

Family Economic Security: Poverty, Income Subsidies and Family Savings



**SHRIVER
CENTER**

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TAKING ACTION TO END POVERTY

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Illinois Kids Count Symposium

Shriver Center

- A national law and poverty center that takes action to end poverty through policy development, model programs, communications, and impact litigation.
- The Community Investment Unit helps people move from poverty to prosperity by building and protecting personal and financial assets.

Getting by or getting ahead?

- **Getting by:**
 - living paycheck to paycheck, no savings, limited credit history
- **Falling behind:**
 - consumer debt, using high-cost financial services, lack of protection/insurance, blemished credit
- **Getting ahead:**
 - building skills, saving, investing, insurance, good credit history

The Savings Crisis

- The national savings rate in 2007 was 0.5%
- Many households have zero or negative net worth
 - 15.5% of all households
 - 19% of women-headed households
 - 26% of minority-headed households
- 21% of middle-class households are asset poor—they could not survive at the federal poverty level for 3 months if income were interrupted
- For every \$1 of net worth in male-headed households, female-headed households have only 59 cents
- For every \$1 of net worth in white households, minority households have only 13 cents
- Based on CFED's 2007-2008 Assets & Opportunity Scorecard (see www.cfed.org/go/scorecard)

What's the Problem?

- High-cost financial services deplete resources that could be saved or invested
- Unbanked are at risk of theft/crime
- Home ownership is out of reach
- Few can afford college and retirement
- Increased risk of need for public assistance
- Financial distress decreases productivity

Illinois Assets Scorecard

Index	Grade
Financial Security	C
Business Development	B
Homeownership	F
Health Care	C
Education	B
OVERALL OUTCOME	C

Based on CFED's 2007-2008 Assets & Opportunity Scorecard. See www.cfed.org/go/scorecard.

Asset policy examples from Illinois

- Asset limit reform - IRAs, 401ks exempt
- Housing trust funds
- Preschool for All
- Payday Loan Reform Act of 2005
- State EITC - permanent and refundable
- State investment of \$1 million in IDAs
- Expanded Medicaid/SCHIP/All Kids

Policies to Help Illinois Families Save and Build Assets

- Prof. Michael Sherraden of Washington University in St. Louis authored *Assets and the Poor* in 1991, launched asset-building movement
- Innovative solutions to help children, youth and adults build, own, and protect assets
- Implement at local, county or state levels
- Public/private partnerships
- For more information on asset policy, see <http://gwbweb.wustl.edu/csd> or www.newamerica.net or www.cfed.org.

What State and County Welfare Agencies Can Do

- Count financial education and self-employment as TANF work activities
- Fund nonprofits to provide services
- Encourage direct deposit of government cash benefits and paychecks
- Fund free tax preparation sites
- See article on FLLIP programs in Illinois at www.brookings.edu/reports/2004/04welfare_rand.aspx

Encourage Savings by Eliminating/ Raising Asset Limits, Exemptions

- States have authority to eliminate or reform asset tests in TANF, Medicaid and Food Stamp programs
- States can implement changes via legislation or rule
- Several states have implemented TANF asset test reform
- 15 states have eliminated asset tests for Food Stamps
- IL: \$2,000 limit for TANF, no asset test for Medicaid
- See “Reforming State Rules on Asset Limits,” Clearinghouse Review (Mar-Apr 2007), Shriver Center’s State Asset Limit Toolkit, and CFED Resource Guide

Support Efforts in Congress to Enact Federal Asset Limit Reform

- **H.R. 2419: Farm, Nutrition & Bioenergy Act**
 - Increases minimum Food Stamp benefit level, raises and indexes resource limits, exempts some savings (Senate version is stronger on resource test) (see www.frac.org)
- **H.R. 3172: Freedom To Save Act**
 - Eliminates asset tests for SSI, SCHIP, and TANF; raises Food Stamp asset limit to \$6,000 and exempts all vehicles (see video at www.newamerica.net)

What Schools, Banks, State Agencies, and Teen Centers Can Do

- Incorporate financial education in school curriculum
- Bring a new generation into the financial mainstream through student-run banks
- Prepare teens for jobs in the high tech and growing field of financial services, grow a diversified workforce
- Provide grants to employers to train and supervise disadvantaged youth in high tech industries
- See “Guide to Establishing Bank Branches in High Schools” and “Branching Out” video at www.povertylaw.org/advocacy/community-investment

Student-run Banks

- Cardinal Branch of Mitchell Bank - Milwaukee, Wisconsin (opened 2000)
- Curie Branch of Park Federal Savings Bank - Chicago, Illinois (opened April 2005)
- Highlander Branch of County Bank - Fresno, California (opened September 2007)
- North Fork Bank at Fordham Leadership Academy - Bronx, NY (opened October 2007)
- Boys & Girls Club/Teen Center – Moline, IL

Helping Every Child Build a Nest Egg: Children's Savings Accounts

- United Kingdom - Child Trust Fund for every child at birth, seeded with an initial government deposit, restricted until age 18.
- Caguas, Puerto Rico – municipal program
- United States – ASPIRE Act, Baby Bonds, 401Kids introduced in Congress, touted by candidates (see www.newamerica.net)
- National demonstration: SEED Policy & Practice Initiative in 12 communities, including Cherokee Nation and Oklahoma pilot (see www.cfed.org)

Helping Every Child Build a Nest Egg: Children's Savings Accounts

■ State Policy Initiatives

- **Illinois** Children's Savings Account Task Force (HB 1662 signed into law in 2007)
- **Maine** – Alford Fdn. is providing a \$500 grant to every Maine newborn for NextGen 529 College Investing Plan (pilot Jan. 2008, statewide 2009)
- **Arkansas** - Aspiring Scholars Matching Grant Program will match savings up to \$500 for low-income families (launched in Jan. 2008)
- **California** bill proposed in 2007 (S. 752)

Looming Retirement Concerns

- Half of all workers lack access to any retirement plan through their employer
- Only 40% of workers who are offered an employer-sponsored plan participate
- A growing number of retirees have incomes below the poverty level, including Social Security
- Women are at high risk of retirement insecurity
- *Employers may now auto-enroll with opt out*

What States and Employers Can Do: Portable Retirement Accounts

- **Washington Voluntary Accounts (Economic Opportunity Institute)**
 - Auto IRAs through payroll deduction (opt out)
 - 401K or SIMPLE IRA through employer plan
 - Limited menu of investment options
 - Accounts are portable
 - Washington legislature appropriated \$450,000 for a two-year pilot

Other Ways to Promote Savings: Matched Savings Programs

- Individual Development Accounts (low-wage workers save for home ownership, small business development & post-secondary education and training, sometimes for cars or home repair)
- Lifelong Learning Accounts (workers and employers save for education and training)
- Family Self-Sufficiency Accounts (Section 8 housing residents save for home ownership)

Helping Workers Access Good Jobs, Food, Healthcare: Cars

- Although vehicles are depreciating assets, many workers cannot access good jobs, grocery stores or healthcare without one
- See the Center for Community Change's Mobility Agenda
 - www.cccfiles.org/issues/MobilityAgenda

What States Can Do to Connect Tax Time with Savings

- Fund free tax counseling sites
- Promote e-filing and avoidance of refund anticipation loans (RALs)
- Use state and federal split refund option to promote savings
- Encourage mainstream financial institutions to offer affordable alternatives to high-cost RALs

What States Can Do to Preserve Consumer Assets

- Protect consumers from high-cost:
 - Check cashing and remittances
 - Payday loans and installment loans
 - Refund anticipation loans
 - Predatory mortgage loans
- Rate caps: the only effective payday reform
 - www.responsiblelending.org/issues/payday/reports/springing-the-debt-trap.html

What States Can Do to Preserve Consumer Assets

- Use linked deposits, other strategies to promote:
 - Affordable small dollar loans with savings option
 - Direct deposit of tax refunds
 - Free checking accounts, second chance checking
 - ACH remittances or bank card transfers
 - Fixed rate mortgage loans based on ability to repay with fair terms and legal recourse for borrowers
- See Matt Fellowes article – Banking on Wealth
 - www.brookings.edu//reports/2008/01_banking_fellowes.aspx

State Asset Policy Coalitions

- Over 17 states now have coalitions working to promote asset building and asset protection policies
- Some are coordinated by nonprofits, others are coordinated by state agencies, e.g.:
 - www.illinisassetbulding.org
 - www.cted.wa.gov/site/994/default.aspx

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