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The Role of Public Policy in Reducing Poverty and Expanding Economic Opportunity

The Case for Building and Protecting Assets

By Jennifer Brooks and Leigh Tivol

Helping America's poor 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.

The Northwest Area Foundation solicited input from CFED on how it could best influence poverty reduction through public policy. From our perspective, much of the answer lies in the 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 seizing this window of opportunity.

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 and far more unequal than the distribution of income. In 2004, the top 20 percent of earners commanded 58 percent of earned income, while the top 1 percent of wealthholders owned twice the wealth of the bottom 80 percent.[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 direr 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]

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.[6]

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 2006, 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 over 45 percent of the subsidies. Put another way, the poorest fifth of the population get, on average, $3 in benefits from these policies, while the wealthiest 1 percent get, on average, $57,673. Households with incomes of $1 million or more receive an average benefit of $169,150.[7]

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 36.5 million people who were living below the poverty line in 2006.[8]

At the federal level:

- About 250,000 low-income people nationally receive opportunities for federally incentivized savings to help them build wealth and financial independence,[9] but millions more would qualify for and benefit from these opportunities if adequate resources were available.

- The recently passed 2007 Farm Bill includes an important provision that will mitigate the disincentives to save for families receiving Food Stamps. Specifically, it indexes Food Stamps asset limits to inflation and exempts certain categories of assets. However, 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 will likely lose their homes before federal policymakers can 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.[10]
- Two states have eliminated the disincentive to save in the Temporary Assistance to Needy Families (TANF) program and 22 states in the Medicaid program by removing asset limits.[11] Unfortunately, most states still discourage families receiving 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; fully half of states still do not offer these protections to their homeowners.[12]

On balance, we can point to a number of important policy breakthroughs and victories. However, significant challenges remain. 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 on the cusp of a critical period 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. The financial position for many Americans is insecure. For the last two years, the nation has had a negative personal savings rate. One in seven families is dealing with a creditor. A child in the United States is more likely to see his parents declare bankruptcy than divorce.[13] Rising foreclosures are threatening the financial security of minority and vulnerable households, and even 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 and wealth-building issues.

Politics. The election season is already providing an 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 and candidates. Nearly all of the Democratic candidates for president, and some of the Republican candidates, had platforms supporting asset building. They embraced various approaches, ranging from savings matches and universal savings accounts to homeownership credits and children's development accounts. No matter who is in the White House after the election, we know already that there is a hunger for change and new ideas. Asset-building policy proposals have heretofore benefited from bipartisan, bicameral support. We believe that real interest in asset policy solutions from the Administration will provide the leadership necessary to secure a major policy victory.

Policy. At the end of 2010, President Bush's middle-class tax cuts are set to expire, which means that Congress will need to either extend or eliminate these tax cuts. During this same time frame, middle-class families will be hit hard by the alternative minimum tax creating an additional impetus for Congressional action. The retirement of significant numbers of baby boomers will put substantial pressure on deficits and government outlays. Finally, history demonstrates that major tax legislation happens in the first two years of a new Administration. Given the likely focus on middle- and upper-income families, the inevitable legislation will provide a big-ticket tax vehicle on which to carry wealth-building opportunities for lower-income families.

Groundwork. For the past several years, we have been building the evidence base that asset policies are effective. Two recent surveys show that nearly all IDA savers still own the asset they purchased two years later.[14] Another study shows that the passage of asset legislation increases the wealth and savings of low-income families.[15] Through CFED's policy research,[16] we can also show a track record of success in enacting state asset policies.

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 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 imminent; 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 three broad categories: encouraging asset building, 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 programs.

Encouraging Asset Building

- **Promote savings by providing matching funds.**[17] 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 IDAs and Children's Development Accounts, a tax credit to encourage deposits into retirement savings accounts, and accounts to encourage savings among special populations.

    - *Bring IDAs to scale.* Currently, there are 540 IDA programs in the United States, serving more than 73,000 savers. However, hundreds of thousands more low-income families would qualify for an IDA if sufficient funding were available. The expansion of IDAs has long been limited by an

Expanding Access to IDAs
The Savings for Working Families Act of 2007 (S. 871/H.R. 1514) is the central legislative vehicle for bringing IDAs to scale. It would offer a one-to-one tax credit for 900,000 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. It would also benefit nonprofits, tribes and community organizations by providing $20 million for these groups to provide financial education to participants.

inadequate supply of matching funds for individual participants' savings. The federal government should expand matched savings opportunities to serve more qualifying families.

In tandem with government support, private foundations, corporations, and individuals should take advantage of new and emerging opportunities to contribute to matched savings initiatives. The American Dream Match Fund (ADMF)—an emerging philanthropic intermediary—represents one complementary example of a strategy to catalyze private and philanthropic funds to provide match money. ADMF will raise money primarily from individuals throughout the United States, as well as corporations and foundations, and re-grants these funds to effective nonprofits to match savings for low-income families. ADMF seeks to provide matched savings accounts for at least 100,000 low-income Americans over the next 15 years.

The American Dream Match Fund: A Catalyst for Growth

ADMF will raise money from private sources—individuals, foundations, and corporations—to open IDAs for more low-income families. ADMF will also identify, refine, and disseminate best practices and technologies in the matched savings field; execute a public awareness campaign to promote matched savings accounts; and increase the capacity of at least 100 community-based matched savings programs to serve hundreds of savers at a time.

Grantee nonprofits will use funds raised via ADMF to match the savings of low-income clients; to underwrite program management, especially the delivery of financial education—a key component of successful matched savings programs; and to develop innovative, efficient methods for service delivery.

- *Maintain and enhance federal support for existing matched savings programming.* The federal Assets for Independence (AFI) program is currently the largest source of IDA funding nationally. It is critical to reauthorize and improve this program. Practitioners and advocates should urge the introduction and passage of legislation that would increase resources for financial education, reduce the nonfederal match requirement, allow Supplemental Security Income and Social Security Disability Income to be included as eligible sources of savings, and raise eligibility levels to 80 percent of Area Median Income, among other needed enhancements.

- *Broaden and improve incentives for retirement savings among lower- and middle-income households.* More than 50 percent of Americans report having saved less than $25,000 for retirement. 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 to a 401(k), other employer plan, or an Individual Retirement Account (IRA). Without this credit, millions of families receive little or no tax benefit when they contribute to a retirement savings plan. However, as enacted, the Saver's Credit is nonrefundable—denying it to more than 60 million families who pay employment taxes but whose income is low enough that they owe no federal income taxes. Although some improvements have been made, such as making the credit permanent and indexing the eligible income levels to inflation, more can and should be done to encourage low- and moderate-income families to save—most critically, making the Saver's Credit refundable.

Expanding the Saver's Credit
H.R. 2724, currently moving through Congress, would make the existing Saver's Credit fully refundable, thereby expanding it to more than 60 million American households. The legislation would increase income eligibility levels to $30,000 for single filers and $60,000 for joint filers; require the credit to be deposited directly into a retirement account as a matching contribution; index the contribution amounts to inflation; and expand the credit to 529 college savings accounts and Coverdell education savings accounts.

- *Create a matched savings account for every child at birth.* Children's Development Accounts should be established automatically at birth with an initial deposit and built by contributions from family, friends, and the children themselves. Accounts should be augmented by savings matches and other incentives, and use of savings should be restricted to financing higher education, starting a small business, buying a home, or funding retirement. Young accountholders and their families should also receive age-appropriate financial education.

Children's Development Accounts
There are several child-savings bills in Congress, including the America Savings for Personal Investment, Retirement and Education (ASPIRE) Act (H.R. 3740). 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.

- *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 2007 Farm Bill included the Beginning Farmer and Rancher Opportunity Act of 2007 (S. 1460/H.R. 2419), which provides $5 million for savings matches and financial education. Savers may receive up to $6,000 in matching funds, which may be used to purchase farming or ranching equipment, supplies, training, livestock, land, buildings, or other necessary items. This initiative is an excellent new opportunity. Over time, it should be expanded and replicated for other rural populations.

  - *Create savings opportunities for foster youth.* Each year, as many as 25,000 teenagers "age out" of the foster care system when they reach the age of majority. At that point, foster youth no longer have access to financial supports and other services from the government, and most have had no training to manage their personal finances. Asset-building strategies, including matched savings accounts, are growing in popularity among programs serving foster youth. They represent an important opportunity to support independent living for this often overlooked population, teach practical financial skills, and help young people accumulate savings and assets for a fair chance at a better future. Congress should support initiatives such as the Focusing Investments and Resources for Safe Transition (FIRST) Act (S. 2341), which would provide initial deposits and matched accounts for foster youth to further their financial independence once they age out of the foster care system.

  - *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 the Housing Choice Voucher (Section 8) program 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 the public housing funding could dramatically increase FSS participation among low-income families and should be supported.

- **Tap the potential of IRAs.** Employer-based savings is a largely untapped frontier in asset building for lower-income households. The federal government can, and should, play an important role in encouraging savings in the workplace.

  - *Promote automatic IRA enrollment***.** 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.[18] H.R. 2167, the Automatic IRA Act of 2007, would require employers with more than 10 employees and who have been in business more than two years to automatically enroll employees through payroll deductions into an IRA. Employer matches would be prohibited, although savers could benefit from the Saver's Credit.

- *Encourage broader uses of IRA savings.* Employer-based accounts are more fungible than many realize. IRAs, and to a lesser extent 401(k)s, permit withdrawals for uses other than retirement—including postsecondary education and first-time homeownership—which may help asset-building policies for lower-income households to reach scale. Employers and the federal government should help educate workers about the flexibility of retirement savings for other asset-building uses.

- *Allow children to save in Roth IRAs***.** One challenge in the field of children's savings is the dearth of appropriate savings products. Roth IRAs provide an excellent option; however, current law requires that deposits to Roth IRAs be made from earned income, which means that young children cannot contribute to a Roth IRA. The federal government should allow parents to contribute to Roth IRA accounts for their children, not just for themselves. This would help increase use of the familiar, popular IRA product. S. 2431, currently moving through Congress, would permit the creation of Young Savers' Accounts (YSAs)—essentially Roth IRAs for children. YSAs are able to accept contributions from a variety of sources, including parents, and do not require the child to have earned income, as is currently the law.

- **Invest in microenterprise for low- and moderate-income entrepreneurs.**[19] 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 reliable and targeted are three programs at the Small Business Administration (SBA): the Microloan

Program, PRIME (Program for Investment in Microentrepreneurs), and Women's Business Centers. Several other federal agencies also have programs that support microenterprise development.[20] However, nearly all of these programs have experienced either stagnant or severely reduced levels of funding in recent years.

- *Promote entrepreneurship and financial literacy as an integral part of 21st century workforce skills in K–12 and community college education.* Entrepreneurship is an increasingly important skill in both business startups and established companies. Self-employment can be necessary in an increasingly freelance economy. All Americans must have the financial literacy skills necessary to navigate an increasingly complex set of financial products and services.

- *Remove barriers to business ownership in federal policy.* Many federal programs, such as TANF, disability, IDA programs, and retirement savings programs have either significant disincentives to business ownership or an implementation structure that is unable to support business ownership as an option. Under current TANF law, states and localities can support and fund self-employment and/or microenterprise programs. However, several factors limit the use of TANF funds for this purpose. Congress should clarify that self-employment preparation and engagement in self-employment are eligible work activities and provide clear guidance as to how states and localities can support microenterprise through their TANF programs.

- *Use the tax code and "tax time" to connect microentrepreneurs to financial services and business planning help.* An estimated 4.5 million low-

The Self-Employment Tax Initiative (SETI): Using the Tax Code to Scale Up Microenterprise Services

Nearly all microentrepreneurs start their businesses as sole proprietors and, as required by law, report self-employment income once they have business net income of $400. As a result, the tax code serves as the universal portal for nearly every new start-up business. IRS Form 1040, Schedule C becomes the single most important entry point for identifying and formalizing new business start-ups each year.

Preparing Schedule C is a potential launching point for developing and marketing entrepreneur training programs, as well as new financial products and services. It also means that Schedule C could become a new channel for delivering federal and state tax credits and deductions to help start-up entrepreneurs succeed.

The challenge is that most new microbusiness owners use paid tax preparers who pay little attention to their multifaceted needs as startup businesses. SETI's challenge is to convert what is typically a business startup's tax preparation event—often their first contact with any kind of financial advisor—into an annual tax preparation-based learning process that moves these businesses and their households toward their full potential. For more details, visit www.cfed.org/go/seti.

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. The federal government should help ensure that more microentrepreneurs are claiming this credit. In addition, federal policymakers should take advantage of tax time as an important opportunity to provide long-term tax and business planning assistance to low-income and start-up business owners.

- *Hold the federal government accountable for its stewardship of the public interest.* Reforming the Community Reinvestment Act would help ensure that regulated financial institutions meet the needs of the communities they serve. Governmental agencies should be required to demonstrate progress in this area with a mandate to reach and support the owners of very small businesses and entry-level entrepreneurs. For instance, the Historically Underutilized Business Zone program at the SBA incents federal agencies to contract with businesses based in low-income distressed communities, but this contracting provision is rarely enforced.

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 or manipulation, that a mortgage broker or lender may use to make a loan with terms that are disadvantageous to the borrower.[21] Predatory lending occurs primarily in the subprime market, which makes higher-interest loans to consumers with poor credit histories. By one estimate, predatory mortgage lending costs Americans $9.1 billion per year.[22] African American and Hispanic borrowers are disproportionately affected, as they are more likely than whites to get higher-rate subprime loans.[23]

      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[24] was intended to provide protections for higher-risk homebuyers, 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 Housing Finance Regulatory Reform Act of 2008[25] and the American Housing Rescue and Foreclosure Prevention Act (H.R. 3221), for example, are currently moving through Congress. Both bills would establish foreclosure prevention programs. 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.[26] As with predatory mortgage lending, payday lending is often concentrated among communities of color[27] and in economically distressed areas.[28] 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, Supplemental Security Income, or Food Stamps—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" 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.

Asset Limits: Encouraging Progress; Barriers Remain

Assets advocates won an important victory with passage of the 2007 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 quickly implemented. 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.

- **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 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 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 (through support for community development lenders, microenterprise programs and housing trust funds) as well as education (state support for preschool, K-12 school spending fairness, and incentives for college savings). It should also help people protect the assets they already have (by curbing predatory lending and expanding access to affordable health care).[29] We focus on several of these policies below.

- **Support for IDA programs.** To date, 39 states[30] 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 annual commitment to IDAs should be no less than $200 per low-income resident.[31] This rate of funding covers the administrative and operating costs of the IDA program as well as the matching funds for savers.
  - *State agency stewardship.* It is important for the IDA program to have a steward within state government, and it is essential that the stewarding agency be committed to all uses for IDA savings.
  - *State funding for all types of program costs.* In addition to matching deposits, states should allow funds to be used to cover program administration and operating costs, as well as technical assistance to providers.
  - *Stable state funding.* 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 programs, and financial education.

- **Eliminate asset limits in public benefit programs.** States determine many key policies related to families receiving 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 Food Stamps.[32] Since 1996, 22 states have eliminated Medicaid asset limits entirely, and thus far, two states have eliminated TANF asset limits. 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.[33] Fifteen states have essentially eliminated Food Stamp asset limits through "categorical eligibility" since 1999, and 28 states have improved their Food Stamp rules by aligning them with TANF or Medicaid.[34]

  A state's asset limit policy is strong if it has eliminated asset limits in all public assistance programs. For the Food Stamp program, in which states do not have the authority to explicitly remove asset limits, states should extend categorical eligibility to households that participate in a program, receive a service, or are authorized to receive a service funded by TANF block grant or maintenance-of-effort dollars. Furthermore, in seeking to confer categorical eligibility, states are encouraged to select a TANF/Maintenance of Effort (MOE)-funded program or service that has no asset limit and that will allow the greatest number of household members to benefit.[35]

  If a state has not yet eliminated asset limits entirely, it can take an intermediate step by increasing its asset limits and indexing them to inflation, thereby lessening the disincentive to save. Another step in the right direction is for states to exempt certain classes of assets, such as a home or defined benefit pension. Many other liquid holdings, such as defined contribution accounts, such as 401(k)s, health savings accounts, education savings accounts or IDA, often count against the asset limit. States should exempt these types of assets. In addition, vehicles, which are vital for many to find and maintain employment, should be exempted. States should also exempt EITC refunds for at least a year to offer protection from emergencies and unexpected expenses.[36]

- **Incentives for college savings.** 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. Ten states (Arkansas, Colorado, Kansas, Louisiana, Maine, Michigan, Minnesota, North Dakota, Rhode Island and Utah) currently match 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 their participation. States can automatically open accounts for all newborns. They can seed the accounts with initial deposits. They can match individual's deposits or provide benchmark deposits when savers reach certain milestones. States can make these policy decisions either 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; a range of low-cost investment options; and appropriate, proactive outreach to low- and moderate-income families.

- **Provide a state EITC.** 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.[37] 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 federal EITC.[38] It provides a bonus for EITC funds deposited into a savings or investment account, and it provides a benefit to workers without children.[39] To date, 24 states (counting the District of Columbia) have enacted EITCs, including three states in 2007 and one in 2008. Once 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.[40] 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.

- **Curb predatory 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.[41]

  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.[42] 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.[43]

- **Support for microenterprise programs.** According to the most current data, 25 states allocate funding for microenterprise development.[44] States have several options for supporting microenterprises:
    - States should provide stable and sufficient financial resources to capitalize microloan funds. A microloan fund makes loans of $25,000 or less to microentrepreneurs to start or expand a small business. The features of the loan are typically tailored to the needs of low-income, higher-risk borrowers, who cannot access conventional business credit.[45]
    - States should fund microenterprise support programs through the appropriation of general funds, the allocation of discretionary funds at the state agency level, and the allocation of federal funds under state control. Microenterprise support programs provide entrepreneurs with some combination of business training, financial literacy education, ongoing business services such as marketing assistance and legal advice, and business financing.
    - A State Microenterprise Intermediary (SMI) is an institution designed to attract financing in a particular region and then invest that capital into local microenterprise programs. States should create an SMI—either as a state government agency, a state microenterprise association,[46] or an independent nonprofit intermediary—to streamline, more efficiently use, and leverage state microenterprise funding.[47]
    - State-run public assistance and job readiness programs should allow self-employment as an eligible work activity; design rules that take self-employment into account; fund microenterprise development services if other employment services are funded; and provide child care, transportation, or health insurance to the self-employed just as they are to wage earners.[48]
    - States should consider ways to use the tax code to deliver support for new entrepreneurs, and at the same time encourage new businesses to file taxes.

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 Haven, New York, New Orleans, and Caguas, PR, 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 will provide financial education and matching funds for youth in foster care; and New Orleans and San Francisco, which both intend to launch children/youth savings initiatives in the next 12–18 months.

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. Congressional "Pay-Go" rules require any new spending to be offset by cuts elsewhere in the budget or by tax increases, and will limit the movement of expensive bills. 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 participating in this process is one of the most important ways for the Northwest Area Foundation to impact poverty reduction through public policy. The Foundation can play an essential role by providing financial support to build the capacity of organizations that advocate for these changes. Just as importantly, however, the Foundation can leverage its expertise, reputation, and presence in the field in a range of other ways. It can frame strategies; convene key thought leaders, advocates, and other stakeholders; and catalyze new ideas.

Endnotes

[1] This section is largely drawn from two sources: "Asset Accumulation & Protection," chapter in a forthcoming 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 May 19, 2008 from www.cfed.org/publications/Final percent20HIPS percent20 percent20Version.pdf.

[2] One of the most eloquent arguments for the economic power of asset building is made by Peruvian economist Hernando de Soto in his 2000 book *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*

[3] See, for example, E. Scanlon and D. Page-Adams. (2001). "Effects of Asset Holding on Neighborhoods, Families, and Children: A Review of Research." In *Building Assets: A Report on*

the Asset-Development and IDA Field, Ray Boshara (ed.). Washington, DC: CFED. Retrieved May 27, 2008 from www.cfed.org/publications/Building percent20Assets percent20- percent20second percent20edition.pdf.

[4] Edward N. Wolff. (2007, June). *Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze*. Retrieved January 24, 2008 from www.levy.org/pubs/wp_502.pdf.

[5] *Guide to the 2007–2008 Assets and Opportunity Scorecard*. Washington, DC: CFED. Available at www.cfed.org/imageManager/scorecard/2007/scorecard_guide_web.pdf.

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[9] This number includes 65,000 low-income people who have IDAs; 71,000 people enrolled in HUD's Family Self-Sufficiency Program; 50,000 homebuyers receiving downpayment assistance through the Federal Home Loan Banks' Affordable Housing Program; and 200,000 households participating in the American Dream Downpayment program at the U.S. Department of Housing and Urban Development. It does not include those receiving the Saver's Credit, mortgage insurance deduction, or other standard tax deductions for asset building. The vast majority of asset building incentives are provided through the tax code in taxes deferred. Because up to 40 percent of households do not have a federal income tax liability because their annual incomes are too low, these incentives to save and build wealth do not apply to them.

[10] *2007–2008 Assets and Opportunity Scorecard*. "Support for IDA Programs." Washington, DC: CFED. Available at www.cfed.org/focus.m?parentid=31&siteid=2471&id=2475&measureid=3976.

[11] *2007–2008 Assets and Opportunity Scorecard*. "Asset Limits for Public Benefit Programs." Washington, DC: CFED. Available at www.cfed.org/focus.m?parentid=31&siteid=2471&id=2475&measureid=3978.

[12] *2007–2008 Assets and Opportunity Scorecard*. "Curbing Predatory Lending." Washington, DC: CFED. Available at www.cfed.org/focus.m?parentid=31&siteid=2471&id=2475&measureid=3979.

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[14] C. Loibl & B. Red Bird. (2007). *Survey of Former IDA Program Participants: How Do They Fare?* Columbus: Ohio State University. http://ohiocdc.org/surveyreport.pdf. Silicon Valley Community Foundation and the Lenders for Community Development (2007). *Families Saving and Building Hope: 2007 Report on Graduates of the Assets for All Alliance*. Available at www.l4cd.com/images/PDF/AssetsForAll_Rpt.pdf.

[15] S. McKernan, C. Ratcliffe, & Y. Nam. (September 2007). *The Effects of Welfare & IDA Program Rules on the Asset Holdings of Low-Income Families*. Washington University in St. Louis: Center for Social Development.

[16] See CFED's *Asset and Opportunity Scorecard*. Available at www.cfed.org/go/scorecard.

[17] Portions of this section are drawn from "Asset-Building & Protection—Policy Recommendations," chapter in a forthcoming Opportunity Finance Network publication, *The Next American Opportunity: Good Policies to Make America Great*. (C. Wayman and J. Eades).

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[19] This section was largely drawn from a draft of the Microenterprise Anti-Poverty Policy Consortium's most recent Policy Agenda for Microenterprise Expansion.

[20] These include Assets for Independence, Jobs for Low Income Individuals, and the Community Economic Development Discretionary Grant Program at the U.S. Department of Health and Human Services; the Community Development Block Grant program at the Department of Housing and Urban Development; the Intermediary Relending Program, Rural Business Opportunity Grant program, Rural Business Enterprise Grant program, and Rural Community Development Initiative at the Department of Agriculture; the Community Development Financial Institutions Fund at the Department of Treasury; and the Department of Justice.

[21] U.S. General Accounting Office. (2004, January). *Consumer Protection: Federal and State Agencies Face Challenges in Combating Predatory Lending*. GAO-04-280 (Washington, DC: U.S. GAO), pp.3—4. Retrieved March 7, 2007 from www.gao.gov/new.items/d04280.pdf.

[22] E. Stein. (2001, October 30). *Quantifying the Economic Cost of Predatory Lending*. (Durham, NC: Coalition for Responsible Lending), p. 2. Retrieved March 7, 2007 from www.selegal.org/Cost percent20of percent20Predatory percent20Lending.pdf.

[23] *Predatory Mortgage Lending Robs Homeowners & Devastates Communities*. Retrieved 11/2/06 from www.responsiblelending.org/pdfs/2b003-mortgage2005.pdf.

[24] Home Ownership and Equity Protection Act of 1994, Pub. L. No. 103-325, § 151-58, 108 Stat. 2190-98 (1994) (enacted as a part of the federal Truth in Lending Act (TILA), 15 U.S.C. §§ 1601-1649; 12 C.F.R. § 226, Reg. Z).

[25] As of this writing, the bill had not yet been assigned a bill number. See http://banking.senate.gov or http://thomas.loc.gov for updates.

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[29] For more information on these policies, visit www.cfed.org/go/scorecard.

[30] The total of 39 includes two non-state jurisdictions: the District of Columbia and Puerto Rico.

[31] This amount assumes $2,000 per IDA and a 10 percent participation rate among eligible residents. Low-income is defined as having adjusted gross income of no more than 200 percent of the federal poverty level, consistent with eligibility standards for the federal Assets for Independence Act. It should be noted, however, that standards based on area median income are often stronger and more meaningful, because they take into account differences in cost of living, especially in high-cost areas.

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[39] Nagle & Johnson, pp. 26–27.
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[42] CRL State Legislative Scorecard, accessed on 11/2/06 from http://www.responsiblelending.org/issues/mortgage/statelaws.html for laws passed before 12/31/05. 2006 updates were obtained from personal communication with CRL Policy Council Evan Fuguet on 11/16/06.
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[46] A State Microenterprise Association is a statewide coalition or association of local microenterprise support programs. Its main purpose is advocacy.
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