Asset Development:

REMOVING BARRIERS, BUILDING FUTURES

Massachusetts Asset Development Commission

Report Highlights • June 2009

Massachusetts Asset Development Commission

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Report Highlights

The American Dream means many things to many people, but at its core is the dream of financial stability -- being able to consistently afford a place to live, food to eat, healthcare when we're sick, a decent education for ourselves and our children, and other simple necessities. Yet even this most basic dream is currently out of reach for a large proportion of Massachusetts families.

Research has shown that helping families develop assets – savings, a house or car, education and vocational skills – is one of the most effective ways of helping low-to-moderate income families get, and stay, out of poverty and achieve economic stability.

However, low-to-moderate income families often face substantial barriers to building these assets. For families living paycheck to paycheck, it can be incredibly difficult to develop savings that could help them weather unexpected financial crises, come up with the down payment necessary for a home or car, or access education and training that could help them gain sustainable employment.

Compounding the problem, income and asset restrictions on state programs make it harder for families to develop assets, and can even create disincentives to save or find a higher-paying job. Many families lose their eligibility for transitional assistance or education programs once they've built even an extremely low level of savings, or if a modest asset is available to them. These restrictions can have the unintended effect of restricting employment options and creating disincentives for saving.

By reforming our current programs and embracing innovative, research-tested new solutions to better promote asset development, we can help low-and-moderate income families take control of their financial lives, reducing their need for government financial assistance in the process. These programs can help ensure that everyone has the opportunity to become financially stable.

Asset development programs present enormous opportunities for the Commonwealth: by reducing persistent, cyclical poverty and supporting low and moderate income families in achieving financial stability, we will ultimately help create thriving communities and grow our economy.

Assets: The Key to Financial Stability

Assets are resources that enable people to take control of their financial lives and participate in society in meaningful and productive ways. Along with earning power, assets are the tools forming personal financial safety nets and enabling families to achieve sustainable, life-long economic security.

Comprehensively, assets include:

- Financial assets such as savings, investments, and equity in a home or business
- Education, training and the skills to succeed in a competitive, global economy
- Social assets that strengthen inclusion and collaborative problem solving in communities
- Effective community services and institutions to promote participation in community life

Asset Profiles: Looking at Massachusetts Families

Over half of all Massachusetts families lack an asset safety net, defined as sufficient resources to maintain their households for three months of essential living expenses if wage income is lost. And for African American and Latino families, asset poverty characterizes a large majority of their community.

Within that group, however, there is a lot of variety, and families face a wide range of financial circumstances:

- **Very low income:** Fourteen percent of Massachusetts households -- over 277,000 families -- have a household income of less than $22,000 a year. Typically, this population is employed serving food, providing child care, selling goods, and as cashiers. Work may be intermittent and their financial status may be such that at times they experience housing insecurity, even homelessness.

  Many of these families are reliant on government assistance for mere survival and have little to no opportunity to build the assets they need to escape poverty and achieve any form of financial stability.

- **Low income:** Another 10% of households live on the very edge of poverty, making $22,000 to $37,000 a year. This group is typically employed as service representatives, janitors, wait persons, and office clerks.

  Although often ineligible for government assistance, these families are typically living paycheck to paycheck, with just enough income to cover basic expenses. As a result, these families often have little to no savings, making it difficult to climb up the economic ladder in any way.

- **Moderate Income:** These families -- making $37,000 to $55,000 a year -- are an additional 18.5% of households. These households generally work in lower-level supervisory jobs, drive trucks, are carpenters, and administrative assistants. These families are often a little better off, with many able to buy a home or develop modest savings. But even within this group, the majority lack an asset safety net, the best guarantee of financial stability even in tough economic times. One lost job or serious health problem could easily plunge these families into poverty and even homelessness.

The Massachusetts Asset Development Commission

Over the past year and a half, the Massachusetts Asset Development Commission has studied the economic challenges currently facing Massachusetts families, the structure and availability of current government programs to help low-to-moderate income families, as well as successful asset-building policies being developed across the country.

The Commission made a particular effort to learn from low-and-moderate income families who could speak on their experiences and help us better understand the challenges these families face and ways our state government could better help them. Asset building is seen as a lifelong strategy, which means that families will be both up and down the income and asset spectrum during the course of their lives, creating differing needs over time.

Based on its research, the Commission has developed a set of policy recommendations that, if implemented and funded appropriately, would make a significant difference in providing for increased personal responsibility and promoting financial stability for hundreds of thousands of families across the Commonwealth. These recommendations include administrative actions, regulatory reforms, and legislative proposals.

Implementing these recommendations would demonstrate the Commonwealth's commitment to ensuring a basic standard of living that all people should have, and reflect the understanding that government can and should provide the assistance that is sometimes needed to help people achieve economic security and well-being.

Given the current fiscal crisis, not all of these recommendations will be possible to implement until the budget situation improves. Like any good planning document, the recommendations contained in this report speak beyond the immediacy of our current challenges. Some specific recommendations are cost neutral and offer immediate relief to the most fragile. Others will require moderate investment while benefiting large numbers of Massachusetts families. And some will require sizeable investment and will be critical to moving families to economic stability. In this way, this report is a blueprint to guide policy over a five year enactment and implementation period.

Barriers to Asset Building: Learning from Massachusetts Families

Members of the Commission spent many hours talking to families across the Commonwealth about what financial stability means to them, how they have tried to achieve it, and what barriers they've faced. Here are some of the things we learned:

- **Many families are struggling just to keep their heads above water.** Parents are often working two or three jobs and still falling behind on bills or living paycheck to paycheck. One woman commented that she has been working so many more hours to try to get ahead and she is "running out of hours to work."

Housing costs are unmanageable for many, with nearly half of households that rent being classified as "shelter poor," meaning that after paying for housing, the families do not have enough resources left to meet their non-shelter needs for food, clothing, medical care, and transportation.

The majority of those interviewed would like to save money but simply do not have the financial capacity to do so. One participant's sentiments echoed many others: "I put money in the piggy bank in the morning and use it in the afternoon."

- **Our current policies often have the effect of pulling the rug out from underneath them just as families are starting to stand on their feet.** Because of current regulations, low income families receiving government assistance often start losing benefits as soon they start earning more money, at such a steep rate that it often makes more financial sense NOT to work more hours or earn a higher wage.

  This "cliff effect," as it's called, creates a serious disincentive to work for struggling families. Many told stories of earning a raise, only to find out they no longer qualified for subsidized rent, food stamps, cash assistance or subsidized health care. Others would lose vital health benefits after starting work, even at part-time jobs.

- **Rather than supporting asset development, our state policies often end up creating barriers to doing so.** Families felt that there are many barriers that prevent them from gaining assets, one of which is the limits imposed on owning assets while receiving public assistance. According to one participant, "If you manage to save money, you are going to lose something, so you don't try to put money into savings or anything else that would make life a little better."

  In particular, participants have experienced being denied food stamps because of having a financed car (which they used to drive to work), or losing benefits when they started trying to save a little money for a down payment on a car or a security deposit for an apartment.

- **Education and training would help, but feels unattainable for many low-income people.** Many participants noted that they would love to earn a degree or learn new skills, and that they believe education and training would help them get a better job. However, many noted that they didn't know how to obtain education, or they didn't have the money, time, or child care available to start a program.

  One participant noted, "The only thing that got in my way was the lack of a degree…because I did not have a degree, the years of experience [I had] did not amount to anything, and I was not considered for a position that would relieve me of my financial situation."

- **Families are lacking the financial literacy they need to make sound financial decisions.** Many of those interviewed expressed that they needed, or have benefited from, various financial education opportunities -- but most were not aware of the various supports and programs that were available to them. In particular, participants had a general lack of knowledge about asset services, such as the Earned Income Tax Credit, free tax preparation and Individual Development Account (IDA) programs.

  Most participants had some form of a bank account, but many expressed general lack of knowledge and/or misunderstandings of financial products and incentives to save. Some participants however, do not have bank accounts at all. They rely on money orders, the grocery store, and family for cashing checks and paying bills.

Recommendations

The Commission's final recommendations cover numerous aspects of asset-building:

- *Removing state-imposed barriers to asset development*
- *Restructuring and coordinating benefit programs to respond to "cliff effects"*
- *Promoting education and skill development*
- *Expanding college savings plans for low and moderate income families*
- *Protecting families from losing assets*
- *Increasing the scale, impact and capacity of the state EITC*
- *Supporting financial education and helping families access systems to encourage savings and asset building*
- *Leveraging the full potential of housing-based, family self-sufficiency programs*

Within each of these areas, the Commission identified and reviewed many strategies, policies and programs. In sum, the Commission fully supports multiple strategies with 61 specific recommendations that constitute a bold asset-building agenda for Massachusetts.

These recommendations are summarized below, with full discussions of each included in the final report:

Remove state-imposed barriers to financial stability: Many programs, supports, and learning opportunities available to low- and moderate-income households are restricted to those with few or no financial assets. Evidence is growing that these asset limits largely have the unintended effect of making it harder for families to achieve economic mobility.

- *Reform asset limits and vehicle value rules in public assistance programs*
- *Make 529 college savings plans and other education grants non-countable assets for public benefits*
- *Reform TAFDC lump sum income rules for funds used for asset development goals*

Restructure and coordinate benefit programs to respond to cliff effects: Working families need opportunities to build assets as earnings increase. But as family's earnings rise, small increases in income often trigger a loss of or reduction in public benefits such as health insurance coverage, housing and child-care subsidies, fuel assistance, or welfare cash assistance. The policy challenge is to eliminate impediments to economic mobility by supporting families when earnings are low, reduced or interrupted, and ensuring that as earnings rise, families are better off.

In Massachusetts as elsewhere, many low-wage workers face difficult choices between moving up the wage ladder and losing critical work supports before they are economically stable.

- *Simplifying income reporting and counting rules for TAFDC and SNAP to stabilize incomes*
- *Address cliff effects in income eligibility determination for child care assistance*
- *Improve coordination of programs intended to support and encourage work*
- *Aid families in maximizing other income sources (including child support) and public benefits to increase income stability and opportunity to begin to build assets*

Promote education and skill-building: The majority of jobs that pay family-sustaining wages in Massachusetts require some form of education or training beyond a high school diploma – yet nearly half of the state's workforce doesn't have at least an Associate's degree. Making the problem worse, opportunities to prepare for such employment are often blocked due to conflicting policy rules, high program costs coupled with low savings, limited access due to low educational achievement, and the absence of knowledge about how to prepare and proceed.

- *Encourage and support TAFDC and other public assistance recipients in attaining educational skills and vocational training*
- *Encourage voluntary college placement testing by 11th grade so necessary additional course(s) can be taken prior to college entrance*

Expand college savings plans for low and moderate income families: Policies that facilitate college savings among low- and moderate-income families are crucial to increasing their access to higher education and promoting economic stability. Such policies will improve the lives of many low- and moderate-income youth who are able to attend college, and the benefits will impact the entire Commonwealth in the long term by increasing earned income and reducing the need for public assistance.

Higher education increases earning potential and economic mobility, yet existing college savings policies do little to encourage low- and moderate-income families to save for their children's education.

- *Remove disincentives and barriers to saving for college*

- *Provide incentives for low-income families to save for children's education by developing a pilot program with matched savings accounts*

Protect families from losing assets: In this tough economic climate, we also need to help low to moderate income families keep from losing the few assets they do have -- whether that is income, savings, or affordable housing.

AFFORDABLE AND STABLE HOUSING:

- *Support legislation to preserve affordability of units in "expiring use" properties*
- *Support legislation that prohibits lenders from evicting tenants from foreclosed homes*
- *Provide protections for residents experiencing foreclosure or other catastrophic financial transitions*

CONSUMER PROTECTION:

- *Update state and federal policies and regulations to protect borrowers from high-cost and predatory consumer loans*
- *Provide consumer protections on unsolicited loan instruments, including notification and time limitations*
- *Increase consumer protection with respect to tax-related financial products through education and regulation*

Increase the scale, impact and capacity of the state EITC:

For decades, the Earned Income Tax Credit (EITC) has helped lift working families out of poverty, helping them pay off debt, repair credit, and save for future assets, such as their child's education. Expanding the EITC is one of the most powerful ways we can support asset building in low-income families. We recognize, however, that the Commonwealth may be pressed to afford such a proposal at this juncture, and it may be some time before these recommendations can be adopted.

While the EITC can significantly increase the income of low and moderate wage earners, not all eligible workers are receiving the credit and many are losing some of the value of the credit. Nationally and in Massachusetts, about 15% of eligible recipients are not claiming the credit.

- *Expand state EITC for targeted populations to increase work incentives, help overcome cliff effects, and remove marriage disincentives.*
- *Support legislation increasing the state EITC from 15 to 20% of the value of the federal EITC for all eligible families.*
- *Maximize the benefits of EITC through greater assistance with tax filing and accessing other services and resources at the time of free tax preparation.*

Support financial education and help families access systems to encourage savings and asset building: Building assets requires access to financial services and products that provide safe and convenient opportunities for asset accumulation and savings. However, many families lack even the basic financial education necessary to spend and invest money wisely, develop good credit, and build assets for the future.

Individual Development Accounts (IDA) is a program that's successfully helped low-income participants develop assets nationwide, and throughout Massachusetts. These dedicated savings accounts, which contain deposits by low-income account holders that are matched by private or public sources, gives working people a chance to develop long term assets – homes, higher education, and business start ups – which in turn help people achieve long-term economic independence.

- *Create a mechanism to promote and coordinate effective financial education statewide*
- *Integrate financial education into public K-12 education to begin financial literacy in the formative years and continue it throughout life*
- *Advance asset building among low income families through continued support for the Individual Development Account programs*
- *Integrate financial education into numerous social services and workforce development programs*

Leverage the full potential of housing-based, family self-sufficiency programs: Housing-based, family self-sufficiency programs are an ingenious approach that provides a structure for savings and asset building for low-income families. One such program, the Family Self-Sufficiency program (FSS), is designed to help families in public housing and those using Housing Choice Vouchers progress toward self-sufficiency by reducing disincentives to working and assisting low-income families acquire valuable savings.

- *Lead effort to coordinate collaborations supporting HUD-funded Family Self Sufficiency programs and other similar programs*
- *Invest in data collection and evaluation to support effective implementation of housing-based, self-sufficiency programs*
- *Strengthen the asset development role of housing-based, self-sufficiency programs.*

Asset development programs present enormous opportunities for the Commonwealth: by reducing persistent, cyclical poverty and supporting low and moderate income families in achieving financial stability, we will ultimately help create thriving communities and grow our economy.

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This report can be downloaded at:
www.SenatorEldridge.com/assetdevelopment