Innovative State Policies to Reduce Poverty and Expand the Middle Class

BUILDING ASSET SECURITY AMONG LOW-INCOME HOUSEHOLDS


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THE HELLER SCHOOL FOR SOCIAL POLICY AND MANAGEMENT
BRANDEIS UNIVERSITY

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Innovative State Policies to Reduce Poverty and Expand the Middle Class

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INSTITUTE ON ASSETS AND SOCIAL POLICY
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THIS IS THE FIRST IN A SERIES OF SODEXHO FOUNDATION FUNDED REPORTS ON HUNGER AND POVERTY IN AMERICA.

Foreword

Sodexho serves meals to six and a half million people a day in the United States, so we are finely attuned to food-related issues affecting our nation's populations. Hunger and the related blight of poverty are our constant focus and concern.

The Sodexho Foundation believes that helping to address the issues faced by our most vulnerable citizens is a moral responsibility. Over the past ten years, Sodexho has provided not only tangible, direct assistance to hundreds of thousands of our citizens brought to poverty by many circumstances, including natural disasters, lack of education and access, and other misfortunes, but has also provided funding on public policy issues connected to poverty.

The Sodexho Foundation is proud to be the sponsor of the report on *Innovative State Policies Reduce Poverty, Build Assets, and Expand the Middle Class* conducted by Brandeis University Heller School. This report takes on the vitally important topic of poverty and brings attention to several related issues that are often ignored during discussions of the national social agenda.

A bright future is the birthright of every American. The asset policies highlighted in this research show how people can be enabled to plan for a more stable and successful family and professional life, achieving more social mobility and greater economic security. This report points to a new direction that holds significant potential, not only for households and for the prosperity of states, but also for the future shape of domestic policy in our nation.

The success of our nation's economic and social future depends on solving the twin evils of poverty and hunger. I am so heartened that there is a blueprint that can lead to the first steps toward this resolution. The policies in use by the states that have been highlighted in this report are the beginning of such a blueprint. It is our hope that by highlighting these asset building policies, we will help to move the process forward on building the national will to address the issue of poverty.

Richard W. Macedonia
President and CEO
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Table of Contents

I. INTRODUCTION

The building blocks of a new domestic policy framework are being constructed today in the states of the nation. While the New Deal framework served as the cornerstone of social policy for more than six decades, it has been challenged by changing population demographics. New economic trends and fiscal policies have blurred the line between middle class and blue collar, on the one hand, and the working poor and the very poor on the other. In short, the role of federal policy in assuring meaningful access to social mobility and economic security for working households arguably is undergoing its most significant challenge since the 1930s.

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Into this vacuum have stepped the states, many of which are developing elements of a policy framework with "asset building" at its core. The core of this framework is the recognition that all households need to build assets to succeed. Assets are the resources and capacities that enable individuals to achieve economic stability. Education and training are human assets because they bring the wherewithal and know-how to enter and move up in the job market of the future. An adequate income is an asset because it creates the foundation to stabilize family needs and eventually build wealth. And wealth itself is an asset because home ownership, savings and retirement accounts increase economic independence and stability throughout life.

The recognition that we all share the need to develop these personal and financial assets turns traditional social policy on its head. Rather than seeing different groups of citizens, some deserving and others not, some worthy of social investments and others deserving only of temporary assistance, asset policy is universal. It addresses the shared needs and aspirations of households by rewarding work, and promoting initiative and self-reliance. It embodies widely shared beliefs about fundamental fairness and a real opportunity to succeed. Asset building is a policy framework that invests in the capacity of the American people to achieve personal and economic well-being.

This publication is one of a series published by the Institute on Assets and Social Policy to highlight and analyze innovative asset policies being adopted in the states. These developments, however slow and uneven, can alter significantly the role of state policy and, in all likelihood, eventually the role of federal policy as well. By highlighting specific policies that are designed to enable households to build assets, and by detailing both how they came about and how they work, this document hopefully can serve as a roadmap for officials, policymakers and the public in other states.

Specific asset policies featured in this analysis suggest that the desire to enable low-income households to enter America's middle class is not limited to any one region of the country, or to states viewed as having any particular political bent. Both "red states" and "blue states," and states with both abundant and lean fiscal resources, are embracing the idea of recasting their social policies to enable more people to achieve social mobility and greater economic security. This new direction holds significant potential, not only for households and for the prosperity of states, but also for the future shape of domestic policy in our nation.

II. INCOME: CREATING AND PRESERVING AN ASSET FOUNDATION

Overview

A fundamental promise of America is that each of us will have a meaningful opportunity to join the economic mainstream, become contributing members of society, and share in the American Dream. Entering the economic mainstream, and staying there, requires public policies that ensure sufficient earnings and job-related benefits to allow families to live securely, make ends meet, and have something left over to save. It also requires policies that help preserve that asset foundation during life transitions and crises.

Adequate income is an asset because it creates the foundation to stabilize family needs and eventually build wealth.

A key assumption among Americans is that those who are willing to work hard will move ahead. At the very least, the expectation is that having a job will stave off poverty and provide opportunities to make a sustainable living from work. Recognition of the paramount importance of earned income to household independence and self-sufficiency is clearly evident in long-standing government policies such as the minimum wage, unemployment insurance and, more recently, the Earned Income Tax Credit. While the labor market largely mediates the income stream and other benefits that flow from holding a job, government policies regulate the labor market to enhance and preserve employment income and job-related benefits.

Many policy makers realize, however, that in today's economy the earned income of the working poor often is not sufficient to sustain households at a minimum standard of economic well-being. Many states currently are revisiting existing policies to reward the work effort of low-income households by enhancing job-related earnings and assisting with job-related expenses, such as child care.

Minimum Wage Laws

The minimum wage was first established in 1938, with the enactment of the Fair Labor Standards Act (FLSA). It created a wage "floor" below which certain workers in the U.S. could not be legally paid. The original twenty-five cents an hour rate initially applied to workers engaged in work directly involving or related to interstate commerce (thus affecting about one-fifth of all workers). Amendments in the 1960s

extended the minimum wage to more workers including those employed in such areas as retail, construction, public schools, and nursing homes. The minimum wage was established to shelter workers from exploitive practices and to establish a basic standard of meaningful compensation. While some opponents of the minimum wage felt that it would harm businesses, proponents argued that it was a way to stimulate the economy by benefiting both workers and employers. The current federal minimum wage, in effect since 1997, is $5.15 per hour. If the minimum wage had maintained its 1968 peak value, it would be $8.69 an hour in today's dollars.

Early in the 20th century, well before federal policy addressed the matter, states took the lead in establishing a minimum wage. Between 1912 and 1923, sixteen states and the District of Columbia adopted minimum wage laws. Since the establishment of the federal minimum wage in 1938, states have continued to enact their own laws to go beyond what they consider to be the inadequacy of the federal minimum wage floor. Seventeen states[1] (and D.C.) today have rates above the federal level for all covered occupations, and an 18th state, Nevada, is expected to follow suit in 2006. Three states – Florida, Oregon and Washington (and possibly Nevada in 2006) – also indexed their minimum wage to inflation to ensure that the protective floor does not drop as the cost of living increases.

Florida's Minimum Wage

Policy Description: Through a statewide referendum in November 2004, residents of Florida voted to adopt a minimum wage higher than its federal counterpart. Recognizing a need to help the state's 300,000 minimum wage workers struggling to make ends meet at the current federal level, 72% of voters supported the Florida Minimum Wage Amendment, commonly known as "Amendment 5", which raised the state rate to $6.15 an hour. Florida citizens also voted to index their state minimum wage to inflation. By indexing it, Florida joins Oregon and Washington in ensuring that the state minimum wage does not stagnate over the years, thereby diminishing the ability of a minimum wage worker to support a family.

Policy Development: Instrumental in the successful effort to increase the state wage floor was *Floridians for All*, the coalition that sponsored the referendum. Assembled by the Florida advocacy group ACORN, *Floridians for All* included, among other groups: the state AFL-CIO, SEIU Local 1991, South Florida Jobs with Justice, the Florida Education Association, the Florida Council of Churches, and a notable number of business leaders. In order to place the minimum wage initiative on the November 2004 ballot, the coalition gathered over 957,000 signatures. *Floridians for All* also worked to register voters, and targeted traditionally African-American and Hispanic neighborhoods. By the time they had garnered the signatures for the ballot petition, they had also registered 122,000 new voters

[1] Alaska, California, Connecticut, Delaware, Florida, Hawaii, Illinois, Maine, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont, Washington, and Wisconsin

throughout the state. In the weeks leading up to the final vote, *Floridians for All* went on a 10-day, 15-city bus tour in a final push for support. Amendment 5 carried a majority vote in every county in the state.

Florida's successful effort to raise the minimum wage was reportedly aided by a September 2004 publication, "Economic Analysis of the Florida Minimum Wage Proposal," by the Washington-based Center for American Progress. This report addressed some business opposition by providing an analysis of the costs likely to be incurred by Florida businesses if such a minimum wage hike were to occur. The report also suggested how businesses could easily adjust through very minimal price hikes.

An attempt was made by the state legislature in the spring of 2005 to weaken the enforcement of the wage raise. The *Floridians for All* coalition again launched a grassroots campaign to pressure legislators to comply with the will of the voters. As a result, a compromise bill was introduced that ensures that the new wage will be enforced.

Outcomes: On May 2, 2005, 300,000 low-income Floridians received a raise to the new state minimum wage, and are set to continue to see their wages rise annually with inflation. Early evidence from Washington and Oregon – the other two states with indexed minimum wages – suggests that there are no significant links between their minimum wage increases and unemployment or job loss.

Sources and Related Resources:

Minimum Wage: Creating an Asset Foundation, Institute on Asset and Social Policy, May 2005. http://assetinstitute.org/pdfs/minimum%20wage.pdf

Floridians for All http://www.floridiansforall.org/

Tax Thresholds for Low-Income Households

Taxing the personal incomes of the working poor and near poor can limit the resources available for them to get out of poverty and to become economically independent. An important standard for the impact of taxes on the poor is the income tax threshold – the point at which a household wage-earner first begins to owe personal income tax. In some states the taxes on wages of households below the federal poverty line can be several hundred dollars, a significant amount for a family living on the margins. In the 42 states with a personal income tax, 17 taxed two-parent families of four with incomes below the federal poverty line in 2004[2]. In 31 states, families with incomes just above the poverty line also paid state income tax despite their ongoing challenges in making ends meet.

Since the early 1990s, many states have reduced or eliminated the tax burden on working poor families. They have used a variety of strategies to reduce income taxes on the poor such as offering adequate personal exemptions or standard deductions to shield these families for taxation, or enacting provisions such as low-income tax credits and higher no-tax floors.

Kentucky's State Income Tax Threshold

Policy Description and Outcomes: Kentucky determined that its tax system unfairly placed too high a tax burden on low-paid workers. Under the old tax law, the tax threshold – the income level at which the state began to impose income taxes – was $5,000 for a family of three, and $5,500 for a family of four. A typical family of four with earnings at poverty level income paid $640 in state income taxes in 2004.

Legislation passed in 2005 set the state income tax threshold at the federal poverty level for all households. Under the new law, a family of four earning $19,350 or less will not owe any state income taxes for 2005. The legislature estimates that some 300,000 families will no longer owe taxes. This change means that rather than imposing a high tax burden on low-income workers, Kentucky joins 25 other states in not taxing working families earning poverty wages. (Eleven states[3] have set the tax threshold significantly higher than the poverty level.) By tying the state income tax threshold to the federal poverty level, Kentucky has implemented a system that is sensitive to family size and more supportive of work efforts and more likely to reflect changes in the cost of living over time.

The tax reform also included a revision of the state's two-bracket progressive tax rate. In 1950, the higher tax bracket began at $8,000 and this very modest income

[2] Alabama, Arkansas, Georgia, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Montana, Ohio, Oklahoma, Oregon, Virginia, and West Virginia

[3] California, Kansas, Maine, Maryland, Massachusetts, Minnesota, New York, Pennsylvania, Rhode Island, South Carolina, and Vermont

level had not changed in the past 55 years. The 2005 legislation left the tax rate at 6% for all households with incomes above $75,000 and lowered it to 5.8% for households with incomes below $75,000.

Policy Development: For many years the need to revise the state income tax system had been raised by groups representing different interests. Key policy advocacy groups formed a partnership, Kentucky Economic Justice Alliance (KEJA), which worked for six years to generate grassroots support to reduce the tax burden for low-income families. Governor Ernie Fletcher included tax reform and reduction of the low-income tax burden in his 2004 economic stimulus plan. In the 2005 legislative session, the Kentucky General Assembly debated the plan presented by the Governor, as well as two bills sponsored by Rep. Jim Wayne and the 15 co-sponsors that encompassed KEJA's tax reform goals.

The compromise bill that was passed included a greater tax burden relief to low-income households than was sought by the Governor, but did not incorporate the Governor's tax trigger that would have reduced taxes at all levels if state revenues significantly exceeded estimates. The successful tax package also addressed corporate tax reform sought by some parties. It included corporate tax provisions supported by many that closed some tax loopholes and cut the corporate income tax rate from 8.25% to 6% as proposed by the Governor.

Sources and Related Resources:

The Impact of State Income Taxes on Low-Income Families In 2004, Center on Budget and Policy Priorities, April 2005. http://www.cbpp.org/4-12-05sfp.htm

Kentucky Economic Justice Alliance. http://www.keja.org

Balancing the Scales: Low-Income Families Removed from State Income Tax, Kentuckians for the Commonwealth. http://www.kftc.org

KYA Wins Tax Relief for Families Below Poverty, Kentucky Youth Advocates, Spring 2005.
http://www.kyyouth.org/Publications/Newsletters/KM%20Spring%2005-small.pdf

Letter from Governor Ernie Fletcher, Kentucky
http://www.governor.ky.gov/initiatives_accomplishments/economicdevelopment/jobs/

Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) was enacted in 1975 to make the tax system more equitable for employees struggling to support their household by offsetting their payroll tax burden. It was expanded in recent years to more effectively strengthen the financial status of low- and moderate-income working

Asset policy is universal, addressing the shared needs and aspirations of households by rewarding work, and promoting initiative and self-reliance.

families. Research indicates that families use the EITC to pay for basic necessities such as appliances and vehicles, and also to make investments that enhance financial security and promote economic opportunity such as paying off bills, purchasing a home and getting an education.

Federal EITC payments are indexed to inflation as well as household size and income. As earnings increase the tax credit rises, then plateaus and then begins to decrease with additional income. The EITC is "refundable" in that if the family's income tax liability is less than the amount of the credit, the difference is paid out as a tax refund. In the tax year 2005, working families with children that have annual incomes below approximately $31,000 to $37,000 (depending on marital status and number of children) are eligible for the credit, with a maximum refund of $4,400. In tax year 2003, some 21.3 million working families and individuals received the EITC. Among households with children, the average EITC was $2,100.

The success of the federal EITC in supporting work and reducing poverty has lead 17 states[4] and the District of Columbia to enact state versions of the credit. State EITCs are most commonly a percentage of the federal credit ranging from 5% to 43%. All but five of these states[5] have a refundable credit on their state income tax. In many localities, IRS-sponsored Volunteer Income Tax Assistance or VITA centers provide free services for EITC filers so part of the refund does not have to go toward tax preparation fees. Municipal governments, financial institutions and community-based organizations have joined together to establish VITA sites and increase awareness of the tax refund policy. New VITA sites can be established by working with the IRS Regional Territory Manager.

Kansas' State Earned Income Tax Credit

Policy Description: Kansas enacted a state EITC in April 1998, as part of an overall tax cut package. Its passage reflected a desire to allow low-income families to share the benefits of the state's revenue surplus at that time, and to relieve the relatively heavy income tax burden imposed on working poor families. Kansas initially established the state EITC at 10% of the federal tax credit available to the filer, and in 2002 increased it to 15%. Kansas also made its tax credit refundable so a family whose income is too low to owe state income taxes will still be able to receive the credit. The refundable credit is seen as offsetting other taxes paid by

[4] Colorado, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, and Wisconsin
[5] Iowa, Maine, Oregon, Rhode Island and Virginia

poor families. Unlike many other states, for example, Kansas levies a sales tax on food that can be burdensome on low-income families.

In Kansas, the initiation of the state EITC has been coupled with efforts to ensure that low-income households are aware of the tax credit and that they have free assistance in filing for it if needed. Many community organizations have taken advantage of the IRS VITA program. Most Community Action Programs across Kansas sponsor VITA sites, as do other non-profits. In Wichita, an active coalition involving the city, the local United Way, the IRS, local financial institutions and secular and faith-based non-profit agencies have established nine VITA sites. Many of the individuals assisted at the VITA sites earn too little to be required to file a tax return, and were at risk of missing out on both the federal and the state tax credit refund. Wichita has also been selected to participate in two programs aimed at assisting people with disabilities make their EITC filings and access other financial-related support services, including financial education classes.

Policy Development: A refundable EITC was first considered by the Kansas legislature in 1997, but did not win the support of both houses. Following that legislative session, a coalition of human service advocates released a widely publicized report showing that the vast majority of poor children in Kansas had working parents. The findings in this report influenced a bipartisan legislative committee making recommendations on tax reform policy, triggered by a substantial budget surplus, to include the EITC along with other tax cuts. Governor Bill Graves included the EITC in a package of tax cuts in his 1998 budget submission and released research showing that EITC actually entices single mothers to work and therefore could result in reduced welfare spending. Although initially the Senate opposed the state EITC, larger than anticipated revenue estimates persuaded legislative leaders that the state could afford the major tax provisions sought by both houses. The arguments related to child poverty put forward by supporters of the credit, including the Kansas Catholic Conference and Kansas Action for Children, generated the necessary support to ensure that it was refundable.

Funding and Outcomes: For tax year 2002, 163,100 low-income households filed tax returns claiming the Kansas EITC. A total refund of $41.1 million was paid out at an average of $252 per household.

Sources and Related Resources:

The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor, Center on Budget Policy Priorities, July 2005. http://cbpp.org/7-19-05eic.htm

Kansas: Cutting Taxes to Combat Poverty
http://www.stateeitc.org/materials/ss_kansas.asp

Kansas Legislator Briefing Book 2005.
http://skyways.lib.ks.us/ksleg/KLRD/Publications/Briefs/V-1LowIncomeTaxRelief.pdf

Wichita, KS http://www.pointsoflight.org/programs/eitc/vista_initiative_progress.cfm

Unemployment Compensation

For about 40% of unemployed full-time workers, unemployment insurance (UI) replaces part of their lost income during periods of unemployment to ease the economic transition between jobs and limit the erosion of personal assets. State policies, more than federal laws, determine who collects unemployment benefits and how the UI system is funded.

Most states require a minimum income eligibility standard in order to receive unemployment compensation. Women, minority, and disabled workers have an especially difficult time qualifying for UI benefits because of eligibility rules that fail to take into account both broad discrepancies in wage rates and the realities of a growing part-time workforce. Women, for example, comprise 70% of part-time paid workers, as many of them are still primary family caregivers. Although part-time employees now comprise approximately 17% of the workforce, they often do not qualify for UI benefits. Twenty-two states[6] and the District of Columbia have policies that extend eligibility for UI to part-time workers who have lost employment. Of these, only nine states[7] pay UI benefits to part-time workers under essentially the same rules that apply to full-time workers.

Some states also have expanded eligibility to those previously not covered by UI by adopting an "alternative base period" that includes the most recent quarter of work in the four quarters needed to qualify for benefits. This extends eligibility to workers with prior low earnings or a shorter history of employment. Some states also have adopted provisions that provide benefits to workers who had to leave work due to compelling domestic circumstances, including lack of child care or being a victim of domestic violence.

New Mexico's Unemployment System

Policy Description: In 2002, New Mexico found itself facing the paradox of only 27% of its jobless workers qualifying for unemployment benefits (compared to 43%

[6] Arkansas, California, Colorado, Delaware, Florida, Hawaii, Iowa, Kansas, Louisiana, Maine, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Vermont, and Wyoming
[7] California, Delaware, Kansas, Nebraska, New Mexico, Pennsylvania, South Dakota, Vermont, and Wyoming

nationally) while its unemployment insurance trust fund was the most solvent in the country. The unemployed in New Mexico had more limited access to benefits than residents in many states because little allowance was made for necessary and involuntary part-time employment and low-wage scales. Additionally, the state's unemployment compensation rate was the ninth lowest in the country. By 2003, this combination of factors saw the unemployment insurance fund grow to $600 million, an amount some experts believed was twice what was necessary for the state's program to be on sound financial footing.

In March 2003, state legislation passed to reform many aspects of New Mexico's unemployment system, and reduce the payroll rate for employers' contributions into the fund. The new law is designed to better cover single-parent, part-time and low-wage workers. Weekly benefits were increased by 5% and $15-a-week was added for each dependent child (up to four). If a person's work history during the normal base period does not qualify him to receive benefits, the most recent quarter of work will be included in the four quarters used to determine total earnings. Otherwise qualifying workers who lose employment from part-time jobs are no longer required to seek full-time work, but can seek part-time employment for the same number of hours they lost. Benefits are also extended to full-time students and those in job-training programs as long as they are looking for full-time work. Victims of domestic violence who need to quit work to avoid physical harm now qualify for unemployment benefits because they are considered to have left work for good cause.

In addition to expanding eligibility and increasing benefits, the legislation lowered the payroll tax rate for start-up companies from 2.7% to 2%. A new, lower payroll rate schedule also was created for other employers.

Policy Development: An unusual coalition of labor, business, religious and social services groups, with bipartisan backing from lawmakers, helped pass the legislation in 2003. The coalition, put together by the New Mexico Human Needs Coordination Council, included the state AFL-CIO, New Mexico Voices for Children, Lutheran Office of Governmental Ministry-NM, New Mexico Coalition Against Domestic Violence, New Mexico Women's Agenda and over 100 other organizations.

The success in 2003 came after legislation proposed in 2002 had failed because it had not received broad support. While the earlier legislation had many of the same provisions as the bill that passed, it included a larger increase to benefits (15%) and a more generous definition of good cause to leave employment. But the earlier effort failed primarily because it made no provision to cut costs to business at a time when the unemployment trust fund was very flush.

Management and Funding: It is anticipated that the reforms to unemployment insurance in New Mexico will cost about $50 million annually; $28.7 million as a result of increased eligibility and benefits for unemployed workers, and $21 million from the reduced payroll tax rate for businesses. Benefits will be funded through the unemployment trust fund, drawing on the reserves of $600 million in place when

the changes went into effect. To protect the unemployment trust fund, the law contains a proviso that most of the reforms will be discontinued after four years, if the fund drops too low.

Outcomes: With passage of the new laws regulating unemployment insurance, about 4,000 additional employees in New Mexico are eligible for UI, and the 40,000 workers who receive UI benefits saw an increase in their weekly payments due to the 5% increase in benefits and new dependent child allowance.

Policy Challenge: In 2004, the percentage of jobless workers qualifying for benefits in New Mexico was 29%. This is only a very modest increase over the 27% experienced in 2002, but it is the reverse of the national trend. By comparison, the national rate falls from 43% of jobless worker qualifying for benefits in 2002 to 37% in 2004. This low percentage of coverage may at least be partially due to the fact that greater numbers of UI recipients are exhausting their benefits before finding employment. In New Mexico, the proportion of UI recipients exhausting their benefits in 2004 was 44%, compared to 40% nationally.

Sources and Related Resources:

National Employment Law Project http://www.nelp.org/ui/state/index.cfm

2003 State Legislative Highlights, National Employment Law Project, August 2003.
http://www.nelp.org/ui/state/access/2003ui.cfm

New Mexico Human Needs Coordinating Council
http://www.hncc.org/UI%20Reform%202003.htm

Labor Family News, Labor Project for Working Families, Summer 2003.
http://www.laborproject.org/newsletter/summer03.html

Child Care for Working Families

Child care is supported by a wide range of federal and state policies intended to make quality child care available and affordable so parents can work. Paying for child care is a critical problem for low-income families given the high cost of care which, for one child, can be $4,000 to $10,000 a year. Moreover, child care also stabilizes employability. A recent study, for example, shows that single mothers who receive child care assistance are 40% more likely to remain employed after two years than those who do not receive assistance.

In recent years the primary sources of federal funding for child care for low-income workers have been the Child Care and Development Block Grants (CCDBG). But these grants allocated to states have failed to keep pace with inflation. The amount of Temporary Assistance for Needy Families (TANF) funds states chose to transfer

to the CCDBG or use for child care directly also has declined in recent years. Some states are compensating for the loss of federal funds by tapping into state general revenues to subsidize child care.

Another means of public support for child care is the federal Child and Dependent Care Tax Credit. This credit reduces the amount of taxes working families with child care expenses are required to pay. The credit, however, is not refundable, limiting its value to many low-income families who earn too little to pay income tax. Over half the states have built on the federal child and dependent care tax credit to offer additional state credits or tax deductions. Unlike the federal policy, 13 of the 27 states[8] with child and dependent care tax provisions offer refundable credits, with maximum annual values for the tax year 2004, ranging from $288 to $2,310 for a family with two or more children.

Policies that enable low income households to enter America's middle class are not limited to any one region of the country.

Arizona's Child Care Subsidies for Working Parents

Policy Description: In Arizona, access to safe, consistent child care is seen as essential for parents with low-wage jobs to remain in the workforce and to provide children with the quality of care they need to be ready to enter school. But for two years budget shortfalls necessitated the placement of families on waiting lists, hindering employment and limiting child development care. Effective FY 2006, it is the intent of Arizona policy makers to again have sufficient funds dedicated to child care subsidies for low-income working parents to support work and to provide a safe, supportive environment for young children.

For several years after the 1997 welfare reform, Arizona was able to provide assistance with the costs of child care to parents on TANF engaged in job activities, working parents transitioning off TANF, and other low-income working parents. TANF cash assistance recipients were entitled to child care assistance and were not required to make co-payments. Child care subsidies for other low-income working parents were subject to availability of revenues. Due to the state's inability to fund the child care costs of all eligible families seeking support, Arizona began turning away these working families in March 2003 and initiated a waiting list. In FY 2004, overall funding for child care was reduced due to budget constraints and the waiting list reached a high of 9,300 children in March 2004.

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[8] Arkansas*, California*, Colorado*, Delaware, District of Columbia, Hawaii*, Idaho, Iowa*, Kansas, Kentucky, Louisiana*, Maine*, Maryland, Massachusetts, Minnesota*, Montana, Nebraska*, New Mexico*, New York*, North Carolina, Ohio, Okalahoma, Oregon*, Rhode Island, South Carolina, Vermont*, and Virginia. * Denotes states with refundable tax credits.

With the FY 2006 budget, state officials intend to again make affordable the child care costs of all low-income working parents whose incomes are under 165% of the federal poverty level. The family co-payment will depend on several factors including family size, ages of children in care, and actual costs. The range of co-payment will be about 12-21% of gross monthly income. Entitlement to child care assistance with no co-payment will continue for TANF cash assistance recipients who are engaged in job activities, participating in education and training and working at least 20 hours per week, or meeting other special criteria.

Policy Development: Several forces converged to restore child care at a level that will eliminate waiting lists for low-income working parents. In January 2004, Governor Janet Napolitano put forward a five-year action plan to improve school readiness. The plan makes several recommendations targeting the quality of child care and the need to insure that families with low-wages can continue working. The State School Readiness Board produced a fact sheet linking child care assistance to labor force participation, citing the benefits to employers, employees and the state's economy to ensure that parents can work. A survey of families on the waiting list published in 2004 by Children's Action Alliance heightened awareness of the need. Increased funding remained a budget priority of the Governor and the Department of Economic Security during an environment of cuts. To ensure a sufficient funding level for FY 2006, a representative of the Governor's office met weekly with child care advocates on legislative strategy during the legislative session.

Management and Funding: Child Care Administration, located within the Arizona Department of Economic Security, manages child care assistance for families engaged in eligible activities. After the passage of TANF, Arizona began to use over 20% of its TANF funds to pay for child care, but by 2002 it was relying on unspent TANF funds from past years to cover expenditures. In FY 2003, TANF funds expended for child care were greatly reduced and almost eliminated in FY 2004 and 2005. To restore funding for child care in FY 2005 and 2006, the state appropriated significantly greater expenditures from general revenue, approximately four times what had been appropriated in FY 2003.

Outcomes: It is estimated that over 100,000 Arizona children live in low-income working families and are in need of paid child care. An average of 37,812 children living in TANF and other low-income working families received child care subsidies in the first four months of FY 2005, an increase of 12% above FY 2004 levels, although still under the FY 2003 average. Arizona child care appropriations (including child protection services cases) increased by 22% from FY 2004 ($148.8 mil total) to FY 2006 ($181.6 mil total). It is anticipated that this increase will restore coverage to its former level and beyond, if necessary, to meet the need for child care among low-income working families.

Policy Challenge: Although low-income working families seeking assistance with child care will be able to receive the aid they need, many may still face challenges in covering the cost of child care. As noted above, families with incomes under

165% of poverty may be asked to make co-payments up to 21% of their gross monthly income. While this is an exceptionally high proportion of their income for child care, to receive the quality child care they are seeking, they may have to bear yet additional costs. Child care subsidies in Arizona and other states are based on a formula that sets the maximum payment rate at a level designed to cover the cost of child care charged by 75% of the providers in the state. In 2001, Arizona set its maximum payment rate for child care services at the 75th percentile based on the market rate in 1998. The state has since opted not to make further rate adjustments. Even the increased expenditures budgeted for FY 2006 do not include a rate hike because of concern that there then will not be sufficient funds to cover all families seeking assistance. But holding the line on rate payments has placed a burden on child care providers. Many now require families to make additional payments on top of the co-payment calculated by the state, to cover the real costs of providing quality care.

Sources and Related Resources:

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http://azchildren.org/caa/_mainpages/publications/_child_care_survey_brochures_.pdf

FY 2006 JLBC Budget, Arizona Department of Economic Security.
http://www.azleg.state.az.us/jlbc/06recbk/desemp.pdf

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III. HUMAN CAPITAL: STRENGTHENING INDIVIDUAL CAPACITY

Overview

Education and training are human assets because they bring the wherewithal and know-how to enter and move up in the job market of the future.

Knowledge, skills and experience are individual assets known as human capital that are acquired over a lifetime. For most Americans, it is the knowledge and skills they are able to bring to a job that advances their economic opportunities and the building of wealth. These assets can be strengthened through targeted policy initiatives that offer avenues of access and affordability to the education and training for many who have been traditionally left out.

Research reflects a strong relationship between education, skill levels, and wealth over a lifetime. Both earnings and financial wealth rise sharply with the level of education. For example, in 2001, the median income of someone age 25 to 34 years with no high school diploma was $17,282; for a person with a Bachelor's degree it was over twice as much – $36,526. The median net worth of families whose head of household was age 25 to 55 years and had no high school diploma was $25,000; for those with a college degree, it was $213,300. Once individuals and a family begin to acquire educational assets and the opportunities that come with them, they often are able to build financial assets from generation to generation.

Today's work force requires a continuum of formal and informal life-long learning opportunities to establish and maintain pathways for entering, remaining, and advancing in the workplace. Public policy initiatives at the federal and state level can be redesigned to broaden opportunities for those who have historically been left behind. Financial assistance programs can be targeted not only to traditional students, but also adults seeking to increase their knowledge and skills. For those not ready to enter post-secondary education, opportunities to improve basic education and move on to advanced learning can be created. And for those struggling to enter and maintain employment and build the work history necessary to advance to better jobs, programs targeting the incentives and supports to make this feasible are essential. In many cases, states are providing leadership to promote human capital development required for the nation in the twenty-first century.

Expanding Educational Opportunities

Hard work, once the foundation of opportunity, is no longer sufficient to ensure prosperity for either individuals or the larger community. While hard work remains important, the demands of the new economy now require greater individual knowledge and skills. State policy makers increasingly realize that to remain attractive for economic development, states need a skilled workforce. States want to keep their best and brightest students in state to help build the state's resources for the future. Success requires a new infrastructure with particular attention paid to changes in accessing and financing educational opportunity.

Public policy is moving to recognize these changes by enabling greater participation in education and training beyond high school by crediting courses toward associate degree and certificate programs with four-year colleges. These collaborative and "articulated" education and training opportunities cut across sectors to create multiple career pathways. The programs also are responsive to the needs of nontraditional adult students who face a number of barriers in their pursuit of education, such as the need for child care and flexible schedules due to family and work constraints.

Beyond new structures of opportunity, financial incentives also can be used to broaden access. Working adults often are not eligible for traditional student financial aid, and few get support from families as do younger students. Federal financial aid programs have existed for some time and need-based aid became more prominent with the passage of the Higher Education Act in 1965. Many states also enable low-income students to finance their educational goals. But the existing financial aid system is often ill-equipped to serve the needs of an increasing nontraditional student population in the face of changing labor market demands.

This section reviews two state initiatives that model pathways for broadening access to higher education, and two state programs that enable nontraditional adult students to finance the education that will advance their skills and knowledge.

Arkansas' Career Pathways

Policy Description: Career Pathways grew out of a concern that young Arkansas residents are enrolled in college at a rate two-thirds that of the national average (27% compared to 40%) and that less than 17% of the state's adult residents have a bachelor's degree compared to over twice that many nationally (36%). It was determined that if Arkansas is to increase its competitive standing regionally and nationally, more low-skilled working adults need to be able to start or return to post-secondary education programs.

To respond to this, Arkansas launched the Career Pathways initiative. In summer 2005, eleven participating two-year colleges began enrolling students in a program designed to respond to the educational needs of working adults. The program offers a series of connected or sequential education courses as well as enhanced student services. For those with limited work experience and skills, a pathway starts with employability skills and adult basic education, including ESL. Participants then choose a career path in a high demand occupation that progresses from a certificate of proficiency, to a technical certificate, to an associates degree and finally to a bachelor's degree. Enhanced student services such as tutoring, career assessment, job search skills, and job placement assistance are provided along with a more flexible schedule of classes. When necessary, child care and transportation is provided.

Current and former TANF cash assistance recipients and current recipients of Food Stamps or Medicaid, who are responsible for a child under the age of 19, are eligible to participate in the program. Other adults with a dependent child and whose income is below 200% of the federal poverty level are eligible as well. It is estimated that this includes 193,000 adults in the state and the program intends to reach as many of these individuals as possible.

Policy Development: The Career Pathways program is modeled after a pilot project initiated at Southeast Arkansas College in collaboration with the Arkansas Association of Two-Year Colleges, the state Adult Education Program and the Southern Good Faith Fund (a non-profit organization). The goals of the project are to create improved access to college level training for working adults and to improve the completion rate of adult students in certificate and degree programs who enter with remedial needs. Initial efforts focused on aligning Adult Basic Education curriculum with six career pathway options. Where possible, course credits earned at the certificate level apply to advanced degree programs. For example, the business pathway begins with a Microsoft Office Specialist Certificate of Proficiency, credits for which can then be applied toward an Accounting Technical Certificate that in turn can be applied toward an Accounting Associate of Applied Science Degree.

The efforts to design a program at Southeast Arkansas College to serve as a model for two-year colleges around the state was given a boost by a grant of $50,000 from the National Governors' Association. Arkansas became one of eight states[9] participating in NGA's *Pathways to Advancement* project aimed at helping states develop strategies and policies that assist working adults, especially low-income, low-skilled adults, enroll in and complete post-secondary education credentials. Replication of the Southeast Arkansas College pilot project at other two-year colleges became a state strategy under the NGA project. The ability to expand to several other campuses was expedited because Arkansas had unspent federal TANF dollars.

[9] Arkansas, Hawaii, Kansas, Maine, Massachusetts, Michigan, Ohio, and Pennsylvania

Management and Funding: At least initially, Career Pathways' expansion to eleven campuses will be funded from Arkansas' unspent federal TANF allocation. Eight million dollars has been allocated for the first year with the second year funding of another $8 million dependent on the implementation status at that time. Funding covers new positions created at the Arkansas Department of Higher Education to design, coordinate and evaluate the program. Each participating college will receive funds to develop comprehensive student services systems, including hiring dedicated counseling staff, and providing supplemental student support services such as tutoring, child care and transportation vouchers, and last resort tuition assistance. Colleges also are funded to develop or redesign curricula that improve student retention and completion, and the Southern Good Faith Fund is working in partnership with two colleges, Southeast Arkansas College and Phillips County Community College, to implement a comprehensive student services effort. The Arkansas Association of Two-Year Colleges will assist by conducting an assessment to determine the high-demand occupations of the future in each area, connecting the college programs to employers' job and skill needs, and by spearheading a public information campaign to promote the program among both businesses and perspective students.

Outcomes: The Career Pathways pilot program at Southeast Arkansas College was fully implemented in January 2005. Seventy-four students enrolled in Pathways program areas at that time, with the vast majority (65 students) in the nursing pathways programs. Of these students, 50 students were enrolled in the nursing assistant program and half of the enrollees have already received their certificates.

Sources and Related Resources:

Increasing Access to and Completion of College Among Working Adults in Arkansas, Southern Good Faith Fund, September 2004.
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The Arkansas Career Pathways Initiative, Department of Higher Education, January 2005.

Kentucky's Adult Education Transition to Postsecondary Education

Policy Description: Kentucky is one of the few states with explicit statewide policies requiring a seamless system of transitions from adult education to postsecondary education. This grew out of the realization that Kentucky had missed out to a great degree on the knowledge industry boom of the 1990s. The state was losing good paying jobs in manufacturing and construction, farming and mining were declining, and the highest growth industry was in low-wage areas of the service sector. State policy makers concluded that the state's greatest economic problem was an under-educated workforce. In 2000, Kentucky ranked 49th in the nation in the number of adults without a high school diploma or GED, and 42nd in the nation in terms of

college graduates. And of the estimated one million adults with low levels of functional literacy, only 5% were being served in 2000.

Many adult learners experience the seamless transition envisioned by the legislation through a collaborative arrangement between a local school system that provides the adult education program and a community or technical college that serves the area. Approximately 20% of Kentucky's adult education students are enrolled in programs provided directly through the community and technical colleges. One such program is offered at the Mayo campus of the Big Sandy Community and Technical College district in eastern Kentucky. This program unifies adult education and developmental education intended to prepare students for college level work. All instruction is individualized and competency based. The focus is on the individual skills each student needs to improve, and moving that person along as quickly as possible. Most classes are small and scheduled at times convenient for adult students, including evenings and weekends. All adult/developmental students are treated as college students, and have the same rights and privileges accorded to students enrolled in credit courses, including financial and career counseling.

Policy Development: Reform of the state's community and technical colleges and the adult education system is part of an overall strategy to ensure that as many Kentucky residents as possible have the skills needed by existing employers. In 1997, legislation was passed to create the Kentucky Community and Technical College System (KCTCS) to assume governance of 12 community and 15 technical colleges. KCTCS was mandated not only to pursue traditional community college goals, but also to emphasize adult education and developmental education as well as customized training for industry. In 2003, administration of adult education programs, typically provided through local school systems, was reorganized with the creation of the Kentucky Adult Education (KYAE) and placed under the same umbrella agency as KCTCS. The operational goals of KYAE embraced the need to aid more adult learners in advancing to postsecondary education and to better prepare them for the continually changing workplace.

Management and Funding: Approximately half of the funding for KCTCS institutions comes from state appropriations, about 10% from tuition and fees, and the remainder from grants and contracts to provided specialized workplace training services. KYAE receives its primary funding from three roughly equal sources: 1) the state Adult Education Trust Fund established as part of the reorganization; 2) a state general fund appropriation earmarked for adult education; and 3) federal grants, principally the state's allocation under Title II of the Workforce Investment Act. The program at the Mayo campus is supported by a KYAE grant plus in-kind support from the college in the form of classrooms, financial management, personnel, counseling and other services. The average cost per enrollment of adult education in Kentucky was $380 in 2002-03. The average expenditure per student at the Mayo campus was approximately $258 plus the in-kind support provided by institution.

Outcomes: All of the adult/developmental education students at the Mayo campus are regarded as potential college students and about three-quarters of them have postsecondary education as an initial goal. In 2002-03:

- 92% of students with the goal of obtaining a GED succeeded in attaining it.
- 98% of the students with a postsecondary goal entered postsecondary education.
- 90% of the adult/developmental education students who enrolled in credit courses graduated from college.

Policy Challenge: While a very high percentage of GED completers at the Mayo campus of Big Sandy Community and Technical College district have gone on to enroll in postsecondary education, many of their counterparts from around the state have not. To determine how effectively its programs were promoting transitions, KYAE tracked GED completers in 2000-01 and found that 22% had enrolled in postsecondary education by fall of 2003. Students at the Mayo campus may be somewhat unique in that most score in the upper performance levels on entrance exams and enter the program with the intent of seeking postsecondary education. Jefferson County (Louisville), with the largest adult education program in the state, may be more typical and represents the challenges still ahead. It is estimated that only 15% of the adults awarded GEDs in Jefferson County each year enroll in college. The adult education program is this area is provided through the public schools which have worked out an agreement with the Jefferson Community College to improve transition and future student success.

Sources and Related Resources:

Adult Education and Literacy and Community Colleges in Kentucky, Council for Advancement of Adult Literacy, May 2004.
http://www.caalusa.org/caal_ky_case_chisman.pdf

Kentucky Adult Education http://www.kyae.ky.gov/programs

Kentucky Community & Technical College System
http://www.kctcs.edu/aboutkctcs.htm

Arkansas' Workforce Improvement Grant Program

Policy Description: Arkansas lags behind most states in the educational level of its adult residents; thus, many individuals lack the knowledge and skill base necessary for today's economy. The state is making an effort to redress this so both residents and the state's economy will fare better. Through Career Pathways, Arkansas designed an educational program to complement the schedule and challenges faced by working adults. But while this program makes it possible for working adults to incrementally advance their skills and obtain positions in high demand fields, many cannot afford the cost of post-secondary education. They are not

eligible for traditional student financial aid programs and few receive financial support from parents, as do their younger counterparts.

The building blocks of a new domestic policy framework are being constructed today in the states of the nation.

To aid these non-traditional students, the Arkansas Workforce Improvement Grant Program (AWIGP) was initiated in 2003. AWIGP is a need-based grant program, available to low-income students, providing funds that do not have to be paid back. Need-based aid is critical to expanding access to higher education in a state such as Arkansas where the median household income is $32,182, well below the national median of $41,944. Although historically tuition at Arkansas state community and four-year colleges was relatively affordable, consistent tuition increases was pricing post-secondary education out of the reach of many working adults.

AWIGP complements the federal Pell Grants for working adults. It provides an alternative for students who are not eligible for Pell Grants because their part-time attendance results in low educational costs, and provides additional funds for students whose Pell Grant does not cover the full cost of attendance. Although AWIGP uses the same formula as Pell Grants to determine eligibility, it has no minimum cost restrictions so students who are only taking one or two classes a semester can qualify. The maximum grant award is $1,800 per academic year.

Arkansas residents are eligible for AWIGP if they are financially needy as determined by each participating higher education institution, and are at least 24 years of age, enrolled in a college degree or certificate course for at least three credits, and are not in default on any prior financial aid received.

Policy Development: With the growing realization that the limited skills of its labor force are not good for Arkansas' residents or its economy, there was strong public support for this program from the start. With keen interest in supporting non-traditional students, the effort to design and pass the necessary legislation was spearheaded by the Association of Two-Year Colleges and a state senator with input from advocacy groups.

Management and Funding: The program is administered by the Arkansas Department of Higher Education. Students apply for grants through the financial aid office of any of the 43 state institutions they may attend. Annual funding was set at $500,000 for first two fiscal years of the program. In 2005, the legislature voted to add $3.2 million to this amount for fiscal years 2006 and 2007. The additional funds became available with the discontinuation of the Student Assistance Grant program. This program was initiated in the 1970s to provide $300 to financially needy students entering college, but in recent years participation was low because the grant amount represented too small a sum to serve as an incentive for attendance.

Outcomes: In the 2003-04 school year, the first year of operation, 441 students received aid through the program before its annual allocation of funds ran out. With increased funding, it is anticipated that about 2,200 students will be assisted in the 2005-06 school year.

Sources and Related Resources:

Making Higher Education More Accessible in Arkansas, Southern Good Faith Fund, April 2004. http://www.southerngoodfaithfund.org/_pdf/pub_pp/pp_2004_21.pdf

Melissa Goff, Manager of Student Financial Aid, Arkansas Department of Higher Education. melissag@adhe.arknet.edu

Georgia's HOPE Grant

Policy Description: The goal of Georgia's Helping Outstanding Pupils Educationally (HOPE) programs are to improve college enrollment by keeping strong students from going out of state to pursue post-secondary education. The HOPE Grant program assists students who otherwise may not be able to pursue a degree program at this point in their lives, but want to improve their job skills. The HOPE Grant program is the companion to the Georgia HOPE Scholarship program.

The HOPE Grant, unlike the Scholarship program, is not a merit-based program linked to prior academic achievement. Rather, it is available to all Georgia residents who enroll in state-approved, non-degree programs resulting in a certificate or diploma. There are no minimum hours of enrollment for the participants. For these reasons, it can aid those needing to acquire skills to enter the workforce, or workers wanting to advance in their employment who may be income-eligible for federal Pell grants, but who do not meet the academic load requirements.

HOPE Grants cover the costs of tuition, approved mandatory fees, and a book allowance ($300 per academic year or $150 for part-time). Grant recipients can receive assistance for up to 63 semester or 95 quarter hours in programs of study leading to a certificate or diploma. There is no specific grade requirement for continued eligibility for the HOPE Grant for non-degree study, but performing well benefits students who intend to pursue a college degree with a HOPE Scholarship.

Policy Development: The HOPE programs were proposed in early 1990s by Governor Zell Miller to provide much the same educational opportunity for Georgia high school students and adult learners as the GI Bill provides for veterans. Funding for the HOPE programs were tied to the newly instituted state lottery, which was made possible by the repeal of a constitutional prohibition in November 1992. Although the HOPE Scholarship was designed to be a merit-based program, originally there was a household income cap of $66,000. This later was eliminated

as dedicated lottery revenues outpaced the program's expenditures in the early years.

Management and Funding: To qualify for HOPE Grant funding, the certificate or diploma program must be approved by the Georgia Department of Technical and Adult Education, or be a comparable program of study approved by the Board of Regents. Completion of a short application is needed to apply for the HOPE Grant, and preparation-related assistance is provided by the educational institution.

Since its inception in 1993, the combined HOPE programs have distributed over $2 billion to educate 650,000 students. From 1993 thru 1996, more students received HOPE Grants than Scholarships, but since 1996 awards of HOPE Scholarships have steadily outpaced receipt of the Grants. In 2003-04 the HOPE Grant allocated $103.7 million to students (compared to over $300 million for the HOPE Scholarship). The ever-increasing popularity of the HOPE Scholarship has raised concern that the demand may soon outstrip lottery revenues. During the spring of 2004, the state legislature approved several changes to the program intended to curtail escalating costs. Although the changes primarily affect HOPE Scholarship recipients, HOPE Grant recipients are impacted by the cap placed on mandatory fees at the 2003-04 level, and a reduction to the book allowance in years when the lottery's year-end balance declines.

Outcomes: Between 1993 and 1999, almost 365,000 students received the HOPE Grant. Since then about 60,000 grants have been awarded annually. Georgia educators have found that the HOPE Grant increased African-American participation in diploma and certificate programs.

Policy Challenge: Several states have modeled merit-based post-secondary financial aid programs after the HOPE Scholarship program. Some of these states have shifted funding for need-based aid to this type of merit-based aid. In Georgia in the year prior to HOPE, the state provided only $4.9 million of strictly need-based grants, and $26 million in total aid. By 2002-03, Georgia's total aid had grown to $397 million annually, increasing over 15 fold in 10 years, but targeted need-based grants declined to $1.5 million. However, this figure does not include over $100 million to HOPE Grant recipients as the program is neither merit- nor need-based. But even though not designated as need-based, Georgia education experts report that most HOPE Grant recipients are low-income.

Sources and Related Resources:

HOPE Scholarship and Grant Program Highlights, Georgia Student Finance Commission, June 2004.
http://www.gsfc.org/main/publishing/pdf/2004/hope_highlights.pdf

The Enrollment Effects of Merit-Based Financial Aid: Evidence from Georgia's HOPE Scholarship, August 2005.
http://www.terry.uga.edu/hope/hope.enrollments.pdf

Georgia's HOPE Scholarship and Minority and Low-Income Students in *State Merit Scholarship Programs and Racial Inequality*, October 2004.
http://www.civilrightsproject.harvard.edu/research/maeritaid/report04/6Cornwell_MustardGAch4.pdf

Transitional Job Programs

Transitional job programs make it possible for people with little or no work experience, limited education, and other barriers to employment to become wage earners. These programs help build the capabilities, resources, and experience that participants need to reach the first rung of a career pathway.

Transitional job programs usually target Temporary Assistance for Needy Families (TANF) recipients, ex-offenders, at-risk youth, or refugees. Participants hold short-term, subsidized wage-paying jobs that enable them to establish a record of success at work in the public, non-profit, or private sectors. The programs typically combine work and skills training for about 30 hours a week. Work placement is in positions such as teacher aide, computer technician, bus driver, home health care provider, nursing aid, data entry clerk, library assistant, and child care worker. The programs assist with job searches and teach basic job skills and conflict resolution techniques. Participants learn to balance work and family to help increase the likelihood of job retention and eventual advancement.

All households need assets to succeed… the resources and capabilities that enable families to achieve economic stability.

Evaluation findings regarding the transitional jobs model in Georgia, Washington, Minnesota, Pennsylvania and other states provide overwhelming evidence that the transitional jobs strategy is successful for new entry-level workers. The most recent national data indicates that participation boosts participants' income by as much as 40% over the level of their public assistance checks as a result of wages and EITC eligibility. Of those across the nation who completed transitional job programs, 50% to 70% secured permanent employment.

Funding comes from a wide range of sources, including TANF, Welfare-to-Work, Office of Refugee Resettlement, and Workforce Investment Act funds. States have taken the lead in creatively combining or complementing program resources to provide state residents with increased opportunities for building their work experience and skills, a core foundation for building their assets and opportunities for the future.

Georgia's GoodWorks!

Policy Description: Georgia state leaders realized that many families were nearing the state's 48-month time limit for receipt of TANF cash assistance with no reliable employment. Although many welfare recipients had found jobs, some had not been able to find steady employment because of limited work history, little education, and formidable personal and family barriers to work. In 1999, Georgia allocated Welfare-to-Work funds to design and implement a pilot intensive supported employment program for hard-to-employ welfare recipients needing additional support and time to achieve their employment goals. In 2000, Georgia allocated TANF funds to establish the program statewide.

This intensive supported employment program is a component of Georgia GoodWorks!, a service strategy for lifelong learning and career development. Georgia is one of the few states that offers a statewide paid work placement program. Targeted participants are welfare recipients who have received TANF cash assistance for longer than 30 months and have little or no work experience, a limited education, and personal and family challenges that interfere with work, but do not preclude them from working. A Personal Advisor helps the program participant develop an individualized service strategy to remove work-related barriers, such as lack of child care and transportation, and remains with the individual to assist through each stage of work experience.

To evaluate a participant's readiness for the competitive workforce, he or she can be placed in a short-term subsidized paid work activity. Those who are found not to be ready for competitive employment continue in a full-time (at least 32 hours/week) supported work environment earning minimum wage. The experience in an employment setting allows new workers to acquire basic job skills and become accustomed to the culture of the workplace in an environment where they can learn from their mistakes. The Personal Advisor, available to a participant at all hours, helps determine ongoing barriers to work and accesses the supports to overcome them while building confidence in the participant's ability to work. Support is also provided on the work site to help respond to issues that might arise.

The goal of GoodWorks! is to place participants in appropriate, steady jobs. Efforts are made to match participants with work that fits their skills and personal circumstances using the job placement resources of the one-stop centers or in-house job developers. Personal Advisors continue to provide support and services for workers entering unsubsidized employment for three to six months to help ensure job retention. The original program design also included a stop-the-clock policy so that the months of participation in paid work experience did not count against the 48-month limit on TANF cash assistance. In the first years of the program, about half of the families receiving intensive services continued to receive TANF cash assistance beyond the 48-month limit. But program revisions that went into effect in October 2004 ended the stop-the-clock provision.

Management and Funding: The Georgia Department of Labor contracts with numerous local agencies that provide supportive employment services to manage

the program. Collaboration and coordination of existing services provide the service package needed by individual participants and capitalizes on varying staff expertise. Low participant-to-staff ratios, between 15 and 30 cases, allow for the intensity of services. In 2000, $18.6 million was allocated from TANF funds to design and implement the program. At the beginning of the program Welfare-to-Work funds were used to pay for participant wages, but these funds are no longer available. More recently, GoodWorks! mandates that localities use existing resources available through TANF, the Workforce Investment Act and other programs to provide services.

Outcomes: A study of the program published by Mathematica Policy Research, Inc. in December 2002, found that participants generally were in the program for nine months. In the five sites studied in-depth, 54% to 85% of those who completed the program were able to obtain regular unsubsidized employment. Most participants worked about 35 hours a week in clerical, health care, or service-related positions earning median wages of $5.75 to $8.00 an hour. This earned income made participants eligible for the Earned Income Tax Credit, further increasing financial resources available to the family.

As of June 30, 2005, more than 4,400 of the 5,285 individuals who received intensive services participated in subsidized paid work experience. Of those receiving intensive services, 58% successfully transitioned to competitive employment.

Sources and Related Resources:

Transitional Jobs Network http://transitionaljobs.net

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http://www.dol.state.ga.us/pdf/gw/goodworks_guidelines.pdf

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Invitation for Proposals for GoodWorks! Intensive Workforce Services, Georgia Department of Labor, February 2005.
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Employment Retention and Advancement

Research points to less than promising job retention and advancement patterns for many low-skilled and inexperienced workers. Results of several studies conducted prior to the 1996 federal welfare reform show that of women who left welfare for work, as many as 75% lost their jobs within one year and 25 to 40% returned to welfare during that year. Such diverse factors as the unstable nature of entry-level employment, lack of workplace skills, and non-compatible family demands all contribute to job loss among new workers. Wage growth studies show that more important than single job retention is maintaining steady employment by quickly finding a new job when there is involuntary job loss, or after establishing a work history, moving on to a better job that offers more promising opportunities.

In recent years, states such as Florida, Oregon, Rhode Island and Washington have initiated employment retention and advancement programs based on what was learned from federal demonstration projects in the 1990s. Studies of post-employment programs found that the most successful frequently are those that engage participants prior to employment, to aid in skills acquisition and anticipate problems that will arise during transition to work. Program success also is linked to responsive case management, well thought out individual goals planning and the availability of support services. Employers participating in the Welfare to Work Partnership consistently reported that investments in child care, transportation and life skills did the most to promote retention of new hires. Also, access to funds to overcome obstacles to work, such as needed car repairs, was found to prevent avoidable loss of work hours or even employment.

Florida's Passport to Economic Progress

Policy Description: Following welfare reform, Florida, like most other states, produced a steep decline in its caseload. Although many individuals leaving the welfare system were successful in obtaining work, many still had very low incomes due to such factors as low wage jobs, limited number of hours worked (about one-third were employed part-time), or lack of steady employment. State officials were concerned that working families with marginal incomes remain vulnerable to reliance on public assistance despite their efforts to become self-sufficient.

The Passport to Economic Progress program was created as a response to the need for additional post-employment services to support employment retention and increased earnings. A demonstration program was initiated in November 2001 and modified in July 2003, and now operates in three counties – Hillsborough (Tampa Bay), Manatee and Sarasota – with over 500 total participants. Currently, former TANF cash recipients and families who meet the eligibility criteria for TANF who are working full-time (at least 32 hours per week), but whose incomes are below 200% of the federal poverty level, are eligible to participate in the program. The revised Passport program combines incentive performance bonuses and extended support

services to enable families to achieve or maintain economic independence through employment.

Those who opted to participate in the program work with a case manager to develop a self-sufficiency plan that is reviewed monthly, with benchmarks for increasing family income. Benchmarks can include such goals as: 1) applying for federal EITC; 2) attaining a GED or high school diploma; 3) attaining a vocational education or job skills training certificate; 4) upgrading an employment position; 5) increasing available income through better wages, fringe benefits, increased hours, or shift differential; 6) retaining employment of at least 32 hours per week for 30, 90 or 180 days; and 7) other areas related to personal improvement. Upon achieving their benchmark, participants are eligible for incentive bonuses that are geared to their individual needs. Bonus awards may be used for such essentials as child care expense or other needs such as car repair, vehicle insurance, gift certificate to discount store, and Internet hook-up. Individuals can receive incentives with a value of up to $1,500-2,000 per year. To assist those moving from welfare to self-sufficiency, transitional benefits may be provided for up to four years (instead of two), if the state has sufficient funds. These benefits include transportation support service, child care subsidies, and support services for education and training.

The Passport program also has an employer outreach component to familiarize employers with the program and facilitate skills upgrade training tied to opportunities for career advancement and/or earnings gain. Employers further assist the responsive case management by helping make employees aware of the availability of work support resources.

Policy Development: State administrators designed the original Passport program (November 2001 – June 2003) for families transitioning off of TANF cash assistance to include an increase of the earned income disregard, an extension of transitional benefits and services, and a wage supplement to bring the income of working families up to 100% of the poverty level. When the program was revised by the state in 2003, eligibility was extended to other TANF-eligible working families, and the income ceiling was raised to 150% of poverty level (and to 200% as of July 2005). The 2003 revisions also replaced the wage supplement and increased earned income disregard with a performance based program with defined bonus incentives for achieving benchmarks in a self-sufficiency plan.

Management and Funding: Workforce Florida, Inc., the state workforce investment board has general oversight and policy responsibility. Program administration is carried out by the two regional workforce boards serving the three counties. Through an integrated program, the regional workforce boards' one-stop career centers in Florida are tasked with providing employment services to families fulfilling TANF work requirements. The regional workforce boards are required to report Passport program participation data to Workforce Florida, Inc., which in turn reports annually to the Florida legislature and the Governor. Total annual cost per Passport participant, including case management, is about $5,000. The program receives an allocation of about $2 million each year from TANF funds.

Outcomes:

- During the first quarter of the Passport '03-04 program year, participants were earning median quarterly wages of $2,527 ($10,108 annual). In the fourth quarter of the year, their median wages had increased to $3,087 ($12,348 annually) or a 22% gain in earnings.
- During the fourth quarter of the Passport '03-04 program year, 82% of Passport participants retained employment compared with 49% of a control group.
- The 382 participants who completed the Passport 2004-05 program achieved 605 benchmarks related to employment goals – earnings gain, receiving job benefits, increase in hours worked or shift differential, or position upgrade.

Policy Challenge: Participants in the Passport to Economic Progress program have made significant advances in their earning levels and employment retention, but only a limited number of individuals are reached by the program – less than 500 out of the thousands who have left welfare for work and could be eligible. Some may not qualify for the program because they have not been able to find 32 hours per week of steady employment. Others may avoid intensive engagement with another state program after leaving TANF cash assistance, as reported by other post-employment programs. These programs found that engaging participants in pre-employment services helps families realize the benefits both of employment goal setting and of anticipating obstacles to work and accessing the support services to overcome them.

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IV. WEALTH: BUILDING AND SECURING FINANCIAL ASSETS

Overview

Many Americans have few financial assets - savings and checking accounts, stocks and bonds, or even equity in property. But these resources play a crucial role in household economic well-being over the long term. They enable a family to survive crises or emergencies, to save for retirement, to make a down payment on a home, pay for an education, or start a business. A key to building and preserving financial assets is access to sufficient and reasonably priced credit, the capacity and means to manage financial resources, and meaningful ways to accumulate wealth.

For many years government policies have facilitated the building of private wealth and maintaining a middle-class living standard through such means as pre-tax retirement accounts and home mortgage deductions. Moreover, economic security for individual owners, especially those of moderate income, also has depended on government regulations – to keep pensions from being robbed, investment accounts from being drained, and fair credit practices altered. Aided by these policies, millions more Americans of relative modest means have been able to broaden their base of asset wealth.

Wealth itself is an asset because home ownership, savings and retirement accounts increase economic independence and stability throughout life.

However, significant numbers of families remain "asset poor". One-quarter of American families do not have enough net asset wealth – cash savings, stocks and bonds, and equity in a home – to meet their basic needs for three months, if they were to lose their jobs. The challenge of broadening wealth is not uniform across population groups. For most minorities, disparities in wealth are far greater than disparities in income. For every dollar the typical white family has in wealth, an African American family has ten cents and a Hispanic family has three cents. This inequality is passed down from generation to generation when there is no private family wealth to draw upon to leverage advantages. Women are also at a disadvantage when trying to build asset wealth due to wages that are only two-thirds that of their male counterparts and fewer years in the workforce.

In recent years a number of policies and programs have been adopted to give low-income families the same opportunities to build a financial stake that have been given to others. Many states have designed initiatives using a range of

discretionary funds to increase savings, build financial literacy and management skills, and protect assets once they are accumulated.

Asset Limits Among Low-Income Households

While low-income Americans are being encouraged to save and build financial assets, some also are being penalized for having money in savings. Many public assistance programs aimed at low-income households impose asset limits that restrict program eligibility. Asset tests can put low-income families in a precarious position, causing families to deplete their savings before seeking help, or discouraging them from building reserves for emergencies or making investments in their future. Without savings, many families are just a medical emergency, divorce, or uninsured natural disaster away from falling into poverty. Or if modest savings have been set aside for a child's education or a more financially secure retirement, these may have to be drained first to qualify for means-tested programs during temporary spells of unemployment or when wages are insufficient to make ends.

Federal laws governing the major means-tested benefits programs, including food stamps, TANF cash assistance, Medicaid and Supplemental Security Income (SSI), either require or allow states to apply asset tests when determining eligibility. While these asset tests are intended to ensure that limited public funds are allocated to those most in need, the Survey of Consumer Finances shows that families who comprise the bottom 20% of earners hold a median of only $2,000 in financial assets and $7,900 in total net worth, including cars and homes. Therefore, an asset test on top of the income eligibility test is likely to exclude very few families who have substantial enough financial assets to rely upon that they should not need to seek public assistance during a personal financial crisis.

With the growing awareness of the handicap that asset limits imposes on low-income families and the realization that little public good is gained by asset tests, many states are electing to reduce or eliminate asset tests. State policies are being shaped to protect the limited assets that families have, while also helping them move more quickly back to independence.

Ohio's Elimination of Asset Tests

Policy Description: Ohio perhaps has gone further than any other state in eliminating asset tests for means-tested programs. This course of action began in 1997, when Ohio eliminated its asset limits for TANF as part of a larger agenda that moved the focus away from welfare eligibility and income maintenance to helping

recipients achieve self-sufficiency. The state went on to eliminate asset limits for other means-tested programs as federal policy permitted.

For eligibility in the AFDC program, prior to the creation of the Temporary Assistance for Needy Families (TANF) program, families were limited to $1,000 in savings and a vehicle with an equity value not greater than $1,500. TANF gave states the flexibility of setting other asset limits or removing them entirely as Ohio (and later Virginia) opted to do. Ohio, like many other states, also chose to exclude the value of all vehicles for determination of food stamp eligibility. Since 2001, states have been given the flexibility to align their food stamp asset policies for vehicles with their TANF cash assistance policies. Ohio is one of only four states that also exclude savings in individual Development Accounts (IDAs) from the food stamp asset test. Ohio also has removed asset limits for eligibility in the Medicaid program (except for SSI participants) and the State Children's Health Insurance Program (SCHIP). And Ohio has chosen not to impose an asset test for eligibility for the LIHEAP Heating Assistance program.

Federal law does not give states the option to reduce asset tests for SSI. These limits are generally set at $2,000 for an individual and $3,000 for a couple and the exclusion of one vehicle if it is used to get to work. But in Ohio the limits are actually lower – $1,500 and $2,250 respectively – because the state has elected to exercise an option that allows it to retain the income and asset tests in place when SSI was enacted in 1972.

Policy Development and Outcomes: The legislation that launched Ohio's welfare reform program, including elimination of the asset tests, was passed unanimously by a bi-partisan legislature and signed by then Governor George Voinovich in 1997. This action is not believed to have hindered TANF cash assistance caseload reduction as Ohio experienced reduced number at similar percentage levels as other states. Also, Ohio's relatively low benefit level and strong work requirement would likely deter asset-rich, but cash poor families, from seeking TANF cash assistance.

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Post-Secondary Education 529 Savings Plans

529 Plans are state-operated investment plans that give families a federal tax-free way to save money for college. Authorized by Congress in 1996, they are officially known as qualified tuition programs, but commonly referred to as "529 plans" after the section of the IRS code that provides the plans' special tax provisions. Over time the 529 Plan has become one of the most prominent and popular college savings plans. There are two forms of the 529 Plans – prepaid tuition plans and state savings plans. Prepaid tuition plans may be sponsored either by private colleges or by states through their public colleges. They generally allow an investor to pre-pay (all at once or in payments) a predetermined amount to the designated school. These plans are currently offered by 18 states[10]. State savings plans, offered in every state but Washington, are individual investment accounts run by states that usually offer a wide range of savings options that can be used to pay academic expenses at any private or public college in the state, or in some cases, in other states or abroad.

These plans can provide a way for low and moderate income parents, and others interested in a child's well-being, to begin early to save for college by making modest, affordable contributions that have tax reduction benefits. While sometimes criticized for providing the most tax benefit to middle and upper income families, states can design 529 plans to target savings by families of lesser means. States can also ensure that public investments in 529 plans do not jeopardize funds dedicated to need-based grants for post-secondary education.

Louisiana's START Savings Program

Policy Description: In the early 1990s, concern mounted in Louisiana, as in many other states, that nationwide college tuition was increasing 6-8% annually at four-year public schools. In 1995, legislation was enacted to establish the Student Tuition Assistance and Revenue Trust (START) college savings program to help make education affordable and accessible to all Louisiana residents by encouraging and supporting savings for education. The first deposits in Louisiana's START Savings Program were taken in 1997 and the START Savings Program became one of the 529 qualified tuition plans.

A START Savings account may be opened on behalf of a child (the beneficiary) by a parent, grandparent, other family member, legal guardian, or a person claiming the child as a dependent on their tax return. An independent student as defined by the federal Higher Education Act of 1965 can open an account for which he/she will be the beneficiary. The maximum amount that may be contributed is tied to the cost of tuition and room and board at Tulane University, the state's most expensive

[10] Alabama, Colorado, Florida, Illinois, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, Nevada, New Mexico, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin

college. Currently, the maximum contribution level is $218,535. Funds that accumulate in the account may be used to pay for tuition, fees, books, room and board, supplies and equipment at any in or out-of-state accredited college, or an in-state technical college or proprietary school. Earnings are exempt from federal and state taxes upon disbursement from the account. If the intended beneficiary is unable to utilize the savings account for post-secondary education, then someone else in the beneficiary's family can be named, or the funds can be withdrawn but will be subject to federal and state taxes.

Louisiana's 529 plan has several provisions that go farther than almost any other state to ensure that lower income families benefit from the program. It is only one of five states[11] that offer a savings match. A percentage of the deposits made into the account by family members or an independent student is matched. The match ranges from 14% if the account holder's adjusted gross income is under $30,000 to 2% for adjusted gross incomes of $100,000 or above. The state provides the match and pays the costs of administering the program while not charging any fees. Contributions to the account are deductible from state taxable income up to $2,400 per year, not the higher federal gift tax maximum deduction of $11,000. Thus those who are able to contribute at a substantially higher level do not get a greater tax break. But to encourage contributions that will benefit low-income students, up to $4,800 per year can be deducted from taxes for an account opened for an eligible needy, non-related beneficiary. While in some states, the value of 529 savings plan accounts can negatively affect the amount of other state aid for which the student's family is eligible, participation in the Louisiana's START Savings Program has no impact on eligibility for state scholarship programs.

Management and Funding: The START Savings Program is administered by the Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority. Early in the program, fixed-income investments including government bonds, corporate notes, and certificates of deposit were managed by the state treasury. Now six investment options are offered ranging from very conservative to very aggressive. In 2003, the state reached an agreement with Vanguard Group to offer commission-free mutual funds. These five investment options include aged-based accounts that become more conservatively invested as the child nears college age, 100% stock accounts and 50/50 stock and bond accounts.

Outcomes: Although initially having a slow uptake, by early 2005, START had more that 15,700 accounts and $63.3 million in assets. A survey conducted in 2003, found that 44% of the state participants were at or below 100% of the state median family income; 35% were at or below 80%; and 21% were at or below 50%.

[11] Louisiana, Maine, Michigan, Minnesota, and Rhode Island

Sources and Related Resources:

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Individual Development Accounts

Individual Development Accounts (IDAs) are special savings accounts designed to assist low-income people on their path toward asset ownership through matched savings and financial education. IDAs reward the monthly savings of people who are trying to buy their first home, pay for college or start/expand a small business. In some programs, savings can also be used for such items as purchase of a vehicle, home improvement, major medical expenses, or investments in a retirement account. Those who have benefited from participation in IDA programs include former welfare recipients, youth in disadvantaged urban and rural schools, recent refugees, and the working poor.

The recognition that we all share the need to develop personal and financial assets turns traditional social policy on its head.

Because saving money for future needs can be difficult for people struggling to keep up with current bills, IDAs encourage and structure savings efforts among the poor by offering matches for their own deposits. The source of the match can be funds from state or federal government, foundations, or businesses. These matched savings accounts are administered by partnerships between community-based organizations, financial institutions, and the IDA account holder. Criteria for participation in an IDA

program varies depending on the funding sources for the program, but generally includes families whose household earned income at time of enrollment does not exceed 200% of the federal poverty level and whose assets do not exceed $10,000, excluding the value of a primary residence and one vehicle. In all programs, participants complete a financial education component as a requirement of enrollment.

IDAs are a mechanism that offers policymakers an opportunity to enhance asset building in low-income households. Thirty-five states, the District of Columbia, and Puerto Rico have passed legislation to facilitate the establishment of IDAs. Federal initiatives include the Assets for Independence Act, which authorized a five-year, $125 million IDA demonstration project and the Office of Refugee Resettlement's IDA program for refugees.

Arkansas' Individual Development Accounts

Policy Description: Recognizing that many of the state's residents remained poor despite numerous programs intended to end poverty, Arkansas leaders determined that low-income families needed a means to save and invest to stabilize families and build community. In 1999, the state passed the Family Savings Initiative Act that created an IDA demonstration project to be administered by the Department of Human Services through non-profit organizations. In addition to facilitating savings and creating an opportunity to accumulate assets, IDAs were seen as a means to stabilize families and build communities. The act authorizes the use of TANF funds for administrative costs and to provide the match for qualifying savings goals. Individuals and corporations are encouraged to contribute to non-profit organizations sponsoring IDA programs by allowing state credit against income tax liability equal to 50% of the contribution.

Residents of Arkansas with gross household incomes that do not exceed185% of the federal poverty level (or 200% when certain other funding sources are used) and whose net worth does not exceed $10,000, excluding the value of a primary dwelling and one vehicle, are eligible to participate in the program. Savings in the IDA are matched $3 for each dollar deposited by the account holder. It can be used for home ownership or improvement, starting or expanding a small business, post-secondary education for the account holder or a family member, or payments into an individual retirement account. Savings can also be used for purchase or repair of a vehicle, if the participant is also saving for another approved purpose. For individuals the maximum total match that can be accumulated is $2,000 and for households it is $4,000.

Southern Good Faith Fund is one of the two original non-profit organizations administering the IDA program. Its Asset Builders Program targets low-income and low-skilled residents in the Delta region of Arkansas and Mississippi. As with all IDA programs, financial literacy is considered to be a critical component because it enables families to better manage their money to make ends meet and set aside

something for savings. Participants enrolled in the program attend economic literacy classes that include 1) money and credit management; 2) understanding spending habits and making it a goal to save; 3) exposure to mainstream financial services and how to use them appropriately; and 4) training specifically targeting the individual's savings goal.

Management and Funding: The Act creating the program specifies that funds for Arkansas' TANF program will fund administration costs and the account match for qualifying uses. The Department of Human Services now has contracts with four non-profit organizations in Arkansas to act as intermediaries between the individual account holders and the financial institution holding the IDAs. Together these agencies are able to make the program available to residents in about half of Arkansas' counties. The organizations are responsible for administering the individual accounts, providing financial counseling and related services to aid account holders in achieving their savings goals, and leveraging additional matching and operating funds.

In recent years, $550,000 has been appropriated annually by the legislatures to support the program. To aid in raising additional funds, the establishing Act created a credit against income tax liability in an amount equal to 50% of the amount contributed, but not to $25,000 or the amount otherwise due in individual or corporate income tax. The Act limits the total amount of tax credit that can be certified in a calendar year to $100,000, but in fact only a few hundred dollars is raised each year by this means.

Outcomes: Between 1999 and 2003, over 400 people statewide graduated from an IDA program and purchased an asset – 82 families purchase homes; 115 families renovated their home; 70 small businesses were started or expanded; and 136 individuals participated in post-secondary education. During FY 2005, 659 people were enrolled in the program statewide.

As of August 2005, 569 individuals have enrolled in the Southern Good Faith Fund's IDA program and 282 have purchased assets. 87% are African-American and 83% are females. 33% have received TANF cash assistance at some time and 31% are on food stamps. 84% of participants have monthly household incomes of $2,000 or less a month.

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Financial Literacy

Many students who graduate from high school, as well as many adults, lack basic skills in the management of personal financial affairs. Many are unable to balance a checkbook and have no insight into the basic principles involved with earning, spending, saving and investing. Young adults too frequently fail in the management of their first consumer credit experience and develop poor credit ratings, establish bad financial management habits, and manage their finances by trial and error. Adults also experience financial problems for many reasons including stagnant or declining real wages, job displacement, and health care and housing crises.

Many Americans are using credit cards as a way to fill a growing gap between household earnings and the costs of essential goods and services. In the process they are incurring more debt and failing to save for the future. Between 1989 and 2001, credit card debt in America almost tripled, from $238 billion to $692 billion. The savings rate steadily declined, and the number of people filing for bankruptcy jumped 125%.

Managing money – how to earn, save, spend, and invest it – is a highly important skill to learn. Improving basic knowledge about how finances work, and how to build assets for the future, has become a critical objective of policy makers at both the federal and state levels. Financial literacy training is now being supported, in some way, by the federal Departments of Education, Treasury, Labor, Agriculture, and Health and Social Services. Targeted state policy initiatives also have been enacted in states such as Idaho, Illinois, Louisiana, Mississippi, Missouri, North Carolina, Oregon, Texas, and Utah.

Utah's Financial Literacy for Youth and Adults

Policy Description: The need to improve financial literacy in Utah is evidenced by the state's highest national ranking in personal per capita bankruptcy filings for the

last several years. It also is in the top three states for the number of home foreclosures. While below average median income coupled with high housing costs are recognized as contributors to this undesirable status, lawmakers and others across the state have concluded that residents could benefit from resources that will aid them in managing their money better to avoid financial crises.

Although acknowledging that family financial education begins in the home, state officials determined that this learning could be strengthened and reinforced in school settings to better prepare youth in making informed monetary decisions. In 2003 legislation was passed to make personal finance education a requirement for high school graduation starting in 2006, thus joining at least six other states[12] in doing so. The Utah State Office of Education has developed standards for a general financial literacy course for grades 11 and 12 that includes income and career choices, money management, spending and credit, savings and investing, consumer protection and risk management. The purpose is to enable students to implement those decision-making skills needed to become wise and knowledgeable consumers, savers, investors, users of credit, money mangers, and members of a global workforce. It is left to the individual school system to determine the text and materials to be utilized to comply with the teaching standards. Course teachers are required to complete General Financial Literacy professional development training.

Financial literacy resources for adults are also expanding across the state. The Utah State University Cooperative Extension is seeking ways to better engage adults in the free financial literacy training they offer. Businesses are being encouraged to let their employees participate in special sessions offered by the Extension during staff meetings or over the lunch hour in the Lunch and Learn program. Some companies have provided free lunch to their employees who participate. For several years, Extension has offered the online program PowerPay as a tool that allows those in debt to determine how different plans for paying off their creditors can save money. This on-line calculator will be joined by a similar PowerSave tool early next year.

More intensive financial literacy courses are available to individuals interested in Utah's new IDA program. Eligible individuals who want to begin saving money in matched accounts are required to attend eight hours of classroom financial education. Since March 2005, the Extension has offered training either in four evening sessions or two Saturday morning sessions. Each month 15 to 45 students engage in the training at different locations around the state, including sites reaching out to the Native American population. The course curriculum covers the general areas of budget development, money management, wise use of credit, and consumer information. The latter includes information on protection from predatory lending and introduction to EITC and VITA free tax preparation centers.

<u>Management and Funding:</u> Both the costs of the financial education course for high school students and the adult financial literacy offerings by Utah State

[12] Alabama, Georgia, Idaho, Illinois, Kentucky, and New York

Extension are carried within the general operating costs of the institutions involved. Special materials provided to participants in Extension courses may include a user fee when costs are not covered through a grant.

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Moving to Financial Independence

Some programs have the capacity to bring together several initiatives that contribute to financial independence. In some localities, the HUD Family Self Sufficiency (FSS) program has served this role for public housing and Section 8 residents. The National Affordable Housing Act of 1990 required public housing authorities to develop FSS programs to coordinate housing supports with other public and private resources to help low-income families reduce their dependence on public housing and other forms of public assistance. The two main features of FSS are case management and support services to aid participants' attainment of full employment at good wages, and diversion of increased rent payments into escrow accounts to enable participants to accumulate significant financial assets for homeownership and other purposes. (Tenants in public and subsidized housing who do not participant in the FSS program experience increases in rent as their earnings rise. Rent is set at 30% of adjusted income so 30 cents of every additional dollar earned is lost to increased rental payments.)

Program participants enter into a contract that specifies their responsibilities and goals, and the resources and support services that will be made available. These goals must include seeking suitable employment and independence from public assistance. Upon completion of the contract terms (after five years, or seven if there has been an extension), participants receive their savings plus interest in the escrow accounts without restrictions as to its use. Some local public housing authorities have chosen to assist FSS participants in reaching their goals by offering such programs as skills training, financial education, and access to support services, such as transportation and child care.

Phoenix's Community Initiatives for Financial Independence

Policy Description: In recent years, the city of Phoenix Human Services Department has developed an array of initiatives aimed at reducing poverty by building the capacity of low-income residents to become financially independent. The programs that have evolved work in close concert to aid low-income families in increasing their income and savings, and managing their money wisely.

The Family Self-Sufficiency Program (FSS) provides case management services for up to five years to participants who reside in Section 8 and other subsidized housing. Currently, there are 160 participants and the program has been authorized to add 50 more over the next few years. Five case managers provide intensive services to a caseload of 30 to 35 families who are working towards their goal of becoming economically self-sufficient and free of the need of government assistance. Caseworkers meet with participants to develop a written plan that identifies their educational and career goals and maps out how to achieve them, as well as addressing any other significant issues that may be barriers to achieving financial independence. Services may include transportation assistance, counseling, training, and job placement.

FSS works in partnership with the Phoenix Housing Department, which is responsible for opening and managing the savings account established when family-earned income increases. Earnings that would otherwise go toward increased rent, based on their higher income, are placed into this escrow account to be expended for the purchase of a home or other purposes.

A critical component of the FSS program in Phoenix is financial education. Classes using the FDIC's Money Smart curriculum are taught by volunteers from local financial institutions and AmeriCorps. Program participants attend three sessions covering 1) how to get, use, keep and repair credit; 2) budgeting and saving; and 3) how to prepare for homeownership. Parents are encouraged to also have their children attend financial education classes offered for their age group.

This Financial Education Program is available not just to FSS participants but any family who can benefit from a comprehensive foundation for saving, spending and investing wisely, and information on how to safeguard against predatory lending practices. The initiative took on the much larger challenge of reaching low-income residents throughout the city when it became linked with the public campaign to increase participation in the Earned Income Tax Credit (EITC) program. This stemmed from a concern that when people claimed their EITC benefits, many lost much of their refund as a result of insufficient money management, and increasing predatory practices such as high commercial preparation fees, "rapid-refund" loans, and check-cashing operations.

For the 2004 tax season, the City of Phoenix Human Services Department launched a comprehensive effort to educate the public about the EITC program, as well as the availability of free tax-filing services and financial education classes. Limited enrollment in the program's first year lead to the creation of incentives for

participation including drawings for $50 Savings Bonds, no-fee savings accounts for adults at numerous financial institutions, and special savings accounts for children with low minimum deposits. At over 15 free tax preparation sites across the city, residents now receive materials in English and Spanish with financial tips and promotion of the Financial Education Program.

Policy Development: HUD requires public housing authorities that, between 1993 and October 1998, received funding for public housing and Section 8 subsidy slots, to enroll families in the FSS program. While many housing authorities did not embrace and widely promote the program out of concern that administrative costs were not sufficiently covered, the city of Phoenix has used Community Service Block Grant funds to provide comprehensive case management services and recruited numerous volunteers and partnered with community-based agencies to offer other financial initiatives.

Although the City recognized the return benefit of investments in FSS and the Financial Education Program, the benefit of the EITC outreach and free tax preparation campaign was particularly apparent. The IRS estimated that up to 25% of eligible families were not claiming the federal EITC refund, totaling about $64 million in unclaimed dollars in 2003 for the City of Phoenix. This meant that over 35,000 workers had not received the financial boost that could lift them out of poverty, and the city had failed to benefit from the millions of additional dollars that could be infused into the economy. This was sufficient incentive for the Phoenix Human Services Commission to make the EITC campaign a top priority.

Management and Funding: The City of Phoenix Human Services Department uses about $200,000 of Community Services Block Grant (CSBG) funds each year to supplement HUD funding for administration of the FSS program. The Department also devoted resources, including CSBG-funded programs, to research and develop the comprehensive Financial Education Program and the EITC campaign.

Outcomes:

- Average wage of public housing participants who became homeowners was $8.92 an hour when they entered the FSS program and increased to $14.30 an hour by completion of program and financial education.
- Since 2000, 88 families who had lived in public housing were able to buy a home with the average purchase price of $111,559.
- At EITC tax preparation sites, over 200 volunteers provided 6,400 hours of free services resulting in low-income families saving approximately $1.9 million in transaction costs.
- Across the city, in 2005 federal tax refunds to EITC recipients increased by $21.4 million.

Sources and Related Resources:

Outline of How Federal Housing Programs Can Help Provide Employment and Training Opportunities and Support Services, Center on Budget and Policy Priorities, April 2002
http://www.cbpp.org/1-6-00hous.pdf

Community Initiatives Section, City of Phoenix Human Services Department, Wayne Tormala, Coordinator, wayne.tormala@phoenix.gov

Protection Against Predatory Financial Practices

Increased access to mortgage loans has contributed to a significant rise in homeownership in the U.S. over the past two decades. However, accompanying this trend has been a concurrent increase in predatory lending. Predatory lenders make resources available to meet immediate needs while trapping the inexperienced or desperate into repayment terms that put their assets at risk. Predatory lenders often target the most vulnerable borrowers, such as the elderly, inexperienced, or low-income. They prey on borrowers through a variety of strategies including making loans with adjustable interest rates with the intention that borrowers will be unable to pay them back and thus face penalties or lose their assets, and then immediately selling the loans for a profit. Other practices include "flipping" loans (particularly for refinancing) which generate fee income for the lender but provide relatively few benefits for the borrower; offering unnecessary products such as single premium credit insurance, an expensive insurance yielding high commissions to lenders, where the entire premium is charged up front and added to the loan amount; and instituting heavy prepayment penalties.

In response to these unfair lending practices, a number of anti-predatory lending laws have been passed at the state level. While the federal Home Ownership and Equity Protection Act was enacted in 1994 in an attempt to curb predatory practices, it has become clear that this law does not sufficiently deal with a number of common offenses. State laws have begun to address these gaps in federal law, typically focusing on banning prepayment penalties, defining permissible classes of fees, and prohibiting "flipping."

New Mexico's Home Loan Protection Act

Policy Description: New Mexico was concerned about the upswing in predatory lending practices in home loans, such as charging excessive interest rates and fees, or encouraging repeated refinancing that had no benefit for borrowers. In January 2004, New Mexico's Home Loan Protection Act, a strict law regulating mortgage loans, took effect. The new law holds predatory lenders liable if they

knowingly make "high cost" loans to people who are likely to default, or if they refinance loans that do not have tangible benefits for the borrower.

The law is meant to curtail high-cost loans to "sub-prime" borrowers – people with poor credit or who for other reasons cannot qualify for a conventional loan. The law defines a high-cost loan as any mortgage that is seven points or more above the comparable Treasury-bill rate on first mortgages or nine points on second mortgages. High cost loans include a limitation of financing fees to 2% of the loan amount and a requirement that all potential borrowers first talk with a certified housing counselor who can explain the costs of the loan. On all loans, the new law requires that the borrower receive the best loan they qualify for from a financial institution, regardless of which affiliate they apply to, and that refinancing provide borrowers with a reasonable tangible net benefit.

The law also provides for assignee liability so that borrowers can sue any entity to which their loan has been sold. This provision raised concern that it would drive lenders out of the state and create a scarcity of credit. Early experience did not prove this to be true. Six months after the law went into effect, the state's Financial Institutions Division wrote regulations that tightened the language so that creditors may be held responsible only if they knowingly and intentionally engage in "flipping."

Policy Development: The Association of Community Organizations for Reform Now (ACORN) campaigned for anti-predatory legislation in New Mexico for several years. Other groups in the coalition that backed the 2003 legislation included AARP and the Center for Responsible Lending. The final legislation was the result of negotiations among ACORN, legislators, and industry representatives. The City Councils of Albuquerque and Santa Fe passed resolutions supporting the bill. Upon its passage, Governor Bill Richardson signed the bill into law. In 2004, an industry-backed bill that would have significantly weakened the law was defeated. But the law was amended to exempt manufactured-home loans and home improvement loans, a measure not opposed by the advocates of the original legislation.

Sources and Related Resources:

New Mexico Anti-Predatory Lending Law, Acorn, March 2003.
http://www.acorn.org/index.php?id=1037

AARP Says Loan Legislation Will Protect Seniors, Santa Fe New Mexican, March 25, 2003.

Aragon Revises the Home-Loan Act, Albuquerque Journal, January 31, 2004.

Mortgage Law Hasn't Hurt Much, Albuquerque Journal, July 22, 2004.

V. CONCLUSION

While the term asset policy is relatively new, the concept is not. It combines the liberal objective of reducing poverty and inequality with the conservative idea of individual wealth building, an attractive combination because it reflects shared goals and common values across the political spectrum. Through asset policies such as the Homestead Acts and the G.I. Bill, government has helped to build a broad middle class. Today, similar governmental policies such as pre-tax retirement accounts and home mortgage deductions represent investments in the strength and independence of individuals and families. But these federal policies do not stand alone in enabling Americans to build assets.

As is evident from the policies featured in this report, the seeds of a new domestic policy framework are being sown through innovative state initiatives. Across the nation, states with both abundant and lean fiscal resources, with urban and rural populations, and reflecting both liberal and conservative ideologies, are focusing their policies to enable residents to build their asset wealth. These developing "asset policies" can lead to a shared national strategy for building a future of greater social mobility and economic security for all Americans and, in so doing, significantly broaden the nation's middle class.

VI. RESEARCH METHODOLOGY

The Institute on Assets and Social Policy continually evaluates policy innovations that enable low-income households to build assets needed to enter the middle class. To identify promising policies in states covered in this publication, the Institute analyzed state policy and research documents for the three asset building areas – adequate income to create an asset foundation, education and training to build human capital, and financial wealth to provide home ownership and a nest egg for the future.

Based on the above policy review, the Institute then obtained in-depth information on specific state policies from documents published by state government agencies and state research institutes. We then interviewed a number of policy leaders in each of the states. Policies were then selected that represent innovation in the field, and hold the promise of enabling low-income residents to build greater asset security. To enrich the narrative, further information on the intent, impact, and outcomes of the selected policies was obtained from state program administrators and policy advocates who have had direct experience with the policies highlighted. Because policy innovation in a state should not be viewed as an isolated occurrence, and to learn how policies can work in concert, more than one policy was selected for some states.

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