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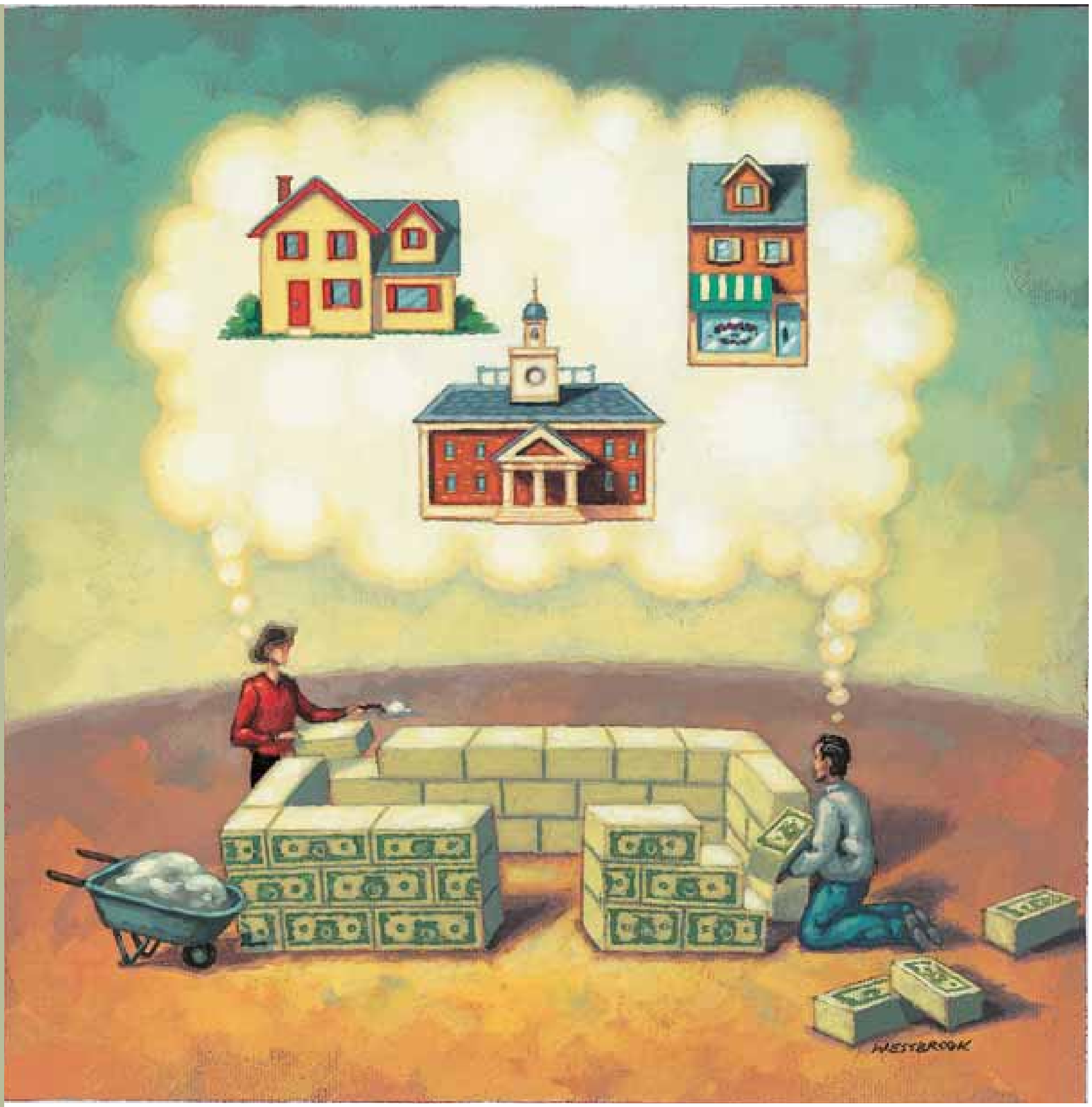

Promoting Economic Security for Working Families: State Asset-Building Initiatives

By Heather McCulloch

Today, more than ever, America's families need more than a regular paycheck to achieve financial security. They need to acquire and preserve assets. They need a pathway to ownership.

Research has demonstrated that ownership of assets — cash savings, stocks, bonds, and home and business equity — is associated with better educational attainment, increased civic participation, and more positive health outcomes. Assets give families the cushion they need to survive financial crises. They enable families to invest in their future and to pass resources on to their children.

But how can we ensure that America's working families have a real opportunity to become owners?

The reality is that more than a quarter of American households are "asset poor" — meaning they do not have enough savings to live at the poverty level for more than three months if their income is disrupted. Many low- to moderate-income families live paycheck to paycheck, with no economic safety net and little or no opportunity to acquire assets. For these families, who are unable to invest in a home or their children's education, "asset poverty" is more likely to continue from generation to generation.

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perspectives

Creating Tools of Self-Sufficiency: Helping Delawareans Save Money and Build Assets

By Jack Markell

As a 17-year-old, I spent a few days in India where my eyes were opened to a level of poverty I had not previously seen. Those few days changed my life. Among other things, the experience made me think about the government's role in addressing poverty. I also began to learn about groups that used innovative approaches to help low-income families increase their assets.

I became convinced that one of the most important things the government can do is give people the tools they need to take control of their own lives, and that includes their financial lives.

Although adequate household income remains critical to families living on the edge, a long-term view suggests that families also need to build financial assets.

Assets enable households to make important financial investments — purchasing a home, starting a business, paying for college, investing in stocks, or saving for retirement — that generate long-term financial stability. And assets change attitudes: Families with assets are much more likely to envision a bright future for themselves and for their children and they are much more likely to make a commitment to their communities. That's why our nation has made homeownership one of the cornerstones of our national housing policy.

But we can and must do more. In today's volatile economic climate, families that know how to create their own financial stability are families that know how to survive — and thrive. Families that have assets are able to endure crises — temporary unemployment, for example — without a government safety net. They've created their own safety net, as well as a foundation for building a future.

Jack Markell is the state treasurer of Delaware.

The public service stemming from my visit to India some years ago now continues with my work as the state treasurer of Delaware. In this capacity, I have an opportunity to craft policies that streamline the pathway to financial strength for the citizens of our state.

With the goal of helping all Delawareans create their own financial safety nets, Governor Ruth Ann Minner and I commissioned the Governor's Task Force for Financial Independence. The Task Force was charged with helping people build financial security through education, savings, and investment opportunities.

Our Task Force members understand the critical importance of financial education. Our statewide financial literacy efforts include "Purses to Portfolios," a conference to help women develop money management skills. We've also launched a public education program to ensure that more families take advantage of the federal earned income tax credit. And we're not forgetting our future citizens: We're working with partners, such as the Boys and Girls Club, to help children learn how to save.

I know that strong families are the key to a strong Delaware. And I'm proud to be part of the team that builds the tools that help families build financial independence.

The Perspectives column expresses the views of its author and does not necessarily represent the views of the editors, the Fannie Mae Foundation, or its officers or directors.

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Promoting Economic Security for Working Families

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Today, many state leaders recognize that one way to break the poverty cycle is to offer families the opportunity to build assets. Across the country, governors, legislators, and community and business leaders who share a common interest in helping families save and invest are at the forefront of a new policy dialogue.

The Growth of the National Asset-Building Movement

The United States has a long history of asset-building policies that encourage families to save and invest. For example, the Homestead Act and the GI Bill helped millions of families accumulate assets, many of which were passed on to future generations. In recent decades, tax-based incentives, such as the home mortgage tax deduction and education and retirement savings incentives have successfully encouraged many families to build assets.

But new research shows that these policies have disproportionately helped wealthier Americans, leaving lower-income families behind. Millions of low-income families do not have sufficient tax liability to take advantage of tax deductions, deferments, and credits. Of the more than $300 billion of federal tax expenditures that subsidize asset building, one-third of the benefits accrue to the top 1 percent of households — those earning more than $1 million. Less than 5 percent of these indirect subsidies go to the bottom 60 percent of families.

In the 1990s, asset-building advocates, including elected officials, nonprofit executives, foundation leaders, academics, and others, focused on advancing innovative strategies and more equitable federal policies to enable low-income families to save and invest. Their efforts laid the groundwork for a national asset-building movement.

During the same period, changes in social welfare policies gave state leaders greater control over the allocation of federal social service resources. Welfare reform policies gave states new responsibility for helping families move from welfare to work. However, although states have successfully reduced welfare rolls, they have been less successful moving working families out of poverty. Public concern about the plight of working families has fueled growing state-level interest in expanding opportunities for working families to move into the financial mainstream.

Initial state-level approaches to helping lower-income families build assets included allocating state and federal funds to support individual development accounts (IDAs) and increasing support for home and business ownership. But elected officials and civic leaders in several states have recently begun to approach asset building more strategically by recognizing that asset-building opportunities are part of a continuum of strategies families need to move from poverty to economic security.

Today, state-level civic leaders — policymakers and nonprofit and business leaders — are coming together to discuss ways to strengthen and connect existing asset-building strategies, identify new approaches, and implement public policies that help make wealth-building opportunities accessible to more working families.

The Emerging Role of States

We can all learn from the asset policy innovations being advanced by forward-thinking state leaders. Following is a discussion of asset-building efforts in six states. California, Delaware, and Pennsylvania's initiatives are more mature, while Hawaii, Illinois, and Michigan's initiatives are in early development.

Delaware

In 2001, Delaware Governor Ruth Ann Minner established the Governor's Task Force for Financial Independence, composed of representatives from the public, private, and nonprofit sectors. The task force's initial policy recommendations included short- and long-term measures. They proposed near-term approaches that required limited or no state resources, such as expanding access to financial education and helping eligible taxpayers claim the federal earned income tax credit (EITC). The task force also called for more resource-intensive strategies, such as a state EITC and increased access to health insurance.

The Delaware initiative has made a difference in how all three sectors do their work. The state now recognizes financial education as an eligible work activity for recipients of Temporary Assistance for Needy Families (TANF) benefits; the Delaware Bankers Association has adopted financial education as a primary mission; and the Boys and Girls Club is participating in a national demonstration around children's savings accounts. Additionally, government, business, and community leaders are working together to

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advance statewide financial education programs, increase funding for IDAs, and address abusive lending practices.

Pennsylvania

In 2004, Pennsylvania Governor Edward Rendell established the Governor's Task Force for Working Families and a new state Office of Financial Education. Task force members included state legislators and public agency representatives, as well as interested parties from the private and nonprofit sectors and academia. Among other things, the task force recommended integrating financial education into Pennsylvania's K-12 school curriculum and helping employers provide financial education in the workplace. The task force also recommended helping more families claim the EITC, increasing asset limits for TANF recipients, boosting entrepreneurship and small business development, increasing access to retirement savings, and providing a model for responsible credit card marketing on college campuses.

Implementation efforts are now under way. The governor's 2005/2006 budget includes funding for the Office of Financial Education, K-12 financial education programs, EITC outreach efforts, small business development centers, and community development financial institutions. And task force leaders continue to work together to advance other recommendations.

California

In early 2003, the Earned Assets Resource Network (EARN), began a statewide conversation about asset poverty in California and the need for proactive policy solutions. This dialogue launched the Asset Policy Initiative of California (APIC), a statewide effort to advance policies that enable low- and moderate-income families to save, invest, and preserve their assets. APIC started with a 30-member task force made up of statewide advocates, elected officials, state agency directors, and business, academic, and philanthropic leaders. The task force's preliminary policy priorities included raising asset limits or eliminating the asset means test for public benefits, providing state funding for IDA programs, establishing a homeownership trust fund, creating a renter's tax credit that can be used toward the down payment on a home, allocating state funding to community land trusts, supporting microenterprise and cooperative business development, expanding health insurance coverage, and combating predatory lending.

As APIC has grown and prioritized its policy agenda, it has developed near- and longer-term priorities in partnership with policy-makers, research institutions, and statewide advocacy organizations. With funding from foundations and financial institutions, APIC recently hosted a state asset policy symposium, created a Web site that includes asset-related data and policy updates (www.assetpolicy-ca.org), and developed the Local Asset Poverty Indicator, a tool that measures asset poverty at the county level. Current APIC priorities include creating a state housing trust fund; establishing a permanent funding stream for state asset-building policies; forming a statewide task force on financial education; and supporting policies to raise asset limits and reduce predatory lending.

Hawaii

Led by the statewide nonprofit Hawaii Alliance for Community-Based Economic Development, Hawaii's Ho'owaiwai Asset Policy Initiative grew from a 2004 convening on wealth and poverty in Hawaii, attended by more than 250 participants from across the Hawaiian islands. Community leaders and state legislators are working together to create a statewide infrastructure that connects grassroots efforts with policy-makers, so that public policies are directly informed by Hawaii's diverse communities. In the meantime, initiative leaders are advancing near-term asset-building policies, including the extension of the state IDA tax credit, the implementation of a voluntary tax assistance program, and the establishment of a state EITC.

Illinois

The Illinois Asset Building Group, first convened by the Woods Fund of Chicago in 2003, works to connect disparate asset-building activities and discuss a common policy agenda. The group's leadership, made up of policy, research, advocacy, and community-based organizations, has proposed the creation of a Governor's Task Force on Family Economic Success, which is currently under discussion in the governor's office. The group recently endorsed an extensive policy agenda that includes expanding access to financial education and financial services, removing asset barriers in public benefit programs, supporting children's savings accounts, promoting affordable housing and homeownership, and combating predatory lending.

Michigan

The Michigan IDA Partnership (MIDAP), a

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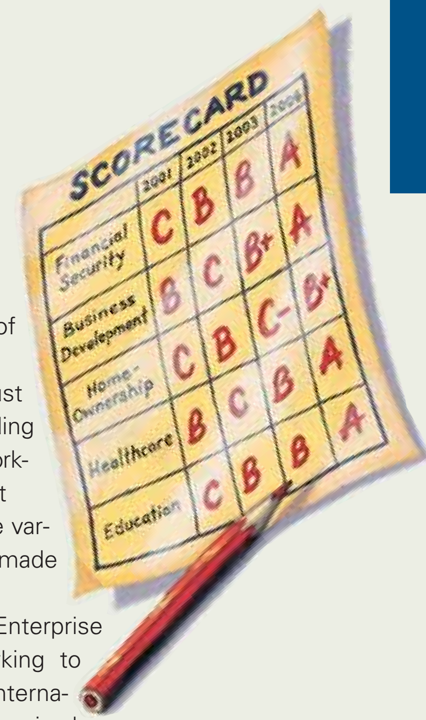
Asset-Building Strategies: Common Elements of Success

The statewide initiatives discussed in this article share the following elements of success:

- Reframing the policy dialogue — Winning initiatives reframe state-level discussions by advancing a positive goal (expanding economic opportunity, building economic security, and achieving financial independence) rather than talking about preventing a negative (poverty).
- Showing strong leadership — Strong and engaged leaders, from the public, nonprofit, and private sectors, bring diverse constituencies to the table and engage them in an ongoing solutions-oriented policy dialogue.
- Building a bipartisan dialogue — Successful initiatives engage Democratic and Republican leaders, early in the process, to build a bipartisan dialogue about strategies that appeal to both sides of the aisle.
- Building public will — Savvy advocates communicate effectively through the media, grassroots organizations, and other public forums to build a public discussion about the challenges of asset poverty and the value of asset-building solutions.

Ownership in America: A Tool to Help States Measure Financial Security

By Andrea Levere



While it's a good first step for states to develop and implement asset-building programs, it's hardly the end of the story. Effective asset-building strategies need to be informed by accurate and timely information. States must know how well or poorly their citizens are doing in building assets. And they need to assess what programs are working and which may need to be adjusted. Unfortunately, that kind of information — especially data considering all the varied factors that affect asset building — has rarely been made available.

Established in 1979 as the Corporation for Enterprise Development, CFED is a nonprofit organization working to expand economic opportunity in the United States and internationally. Through its work with state leaders, CFED recognized their need for accurate data showing the impact of state asset-building programs and policies. So, in 2002, CFED created what is now known as the Assets and Opportunity Scorecard: Financial Security Across the States, a comprehensive tool to measure ownership and financial security.

Looking beyond just incomes to the whole picture, the Scorecard measures American families' capacity to build assets and withstand financial setbacks. The Scorecard reflects the understanding that while getting by may require only a paycheck, getting ahead requires a variety of assets, including a financial safety net, education, and health care.

How the Scorecard Works

The Scorecard compares state data across several asset-related factors, ranking the 50 states and the District of Columbia in 31 performance measures within an index (financial security, business development, homeownership, health care, and education).

Using primarily publicly available data, the Scorecard measures a family's ability to build assets that can be used to invest for the future, send children to college, and weather unexpected financial storms. Additionally, the Scorecard tracks the safety nets and safeguards that provide financial security in the event of a job loss, medical emergency, or other setback.

The Scorecard grades the states on a curve, measuring states' performance in each area and assigning a grade from "A" to "F" in each category (homeownership, for instance). The Scorecard compiles these five index grades and compares them with one another to arrive at a single overall grade for each state.

The Scorecard also looks at 38 state policies that can help or hinder citizens' efforts to get ahead. State policies are graded separately from performance grades. For policies, each measure is compared with the average state policy and rated "favorable," "standard," or "substandard" based on that comparison.

Because CFED rates the states against each other, a single state can be assigned a high grade even if its performance is only slightly better than a poor national average. By the same token, a poorly performing state could show great improvement over recent years but still receive a failing grade because the whole nation has similarly improved. Thus, the Scorecard provides a summary of national trends along with the state performance grades and policy ratings.

How States Are Using the Scorecard

Five state-level organizations across the United States, each of which is working to alleviate poverty and bolster financial security, are working with CFED to increase awareness of asset building via the Scorecard. Each organization will use the Scorecard's data to highlight overall financial security in their respective states. For example, in California, the San Francisco-based Earned Assets Resource Network (EARN) will release its own scorecard with local asset poverty data.

Additionally, CFED provides states with data tools on its Scorecard Web site to make it easy for advocates and policy-makers to compare results, evaluate their states' strengths and weaknesses, and identify effective policies.

What the Scorecard Shows

The Scorecard tells a compelling story: Many American families are living with practically no safety net. And although some groups and states are doing much better than others, every state can do more to help its citizens.

We Owe More Than We Own

The most striking Scorecard finding may be that nearly one in five American households owes more than it owns. In the event of a job loss, one in four households does not own enough to support itself at the poverty line for three months. And the picture is even bleaker for women and people of color: One in four female-headed households and one in three minority-headed households has zero or negative net worth. Data paint a mixed, though troubling, picture of assets and financial security among Americans:

- Homeownership, a key source of asset-building, is at an all-time high. That said, the growth of homeownership has slowed substantially, and homeownership rates vary widely across the country. Little more than half of New York's residents own their own homes, for example, while more than three-quarters of West Virginia's do. Minority homeownership, while also growing, continues to lag substantially behind that of white families.
- Financial security varies widely by group. Female-headed households have significantly less net worth than male-headed households. Minority families have only one sixteenth the net assets of white families. Results vary widely by state, too: The median Massachusetts family has nearly three times the net worth of the median West Virginia family.
- Minority- and women-headed households own much less than the national average, but the Scorecard shows that these gaps are slowly closing. The number of families that owe more than they own is higher for minorities and female-headed households. Still, the "asset poverty" gaps by race and gender have both narrowed. The homeownership gap between white and non-white heads of household and between female and male heads of household narrowed slightly, improving in a majority of states.
- Health insurance, a critical financial safety net, is on the decline. Fewer people are covered by employer-provided health insurance — 66 percent were covered in 2000, but only 64 percent were by 2003. That means that nearly four million people lost employer-provided health coverage during that time. Related research shows that nearly half of all bankruptcies in the United States result from unexpected illness or medical bills.
- Between 2000 and 2003, per capita consumer bankruptcy filings increased in 49 states.
- On the policy front, the Scorecard found that some state policies actually discourage asset accumulation. For example, many states place strict limits on the assets a person can hold and still be eligible for federal assistance. These asset limits, which disproportionately affect poor families, provide strong disincentives to saving. Ohio and Virginia stand out as the only states that have eliminated asset limits for means-tested programs.

Amid Concerns, Reasons to Hope

The Scorecard shows promising trends in education, which is often the first step toward achieving financial security, acquiring assets, and building wealth.

- Between 2001 and 2003, 46 states have seen an increase in the number of poverty-level children served by a Head Start program.

■ Since the late 1990s, 43 states have seen improved college attainment rates. The attainment gap by income has closed slightly, yet the wealthiest 20 percent of Americans complete college at a rate more than six times that of the poorest 20 percent.

■ The Scorecard's policy measures show that the states are making some progress in protecting assets, especially those of low-income families. In recent years, 29 states have enacted legislation against predatory lending. In North Carolina, for instance, abusive prepayment penalties declined by 72 percent since that state's legislation was enacted in 1999.

Conclusion

States have a growing menu of strategies to choose from when seeking to help residents acquire assets and build a secure future. And the Scorecard offers states a way to judge the quality of their offerings. Several states have used the Scorecard to assess current programs and determine the direction of future programs. The Scorecard is also a powerful diagnostic tool. In Connecticut, for example, Voices for Children used Scorecard results (which showed an alarming incidence of asset poverty) to promote broader advocacy among a more diverse constituency. This new coalition is now working to advance a housing trust fund bill and enhance the state's individual development account program. Accurate, objective measurement is not just essential to the diagnosis of a problem — it's essential to the remedy. By providing states with a precise way to measure progress, it makes progress more likely. By pinpointing defects, it promotes the elimination of defects.

Andrea Levere is president of CFED in Washington, D.C. The Assets and Opportunity Scorecard: Financial Security Across the States *is available online at www.cfed.org/go/scorecard.*

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collaboration among foundations and a state agency, began with the goal of creating a statewide IDA program. After successfully establishing 50 programs and 1500 accounts across the state, MIDAP leaders recognized the need for a broader conversation about asset-building policies and strategies. In 2004, they decided to support the creation of a statewide asset policy initiative that includes government, business, and community leaders. The structure and priorities for the new initiative are currently under development, but likely areas of policy focus include expanding state support for IDAs, linking EITC refunds to matched savings accounts, removing barriers to asset accumulation in public benefit programs, supporting children's savings accounts, and combating predatory lending and insurance redlining.

Asset-Building Initiatives: Common Strategies

Although they have different leadership structures and policy priorities, these initiatives share the common goal of enabling lower-income families to save, invest, and preserve their assets. The initiatives also share common strategies, such as:

- Exploring ways to make financial education more accessible in schools, the workplace, and in communities
- Creating policies that promote saving and investment in education, homeownership, small business development, and retirement
- Identifying ways to make tax-based savings incentives accessible to lower-income families
- Examining policies that help families preserve their assets by expanding access to insurance and reducing abusive lending practices

Conclusion

To expand ownership, one must start by confronting the reality that millions of Americans do not have the means and opportunity to be owners today.

The good news is that the current policy environment gives states the opportunity to advance asset-building policies that help more residents save and invest in themselves, their families, and their communities. Even in today's tight fiscal conditions, state asset policy initiatives are brokering near-term strategies that are leveraging public (federal and state) and private (business and philanthropic) resources to help families build assets. And these asset policy initiatives are building a new policy dialogue that is laying the groundwork to implement longer-term strategies. Although these asset-building policies represent just the beginning of statewide efforts, they are already helping to open up economic opportunities for working families. If successful, over time, these state initiatives will result in broader ownership and a brighter future for America's working families.

Heather McCulloch is an asset policy consultant based in San Francisco, Calif. This article is based on a longer report, titled Promoting Economic Security for Working Families: State Asset-Building Initiatives, *by Heather McCulloch.*

resources

Web Sites

America Saves is a national campaign to encourage individuals and families to save and build wealth. (http://www.americasaves.org)

The Aspen Institute's Initiative on Financial Security works to find solutions to America's asset crisis so that more Americans can own homes, finance college, and prepare for a secure retirement. (http://www.aspeninstitute.org/Program1.asp?i=106&bid=0)

The Asset Policy Initiative of California is a statewide network of stakeholders committed to increasing asset-building opportunities for working families. The site features a policy framework that identifies a continuum of asset-building strategies. (http://www.assetpolicy-ca.org)

The Center for Social Development, a research institute based at the George Warren Brown School of Social Work at Washington University in St. Louis, Mo., focuses on asset-based policy development. (http://gwbweb.wustl.edu/csd/index.htm)

FDIC's Money Smart Program is an adult financial education training program that helps individuals build financial knowledge, develop financial confidence, and use banking services effectively. (http://www.fdic.gov/consumers/consumer/moneysmart/index.html)

The Michigan IDA Partnership is a public/private partnership between the State of Michigan Family Independence Agency and the Council of Michigan Foundations that administers a $10 million statewide IDA program for low-income families. (http://www.cmif.org/IDA/IDAHome.htm)

Reports

Dollars and Sense: Realistic Ways Policy-makers Can Help Pennsylvania's Working Families: Task Force Report. January 2005. The Governor's Task Force for Working Families.(http://www.banking.state.pa.us/banking/lib/banking/Governor%27s_Task_Force_for_Working_Families_Report_—_FINAL.pdf)

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State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty. 2002. Corporation for Enterprise Development, Washington, DC. (http://sadrc.cfed.org/SADRC-CFED.pdf)

Insight

"...a nation of savers makes the whole country richer. People who save are more likely to invest in everything: working hard at their jobs, getting an education for their children, starting businesses, taking care of their own health."

Elizabeth Warren, Harvard University law professor and co-author of The Two-Income Trap

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