderate-income entrepreneurs.[22] Increasingly, entrepreneurship and small business ownership are seen as critical components of asset building and workforce and economic development policy. In a changing and often unstable economy, the self-reliance and innovation of business ownership can make the difference between dependency and poverty, and contribution and growth. The federal government should promote entrepreneurship across all levels of society, and among all skill levels of entrepreneurs, via the following avenues:

- **Preserve and expand federal investments in microenterprise expansion through business assistance and lending programs.** Over the past two decades, the federal government has invested in nonprofits with proven skills in helping low-income families start and sustain businesses. These programs are operated through several agencies, although the most targeted are three programs at the Small Business Administration: the Microloan Program, Program for Investment in Microentrepreneurs (PRIME), and Women's Business Centers. Several other federal agencies

INVESTING IN ENTREPRENEURSHIP

The Job Creation through Entrepreneurship Act of 2009 (H.R. 2352) establishes a new microenterprise training center program to provide low-income and unemployed individuals with training and counseling in starting a microenterprise. H.R. 2352 – targeting women and minorities – creates new training programs for Native Americans, updates and reauthorizes assistance programs geared to women-owned business, establishes a Rural Entrepreneurship Advisory Council, provides funding for a green entrepreneurship training program, and establishes a grant program for Small Business Development Centers to assist local firms in securing capital and establish procurement training programs. The bill has passed the House and awaits action in the Senate.

also have programs that support microenterprise development. However, nearly all of these programs have experienced either stagnant or severely reduced levels of funding in recent years. These investments should be maintained and expanded.

- **Use the tax code and "tax time" to connect microentrepreneurs to financial services and business planning help.** An estimated 4.5 million low-income, self-employed households already qualify for the Earned Income Tax Credit (EITC). CFED estimates that the value of this tax credit for self-employed households is $7.5 billion, making it the single largest government program supporting microenterprises. In addition, the new Making Work Pay tax credit is a unique opportunity for the microenterprise field to mount a national effort to take advantage of these direct tax credits to serve microenterprises. Like the EITC, which provides tax credits (up to $4,000 or more) for the net profits that qualifying households make from micro-businesses, the broader Making Work Pay tax credit will provide additional support (up to $400 per individual) that can help address the regressivity of Social Security and Medicare taxes, which hit the self-employed particularly hard, and could induce non-filing, "informal" businesses to formalize and begin paying taxes.

  The Making Work Pay tax credit should serve as the centerpiece of a national campaign to channel more dollars to low-income microbusinesses (11 million of which file business taxes yearly) and potentially funnel new clients seeking financial advice and business assistance to programs (two to three million low-income, self-employed are new filers every year).

- **Fund the Beginning Farmer & Rancher IDA Program.** The Beginning Farmer & Rancher IDA (BFRIDA) Program, described on page 8, matches the savings of agricultural entrepreneurs. The program would enable beginning farmers and ranchers to save for a farming-related asset, including land, equipment, breeding stock, trees, or similar expenditures. The legislation authorizes up to $25 million over a five-year period for the program. President Obama included $5 million for the program in his FY2010 budget request. If Congress fully funds the program, BFRIDA could serve up to 4,000 agricultural entrepreneurs over the tenure of the pilot.

Protecting Assets

Protect consumers from predatory lenders. Predatory lending – both in the mortgage market and the short-term loan market – strips low-income families of the very assets that they are struggling to obtain. The federal government has an important role in protecting assets.

- **Curb predatory mortgage lending.** Predatory or abusive mortgage lending refers to a range of practices, including deception, fraud, discrimination or manipulation, that a mortgage broker or lender may use to make a loan with terms that are disadvantageous to the borrower.[23] Predatory lending occurs primarily in the subprime market, which makes higher-interest loans to consumers. By one estimate, predatory mortgage lending costs Americans $9.1 billion per year.[24] African American and Hispanic borrowers are disproportionately affected, as they are more likely than whites to get higher-rate subprime loans, even with similar income and credit scores.[25]

  The nation's current foreclosure crisis illustrates the devastating effects of irresponsible mortgage lending, not only on low-income families, but also on entire communities and international markets. Although a federal law enacted in 1994[26] was intended to provide protections, the law left open major loopholes for abusive practices. More recently, numerous bills to limit predatory lending and address foreclosure have been introduced in Congress. The federal government should continue to take action to prevent foreclosures and increase protection for consumers.

- **Restrict short-term loans with predatory terms.** Predatory payday lending refers to the practice of flipping small, short-term loans repeatedly at exorbitant interest rates. They are called "payday loans" because they are marketed as a tool for cash-strapped borrowers to make it to the next paycheck. The Center for Responsible Lending estimates that predatory payday lending fees cost U.S families $4.2 billion annually. The typical borrower pays back $793 for a $325 loan.[27] As with predatory mortgage lending, payday lending is often concentrated among communities of color[28] and in economically distressed areas.[29] In recent years, the federal government has substantially restricted payday lending in military communities. Now, it should offer the same protections to all Americans.

Removing Barriers to Asset Building

Reform asset limits. Personal savings and assets are precisely the kind of resources that allow families to move off – and stay off – public benefit programs. Yet many entitlement programs – like cash welfare, Medicaid or Supplemental Security Income – limit eligibility to those with few or no assets. If a family has assets over the state or federal government limit, it must "spend down" – and pay penalties – on longer-term savings to receive what is often short-term public assistance. These asset limits, which were originally intended to ensure that public resources did not go to "asset-rich" individuals, are a relic of policies that largely no longer exist. Cash welfare programs, for example, now focus on quickly moving families to self-sufficiency, rather than allowing them to receive benefits indefinitely.

Asset limits can discourage anyone considering or receiving public benefits from saving for the future. The federal government should eliminate asset limits in all federal public benefit programs.

Administration officials have expressed interest in reevaluating asset limits and identifying appropriate proposals for reform.

Open doors to mainstream financial services. A high percentage of people living on low incomes do not have regular access to banking services, which is a substantial barrier to asset building. Tax time represents an important opportunity to connect low-income families to the mainstream financial services sector. Volunteer Income Tax Assistance (VITA) sites provide free tax help to low-income families – but their resources are limited. Better-funded VITA sites could connect more vulnerable households to asset-building opportunities. VITA sites can aid in opening savings accounts, and they dramatically increase the claim rate for the EITC. VITA sites can also partner with matched savings programs to give people a reason to choose to save.

In 2007, the Internal Revenue Service created Form 8888, which permits a taxpayer to split a tax refund among up to three accounts. Advocates and VITA sites

ASSET LIMITS: ENCOURAGING PROGRESS; BARRIERS REMAIN

Assets advocates won an important victory with passage of the 2008 Farm Bill, by mitigating savings disincentives for families receiving Food Stamps. Asset limits had been frozen since 1986 at $2,000 ($3,000 for elderly or disabled households). The shrinkage in the inflation-adjusted value of the limits discouraged saving and undermined a key path to self-sufficiency.

The Farm Bill made two valuable changes: first, it indexed asset limit to inflation in future years (if it had been indexed in 1986, it would be more than $6,000 today); second, it exempted tax-preferred retirement accounts and education accounts from the asset limit.

It will now be critical to work with states to ensure that the new law is implemented appropriately. Advocates should also continue to press for elimination of asset limits. The existence of an asset limit, no matter how high, sends a signal that saving should be avoided.

should promote these changes to build a strong structural system for saving by low-income, young and minority people, many of whom are parents. Advocates should also seek a federal match to EITC tax filers who direct a portion of their tax refund to a 529 college savings plan, IDA, savings bond or IRA through use of IRS Form 8888.

STATE POLICY RECOMMENDATIONS

State-level policies to support families' ability to build assets and protect against asset stripping come in a number of forms. CFED recommends taking a broad approach to a state asset policy agenda.

A comprehensive asset policy agenda should include policies to provide direct financial incentives to save (for example, through IDAs or EITCs) as well as remove disincentives to building assets (such as removing asset limits in public benefit programs). It should focus on specific assets such as small business and homeownership (microenterprise programs, first-time homebuyer assistance, and housing trust funds) as well as education (early childhood education, access to quality K–12 education, and college savings incentives). It should also help people protect the assets they already have (by curbing predatory payday and mortgage lending and expanding access to affordable health care).[30] We focus on several of these policies below.

State IDA program support. To date, 39 states[31] have enacted or administratively created state-supported IDA programs, though not all are currently active. A strong state IDA policy will include several key elements, including:

- **Sufficient funding.** The state's commitment to IDAs should be no less than $200 per low-income resident.[32] This rate of funding covers the administrative and operating costs of the IDA program as well as the matching funds for savers.

- **Strong state agency stewardship.** It is important for the IDA program to have a steward within state government, and for the stewarding agency to be committed to all legislatively permitted uses for IDA savings.

- **State funding for match and program costs.** In addition to matching deposits for IDA program participants, states should allow, at a minimum, 15 percent of state funding to be used to cover program administration, program services, operating costs, and/or technical assistance to providers.

- **Stable state funding.** While state budgets grow and shrink with fluctuations in the economy and annual appropriations negotiations can be protracted, it is important for state funding for IDAs to come from a stable and protected source.

Whether through law or administrative rule, states may also opt to include other highly desirable elements of strong state IDA policy, such as flexibility of uses, protecting savers' eligibility for means-tested public benefit programs, and financial education.

Lifting asset limits in public benefit programs. States determine many key policies related to families' access to public benefits. States have full discretion in setting or eliminating asset limits for TANF, Medicaid, and the State Children's Health Insurance Program (SCHIP). In addition, states have some flexibility to address asset limits for the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp program) through an approach called "categorical eligibility."[33] A state's policy is strong if it has eliminated asset limits in all of the major public assistance programs administered by states – SNAP, TANF and Medicaid.[34]

Even if states have not eliminated asset limits altogether, they can take intermediate steps. States can increase asset limits to a high enough level that low-income families are unlikely to reach the limits or index them to inflation. States can also exempt certain classes of assets from counting against the asset limits.

Unlike the TANF and Medicaid programs, states cannot *directly* exempt classes of assets in SNAP because most SNAP rules are set at the federal level. However, states can *indirectly* exempt classes of assets that are not "readily accessible" through their authority to align SNAP policies with state TANF and/or Medicaid policies. In other words, if a state has excluded assets that are not readily accessible from either the TANF or Medicaid program, it can align the SNAP rules with that program and effectively exempt that asset from counting against the asset limit. The 2008 Farm Bill[35] amended the SNAP asset test by excluding 529s and certain retirement accounts; however, it did not address savings held in other kinds of restricted accounts, most importantly IDAs. For these assets to be exempted from the SNAP test, states must either align with a state program (TANF or Medicaid) that has excluded these assets or use categorical eligibility to effectively eliminate the asset test completely.

Since 1996, 22 states have eliminated Medicaid asset limits entirely, and thus far, four states have eliminated TANF asset limits.[36] Three states have substantially increased the asset limits in their Medicaid or TANF programs, and 16 states have excluded important categories of assets from these limits.[37] Sixteen states have essentially eliminated SNAP asset limits through "categorical eligibility,"[38] and 28 states have improved their SNAP rules by aligning them with TANF or Medicaid.[39]

College savings incentives. One way to make the cost of postsecondary education more manageable and increase participation by lower-income families is to create incentives for families to save for college. Eleven states (Arkansas, Colorado, Indiana, Kansas, Louisiana, Maine, Michigan, Minnesota, North Dakota, Rhode Island and Utah) currently match or provide a tax credit for individuals' deposits into 529 college savings plans.

Each state offers its own 529 plan through a designated financial institution. States have the flexibility to design many features of the plan, including whether to offer incentives to lower-income residents – or all residents – to encourage savings. States can automatically open accounts for all newborns. They can seed the accounts with initial deposits. They can match an individual's deposits or provide benchmark deposits when savers reach certain milestones. States can make these policy decisions through regulation or legislation.

A strong state college savings incentive policy includes automatic enrollment of all children at birth; the potential for a high account balance after 18 years; the ability for accountholders to make very small deposits; and a no-fee investment option to minimize costs to savers.

State Earned Income Tax Credit. States can enact their own EITCs that build on the federal credit. Each state can determine the amount of the credit, its coverage, and family size adjustments, as well as whether it will be refundable.[40] States can also provide a bonus to families if they save all or part of their refund in a product such as an IDA or IRA. This flexibility gives states the opportunity to design the credit according to their individual population needs and available resources. It also gives states the opportunity to improve upon an already effective federal program.

A strong state EITC policy is refundable and is set to at least 15 percent of the federal EITC. It provides a bonus for EITC[41] funds deposited into a savings or investment account.[42] To date, 24 states (counting the District of Columbia) have enacted EITCs, including three states in 2007 and one in 2008. As these new credits (along with a number of recent expansions) take effect, state EITCs will collectively provide

about $2 billion per year to 6.5 million low-income families.[43] Twenty-one of the 24 state EITCs are or will soon be refundable. Existing state EITCs range from 3.5 percent to 40 percent of the federal credit. In 2008, Washington became the first state without an income tax to enact a state EITC.

Protections against predatory mortgage lending and payday lending. States can and should take advantage of their authority to protect families from predatory mortgage and payday lending. They can restrict the terms or provisions of certain high-cost home loans, strengthen regulation and licensing of mortgage lenders and brokers, and require lenders and brokers to ensure that the borrower is able to repay the loan before approving a borrower for credit. States can also ban payday loans, restrict the terms or provisions of payday loans, impose caps on interest and/or fees, require registration or licensing of payday lenders, and require disclosures to potential borrowers.[44]

Twenty-four states and the District of Columbia have an anti-predatory mortgage lending law that is stronger than the federal law with respect to common equity-stripping practices, such as excessive fees and abusive prepayment penalties.[45] Twenty-two states (including the District of Columbia) have passed some form of payday lending law, and 14 states have essentially eliminated payday lending within their states by enforcing relatively low interest rate caps. In the past year alone, three states did this, and another state has seen nearly all of its payday lending locations close after the state attorney general sent cease and desist letters to payday lenders. These recent policy victories are estimated to have protected $243 million from asset stripping.[46]

State microenterprise support. According to the most current available data, 25 states allocate funding for microenterprise development.[47] States have several options for supporting microenterprises:

- **Codifying support for microenterprise and/or entrepreneurship.** States should codify support for microenterprises, microenterprise programs, disadvantaged entrepreneurs or programs to support disadvantaged entrepreneurs in current law. Policy that is supportive of microenterprise can provide funding, include it in the state's economic development plan, or provide an official description or definition of microenterprise.

- **State funding for both technical support and loans.** States should allow funding to be used for training and technical assistance as well as for loans.

- **Sufficient funding for training and technical assistance.** States should provide at least 25 percent of the total funding that microenterprise support programs need to deliver training and technical assistance to entrepreneurs. Specifically, states should allocate $500 for each microenterprise that faces disadvantages in establishing and operating a business, and where the entrepreneur needs or wants assistance.[48]

- **Stable state funding.** State funding for microenterprise should remain at stable levels over time.

LOCAL POLICY RECOMMENDATIONS

If states are at the forefront of innovation, then localities are fast moving toward the leading edge. Cities and counties represent an important testing ground for innovative asset-building efforts. Their comparatively small size makes serving city residents a more manageable proposition, especially when considering universal asset-building initiatives. Municipalities' relative lack of bureaucracy means that it can be significantly less burdensome and time consuming to get new programming off the ground. As more city leaders recognize and embrace the importance of asset building, more local and municipal efforts are now underway.

Notable asset-building initiatives are currently in the design or implementation phase in San Francisco, San Antonio, New York, New Orleans, and Caguas, Puerto Rico, with more in the pipeline. Initiatives include efforts to reach low-income taxpayers with VITA/EITC sites, opening savings or checking accounts for unbanked families, foreclosure prevention and anti-predatory lending programming, and matched savings accounts.

For instance, numerous cities are expressing interest in matched accounts for children and youth. Among them are Caguas, which now offers a savings account at birth for every child born in the city; New York City, which provides financial education and matching funds for youth in foster care; and San Antonio, which recently launched a "Cribs to College" savings pilot for children born in the city.

For funders and advocates, these local initiatives are important for a number of reasons. They represent an opportunity to implement asset-building programs at a manageable but meaningful scale, develop important partnerships on the local level, help prove the value of public investment in asset building, and make the case for larger-scale public sector involvement in the future.

Change Strategy

Clearly, there are many opportunities to address poverty through assets policy. However, to make a meaningful impact on poverty reduction, good ideas are simply not enough – regardless of their intrinsic value. Rather, for real, progressive policy change to occur, policymakers must:

- See a solution that addresses a compelling problem.
- Have access to empirical evidence that the solution will work.
- Be shown real-world experience that the solution works.
- Hear from a constituency that demands change.
- Hear the media echoing the need for a change and the solution.

No single entity exists with the competency to deliver all of these essential components with equal skill. Thus, stakeholders must work in a complementary way to ensure that policymakers see, hear and experience the information they need to compel them to act. The following guiding principles can assist in making these essential connections.

Complementary skills and roles for national organizations. Some organizations focus on only one of these prerequisites for policy change; others focus on two or three. Still others do some of each, but to different degrees. All of these skills and roles are essential. An effective organization will directly deliver to policymakers some of them and connect to other organizations in areas that are not primary strengths.

For shorter-term wins, ideas must have broad bipartisan appeal and be relatively inexpensive and incremental. In the current political climate, a "good" idea that addresses a compelling problem must be coupled with broad appeal across the aisle, be relatively affordable and make incremental change.

The perilous state of the national and global economy, a very tight budget environment with record deficits, a two-front war, impending Social Security expansion and rising Medicare costs will limit the success of any legislation with a price tag. Some progressive, universal savings incentives, such as a refundable Saver's Credit, expansion of the EITC, or children's savings accounts will require at least $4 to $5 billion per year.

Smaller, less expensive new programs, as well as changes to existing programs, allow policymakers to show their constituents that they have an impact and are significantly easier to achieve. Cost-neutral improvements to existing programs, such as the Assets for Independence program, as well as new programs that build on current policy, such as the IDA tax credit (which would cost $1.3 billion over 10 years), are achievable in this climate.

Big ideas help engage constituents and can succeed when policy windows open. Success with more modest policies lays the groundwork for larger proposals that can be pushed through when unique policy windows open. Larger (that is, more expensive) policies also provide the compelling vision that articulates the end goal and allow stakeholders to build a constituency. These "big ideas" could include making the Saver's Credit refundable; enacting a universal, progressive system of matched children's savings accounts; raising or eliminating asset limits from means-tested programs where appropriate, and adding a savings bonus to an existing tax credit, such as the EITC.

Policymakers need real-world examples; IDA programs need policy support to exist. To reach scale in asset building, policymakers need to see existing, successful examples of matched savings programs. These examples come from the more than 500 IDA programs across the country in policymakers' states and districts. At the same time, to maintain the field of IDA practitioners, federal policies are needed to support these programs. Therefore, it is important to continue to improve programs like AFI, which has helped support the majority of IDA programs over the past decade.

Practitioners, accountholders, financial institutions and others become constituents who are willing to weigh in on policy issues when they have "skin in the game." Institutions and individuals who have been directly involved with asset building are the best advocates for policy change if they can see how state and federal public policy choices affect their programs or lives. Therefore, policies that have clear relevance for these institutions and individuals – like the IDA tax credit – are important opportunities to pursue.

Both state and federal policy advocacy are necessary. Changing policies at the state and federal levels is important not because one level of government is better suited to asset-building issues, but because both have value – both intrinsically and as catalysts for broader change. On one hand, a state-level victory can provide evidence that an idea works, which builds momentum for a federal-level change. On the other hand, federal legislative language – even as a bill that has yet to see significant action – can provide legitimacy for innovative ideas and give state policymakers the confidence to act.

Collaboration is essential. The best policies are made when the strengths, talents and perspectives of diverse stakeholders come together. However, for these diverse stakeholders to converge requires a trusted convener that respects, encourages and navigates differences.

Conclusion

As Geoffrey Canada, President/CEO, Harlem Children's Zone, has said, "If you're in the business of fighting poverty and you're not in the business of building assets, then you're not in the business of fighting poverty." Quite simply, in poverty alleviation, assets matter. Assets open the door to economic opportunity for the poor and offer a path to a more prosperous life. Constructing a transformative set of asset-building policies can build real economic opportunity, not only for those in poverty, but also for the increasingly insecure and struggling middle class.

As a nation, we have an unprecedented window of opportunity to promote asset-building policy at all levels – federal, state and local. Making the most of this opportunity will require support and

action from a broad range of stakeholders – including foundations, state and national advocates and intermediaries, local practitioners, and low-income families themselves. We believe that participating in this process is one of the most important ways to impact poverty reduction through public policy.

Endnotes

1. This section is largely drawn from two sources: "Asset Accumulation & Protection," chapter in a Opportunity Finance Network publication, *The Next American Opportunity: Good Policies to Make America Great* (B. Friedman and E. Weaver) and CFED (2004). *Hidden In Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget.* Retrieved March 30, 2009 from http://www.nextamericanopportunity.org/aap/ and May 19, 2008 from www.cfed.org/publications/Final percent20HIPS percent20 percent20Version.pdf.

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Biography

Andrea Levere

Since 2004, Andrea Levere has led CFED (formerly known as the Corporation for Enterprise Development) as its president. Under Ms. Levere's energetic direction, the nonprofit CFED focuses on its mission to expand economic opportunity for low-income people and disadvantaged communities.

At the helm of CFED, Ms. Levere developed an national partnership with the Federal Reserve System to address the inability of many Americans to build personal savings and assets. Together CFED and the Federal Reserve System have held a series of forums highlighting innovations in asset-building policy, products and programs and continue to identify long-term initiatives with national impact.

Ms. Levere has also launched CFED's new initiative to address the challenges faced by the 10 million American families who live in manufactured homes. She also oversees CFED's largest program, a 10-year initiative to test and promote children's savings accounts called SEED (Saving for Education, Entrepreneurship and Downpayment).

In addition, Ms. Levere has added staff and resources to CFEDs policy and communications efforts, leading to a number of policy victories in state legislatures and growing attention to the issue of asset-building in the national media. Her leadership has been recognized by donors who have contributed more than $2 million toward CFED's endowment fund and are making multi-year commitments to CFED's policy change efforts.

Before becoming president, Ms. Levere served CFED in a number of other leadership positions since 1992. Prior to joining CFED, she was a director with the National Development Council. At NDC, she was a lead trainer for the Economic Development Finance Certification Program and designed and conducted "Taking Care of Business," a financial management program for entrepreneurs.

Ms. Levere served as Chair of the Board of the Ms. Foundation for Women from 2002–2005, after being on its board since 1998. Currently she serves on the endowment committee of the Center for Community Change. She received a bachelor's degree from Brown University and a master's degree in public and private management from the Yale School of Management. She was awarded the Alumni Recognition Award from the Yale School of Management in 2001 for exemplary commitment to the field of economic development and the mission of the Yale School of Management.