

## A S S E T - B U I L D I N G

### A PATHWAY TOWARD SUCCESS

Nearly every American family, at one time or another, experiences financial crisis due to unexpected, uncontrollable events such as a job loss, car or work-related accident or high medical bills. The ability to weather such financial difficulties is not entirely dependent on income but on one's savings and assets. Not only do savings and assets serve as a critical resource during times of need but they can also be used to plan and secure a strong financial future. Social and economic development strategies clustered under the term *asset-building* serve as a mechanism through which families are provided with opportunities and incentives to build up their savings and assets.

This issue brief aims to highlight the short-and long-term benefits of asset building, identify key barriers to lower-income families in accessing assets, evaluate Nebraska's policies in providing opportunities to all families and provide recommendations for investments moving forward.

#### What is Asset-Building?

Asset-building focuses on the process of obtaining human, social and tangible assets such as a home ownership, business development, retirement savings or an education for the purpose of social and economic development. Acquiring assets is necessary to provide personal financial security and achieve economic well-being. The term asset-building should not be confused with other common approaches such as income-focused development, which works through programs to increase worker salaries and reduce costs. Rather, asset-building aims to address a deeper issue of poverty and the day-to-day struggle of making ends meet. Assets provide the groundwork or foundation necessary for firm economic standing and financial security as they are long-term resources upon which all else is built. In other words, assets are fundamental to long-term savings and ownership, which allow an individual or family to be in a position to acquire more income and greater wealth.

Presently, the federal government spends over \$300 billion annually on policies that assist families in building savings and wealth, yet over a third of these benefits "go to the wealthiest 1% of Americans [whereas] less than 5% of the benefits go to the bottom 60% of taxpayers."<sup>i</sup> Ensuring the opportunity for all to access and acquire assets, savings and ownership is critical to balancing economic inequality, building greater economic development and stronger financial well-being.<sup>ii</sup>

#### Benefits of Asset-Building

Asset-building opportunities increase levels of prosperity and the standard of living for Nebraskans and are therefore a crucial component in individual and community development.<sup>iii</sup> Enhanced prosperity and quality of life comes from the many expanded freedoms assets provide to individuals and families. Assets - such as home or business ownership, education and retirement savings - often help facilitate resources to assist in improving one's socio-economic status. More importantly, asset ownership has been shown to provide an important sense of confidence and self-worth, which often breeds further success and active civic, economic and social participation. Unlike other indicators of wealth, such as income, assets have long-term benefits that continue for many years to improve the lives of those who possess them. For example, homeownership has inherent value and contributes toward economic well-being by providing financial stability and providing for important social and professional opportunities. Education creates long-term benefits, such as higher income job opportunities and broader social networks, which have the potential to build upon themselves throughout a lifetime. Such assets are often a critical prerequisite to any job and subsequent self-improvement in an area of life. Assets provide a safety net or cushion,

which prevent individual and family financial devastation during unexpected accidents and unanticipated emergencies.

Secondary benefits of asset accumulation include social connectedness, stronger political participation, improved economic confidence and identity and clearer orientation toward the future.<sup>iv</sup> Individuals with assets are more likely to have the option to take financial risks through investments, to focus on those activities that they are passionate about, and to specialize on that in which they maintain personal efficiency.<sup>v</sup> Finally, the acquisition of assets has proven vital in decreasing marital dissolution and breaking the common intergenerational cycles of poverty that exist for many families. In fact, past studies have shown that all families, including those who are poor and low-income, can and do save and build assets. This concept benefits every economic class and continues to strengthen the quality of our society. Asset-building is truly a process of investment that yields a healthier, more productive and financially secure population and a stronger economy. One of the greatest benefits of asset-building is that it allows families who are just “getting by” to finally “get ahead” economically, thus reducing the economic inequality that exists in all corners of our state.<sup>vi</sup>

### **Primary Benefits**

There are three primary benefits that all current asset-building literature seeks to emphasize and explain in further detail. These three primary benefits are Improved Homeownership, Enhanced Financial Opportunities for Low-Income Individuals and Increased Financial Literacy.

#### ***Improved Homeownership***

One of the best opportunities for an individual to increase their economic resources and to acquire wealth is through owning their own home. Homeownership has been shown to enhance the stability of neighborhoods and families, increase educational attainment levels for children and improve civic participation.<sup>vii</sup> Other beneficial outcomes include: enhanced social status and improved economic perspective and outlook. Homeownership is strongly correlated to a reduction in unemployment, high school dropout rates and the frequency of teen pregnancies in African-American youth.<sup>viii</sup> Finally, homeownership has been linked to an increase in individual health and wellness, which makes a far-reaching impact on the investment and development of human capital in Nebraska.

Opportunities for progress in home ownership include further support for low interest rates, reduced lending discrimination, subsidies for homeownership and increased tax incentives for the construction of affordable housing.<sup>ix</sup>

#### ***Enhanced Financial Opportunities for Low-Income Individuals***

Increased financial opportunities for low-income individuals include the physical availability and knowledge of mainstream financial services, which can stimulate economic development and job creation in distressed neighborhoods.<sup>x</sup> Financial opportunities can refer to a wide number of economic improvements such as financial literacy training and personal assistance with opening a bank account for the first time; a process known as becoming “banked.”

More can be done to create incentives for providing these financial opportunities. These incentives could come in the form of tax relief, job credits and real estate assistance. Also, improvements can be made in many areas related to financial predatory behavior such as mortgages with excessive loan fees.<sup>xi</sup>

#### ***Increased Financial Literacy***

Increased financial literacy can help individuals and families better prepare for their future. It allows for more informed investment strategies and leads to greater economic self-sufficiency. Today, the financial system is extremely complex and can be difficult to navigate, which causes many in poverty to be cut off from any interaction with the system. High financial awareness leads to lower levels of debt, higher savings and decreased financial distress.<sup>xii</sup> Improved financial literacy can best be achieved through personal interaction with each individual family and one-on-one credit counseling and restoration.

## Impact of Asset-Building on Children

Asset-building is a long-term process, which means that starting from an early age allows individuals to acquire a greater amount of assets. Also, asset-building can create a positive outlook within an individual that determines subsequent behavior and choices. Attitudes and values are molded at an early age, which means every effort can and must be taken to help individuals access the positive effects of asset-building at an early age.<sup>xiii</sup> There are several programs and measures states are taking to promote asset-building during childhood.

First, there are many financial education programs available to youth and particularly young adults. In fact, many schools throughout the country have sought to require basic financial literacy in a formal educational setting and have gone so far as to make it a mandatory component of their curriculum. Child Savings Accounts - another primary example of asset-building for children - will be discussed, in depth, later in this brief.

As children development and begin to realize their tremendous capacity to determine their own future, our society must not deter them from doing this, but instead enable them to capitalize on their talents and efforts. The socialization of asset-building concepts must begin at an early age if such development is going to have a future role in our society and the policies we live by. This proactive focus on creating asset-building policies is not meant to displace current income-based policies, but is rather meant to innovatively build on them in order to improve more lives.<sup>xiv</sup>

## Barriers to Gaining Assets and Savings

The asset base of many American families is extremely fragile as many are supported by a weak financial foundation due to a lack of savings and assets.<sup>xv</sup> This lack of assets can prevent families from investing in their own future, financial well-being and their pursuit of the American Dream.

To address this issue of fragility, data on asset poverty can be utilized. "Asset poverty" is a measure of economic security and mobility that is based on household net worth and refers to a household that has insufficient net worth to stay above the federal poverty level for three months without a source of income. As of 2007-2008, about 22% of all Americans were asset poor.<sup>xvi</sup> This equates to 22% of Americans without access to the benefits so many others take for granted: a reduced need for public assistance, more engagement in the workplace, lower rates of absenteeism and the ability to better participate in the local community and economy. With nearly a quarter of Americans in asset poverty, the consequences can have direct, negative effects on many facets of a family and community.

While asset building is critical to the long-term financial health of an individual, family and community, there are some obstacles to overcome. Wealth inequality in the United States is greater now than it has been for the last 75 years. Many asset development policies and programs have only managed to benefit middle and upper-income individuals, which has caused the polarization of asset accumulation.<sup>xvii</sup> For example, over \$300 billion year is provided, through tax incentives, to Americans engaged in building assets. While it is claimed that this money is available to all taxpayers, those with larger tax liabilities reap larger benefits. Therefore, over 90% of tax benefits such as breaks and credits are acquired by households that earn more than \$50,000 a year.<sup>xviii</sup> Effective savings or asset accumulation is a structure, not a habit, and will only be as good as the institutions put into place to facilitate such a process for all income levels.

Furthermore, individuals in low-income or poor households face debilitating asset and income limits in many public assistance programs such as Temporary Assistance for Needy Families (TANF), Medicaid and the Supplemental Nutrition Assistance Program (SNAP). These limits are a significant barrier for families working to move from poverty to economic self-sufficiency. In many cases, families accessing public benefits are not able to save assets beyond a certain level without running the risk of immediately disqualifying themselves from eligibility for such programs. With no case-by-case evaluation of an individual or families' economic situation, many families with income, savings and/or assets just \$1 over the established eligibility limits are automatically cut off from vital assistance needed to survive. The starting and ending point for determining asset and income limits are often

inflexible cut-off lines based on the federal poverty level – a measure that is considered outdated and incomprehensive. Unfortunately, many flaws can be found in these established standards, which points to the need for a new benchmark in measuring financial security and economic well-being or adjusting current policies in a targeted and more effective way.

### Asset-Building in Nebraska

In assessing the current asset-building efforts of Nebraska, it is possible to measure success in a number of ways. One important measure that has been created is the Assets and Opportunity Scorecard, which was produced by the Corporation for Enterprise Development (CFED). CFED's scorecard uses six indices to measure asset-building: Financial Security, Business Development, Homeownership, Health Care, Education and Tax Policy and Accountability. Each is directly connected to asset-building and is composed of a number of comprehensive measures.<sup>xx</sup> CFED has given a grade to each state according to its evaluation of these 6 indices. In 2007-2008, Nebraska was given a grade of "B." While Nebraska scored well in comparison to the rest of the country, the overall grade could be misleading. While Nebraska scored a "B" in both education and financial security, but received "C's" in homeownership and healthcare and a "D" in business development.<sup>xx</sup>

The Assets and Opportunities Scorecard indicates that Nebraska currently has minimal policies in place for reducing the barrier of asset limits in public benefit programs, providing incentives for college savings, supporting microenterprise, curbing predatory lending, expanding Medicaid coverage, supporting IDA programs and reporting tax expenditures.<sup>xxi</sup> These are significant deficiencies that are harming the prosperity and well-being of all Nebraskans.

### Opportunities to Engage in Asset-Building Efforts

Numerous models for asset-building efforts exist at the state and national levels. The United States has a long history of providing subsidies and incentives for asset accumulation through efforts such as the GI Bill and the Homestead Act. Such policies allowed a significant number of Americans to purchase homes, receive post-secondary education or invest in business. Unfortunately, these policies - and the benefits - were primarily limited to Caucasian Americans and lead to wealth disparities in minority populations. Currently, many federal tax policies encourage savings and wealth accumulation but again, as the policies are written, only those with middle- to upper-incomes tend to benefit.

While there are a many asset-building strategies and efforts occurring throughout the United States, this issue brief will focus on the following: asset limits in public benefit programs, Individual Development Accounts, Child Savings Accounts, the American Savings for Investment, Retirement and Education Act (ASPIRE Act) and Savings for Education, Entrepreneurship and Downpayment Accounts (SEED).

#### *Asset and Resource Limits in Public Benefits*

Public benefits programs - including Temporary Assistance to Needy Families (TANF), Medicaid and the Supplemental Nutrition Assistance Program (SNAP) - include limits on income and assets for eligibility. Families with assets higher than a state's allowable limit are excluded from accessing necessary temporary assistance or must reduce their savings and assets to receive the short-term benefit. Meanwhile, families who are eligible for such programs are discouraged or unable to build personal assets and savings due to the immediate loss of benefits that would incur. Rather than punish the act of savings and building of ownership, state policies should provide incentives to encourage greater asset-building.

Many states are creating effective policies designed to improve asset-building opportunities for those receiving Temporary Assistance for Needy Families (TANF), Medicaid and the Supplemental Nutrition Assistance Program (SNAP). For example, Ohio and Virginia have each passed laws that have allowed TANF and Family Medicaid eligibility to exclude the consideration of any assets, which eliminates the prior fear associated with acquiring assets such as education and emergency or retirement savings.<sup>xxii</sup> An additional twenty-two states have eliminated asset limits for Family Medicaid eligibility. In the past decade, Nebraska has increased the asset limits for both TANF and

Medicaid: for TANF the limit increased from \$2,000 for a single-headed household and \$3,000 for a two-headed household to \$4,000 and \$6,000 respectively. The asset limit for Family Medicaid is currently set at \$6,000. In addition to the option of changing asset limit amounts, states are able to determine which resources are excluded from asset consideration. While Nebraska has made some progress in excluding resources such as Individual Development Accounts (IDA) and an unavailable job-related retirement account that is held by an employer, there is still room for improvement. Assets such as college savings (i.e. 529 Accounts), emergency savings and other retirement accounts are still included in calculating the household's assets.

### ***Individual Development Accounts***

An Individual Development Account (IDA) is a match-savings account that promotes financial education, saving, investment and the purchase of productive assets, which have value that will return substantial long-term benefits to its owner. These savings accounts are generally used to purchase a home, pay for postsecondary education, start or expand a business. Holders of IDA accounts make a manageable, monthly contribution to a savings account that has been set up at a well-known banking partner of the program with the help of a local program sponsor. A program sponsor is most often a non-profit organization, a community or civic group, or another privately-funded entity. This monthly contribution is usually matched by both public and private sources at a rate that has been determined through an extensive evaluation process of the client's financial history, personal wealth and income and other important factors including family composition and geographical location.<sup>xxiii</sup> This thorough qualification process helps to ensure that those individuals who are enrolling in the IDA program have a realistic ability to commit to the program and a proper understanding of the responsibilities and expectations that accompany such an endeavor. This assessment process is followed by personal case management, which guides and counsels individuals all the way through the time he or she purchases their desired asset. This personal, direct guidance and coordination help account for the overwhelming success of individual development accounts.

An Individual Development Account is completely unique, but it shares many commonalities with the matched employer-based 401(k) retirement accounts that many companies offer their employees.<sup>xxiv</sup> The first large-scale IDA evaluation, the American Dream Demonstration (ADD) project, conducted from 1997 to 2003, showed promising results for IDA programs.<sup>xxv</sup> Since that time, IDA programs have continued to gain increasing support from all areas as further research and tangible results have shown IDA programs to be a promising and efficient tool of development.

### ***Universal Child Savings Accounts (CSA's)***

As of 2003 in the United States, 52% of black children, 54% of Hispanic children and 26% of white children began life in households with no significant asset holdings.<sup>xxvi</sup> This clearly shows the need for some measure of savings to be enacted on behalf of children. Universal Child Savings Accounts (CSA) help build assets for children. These unique savings accounts are matched savings accounts that begin at birth and continue throughout a child's development until he or she has reached adulthood. As with the IDA programs, each account is carefully overseen and managed so as to allow all individuals the opportunity to build assets.

There is no universal model for CSAs. The design of CSAs can vary widely, from simple, low-cost savings products offered by financial institutions, to universal, life-long savings platforms with significant financial incentives offered by governments. Variations in CSA design depend largely on the type of institution offering them and the institution's purposes for doing so.<sup>xxvii</sup>

### ***SEED Accounts***

The Savings for Education, Entrepreneurship and Downpayment (SEED) Accounts are accounts that are opened up for every child at birth with an initial deposit of \$500 to \$1,000. These accounts can't be closed until the child is 18 years of age and, like IDA's, can only be used for purchasing an asset such as an education or home.<sup>xxviii</sup> Family, friends and any other public and private sources can make deposits into the account. Depending on the program, a

percentage of deposits may be matched annually at a predetermined rate. Also, most programs offer age-appropriate and asset-specific financial education as well.<sup>xxx</sup>

SEED Accounts can become part of a private or statewide program depending on the amount of money and administrative support a program is given. However, the goal is a nationally-sponsored program that gives every child born in America the opportunity to create a savings account. These accounts should be held primarily in private financial institutions that provide limited investment options and should be funded and overseen by many entities including financial institutions, non-profit organizations, schools and families.<sup>xxx</sup>

### ***The ASPIRE Act***

The Americans Savings for Investment, Retirement and Education Act (ASPIRE Act) is a proposal at the federal level that would provide every child born in America with a savings account and an initial contribution of \$500. Children born into families that earn below the national median income will be given an additional \$500 initially. The government would then match up to the first \$500 that family and friends contribute to the account on their own every subsequent year. By the time the child reaches age 18 up to an estimated \$20,000 could be saved to buy an asset, go to college, or put toward retirement. The ASPIRE Act provides an important opportunity for policy work to be done at the federal level.

The ASPIRE Act has been introduced in the House or the Senate for the past three sessions of Congress.<sup>xxxi</sup> There are several reasons the ASPIRE Act has yet to pass through Congress. First, many believe that it would be another entitlement plan to add to the already over-burdened system. It is seen as not replacing our current welfare system, but instead, adding to it with more taxes. Opponents also point to the large fiscal note as a deterrent. In order to administer such a program, it is estimated that the cost would be about \$3.25 billion the first year.<sup>xxxii</sup> Proponents of this proposal argue that “this cost is different than virtually all other proposals for new spending or tax cuts because none of it would constitute a reduction in national savings - for the first 18 years of the program, all "outlays" would be fully invested, which would help spur the economy and promote long-term economic growth.”<sup>xxxiii</sup> Furthermore, the ASPIRE Act would increase asset ownership and savings, expand opportunities and strengthen the economy and financial stability of children and families at all income levels, particularly lower-income families.

### **Recommendations for Future Asset-building**

In order to increase the reach, effectiveness and success of asset-building efforts in the future, this issue brief includes appropriate and necessary recommendations. The recommendations provided are considered to be essential next steps in furthering the institutionalization of asset-building and are meant to serve as a concrete set of actions that will support asset-building initiatives. The following recommendations all seek to ensure that asset-building is a truly collaborative approach between the public, community and business sectors as all must rely on one another, in complex relationships of interdependence, for progress and growth to occur. A multi-sector approach to solutions is necessary because the government has the systems and resources to provide for key structural supports, businesses create the vital opportunities for development and the families provide the ever-important workforce for asset-building to occur.<sup>xxxiv</sup> The following are five recommendations for future asset-building.

#### **Recommendations:**

*Greater resources should be dedicated to the process of data collection and formal, empirical research. Research is vital in securing increased asset-building opportunities and ensuring the effectiveness of such efforts in community, economic, workforce and family development.*

- Update the Family Economic Self-Sufficiency Standards (FESS) more frequently in order to provide a current and realistic picture of how much income is needed for a family to adequately meet its basic needs without public or private assistance.

- Develop an analysis of comprehensive tax data to assess the number of families living at various points of the income spectrum. Doing so will provide critical information on just how many families are able to meet their basic needs, according to FESS values.
- Evaluate and revise the current federal poverty level (FPL) measurement. It is widely recognized that the current FPL is ineffective and outdated.<sup>xxxv</sup> Not only should greater resources go toward renewing the federal measures of poverty, but also resources should be provided to states to develop more comprehensive and realistic measurements of poverty for the implementation of targeted and effective state policies that determine eligibility for public assistance programs. This could include a sliding-scale standard of evaluation, which would provide a flexible, more pragmatic approach to providing temporary assistance to families.

*Expand and increase public outreach for federal and state tax credits for working families.*<sup>xxxvi</sup>

- The Child Tax Credit (CTC). The CTC is a tax benefit for households with low or moderate incomes that reduces a family's taxes if they have individuals under the age of 17 that claim them as a dependent.<sup>xxxvii</sup>
- The Earned Income Tax Credit (EITC). The EITC is a refundable credit for eligible families that provides tax relief to hard-working, low-income families and helps them build assets.<sup>xxxviii</sup>
- The Microenterprise Tax Credit. Of all businesses in Nebraska, 86% are considered microenterprise companies.<sup>xxxix</sup> This tax credit is an investment tax credit that creates new micro businesses to increase income levels, employment and overall development.<sup>xl</sup>

*Evaluate Nebraska's public benefit programs to identify particular policies that are barriers to the financial stability of Nebraska families. This evaluation would include the identification of opportunities to increase savings and ownership. In particular, such efforts should be focused on income and asset limits of public assistance programs as such limits can discourage or disable individuals and families from saving and becoming economically self-sufficient. Currently, many low-income individuals must limit their own productivity and self-advancement as earning or owning even \$1 over the established cut-off of eligibility disqualifies one from such programs and results in the forfeiture of important benefits necessary for survival.*

*It is recommended that income and resource limits be re-evaluated on several federal means-tested programs including:*

- The Aid to Dependent Children (ADC) Program
- Medicaid
- The Supplemental Nutrition Assistance Program (SNAP)

*Support and enact state and federal legislation that creates strong asset-building policies for families. Several pieces of legislation that have been identified for support include:*

- The Savings for Working Families Act, H.R. 1234, which would allow low-income individuals, and the financial institutions and other organizations which provide assistance, to receive tax credits or exemptions for their participation in and support of Individual Development Accounts and the financial education that accompanies IDA programs. Furthermore, IDA accounts would be disregarded for purposes of determining eligibility in means-tested federal assistance programs.
- The ASPIRE Act, H.R. 3740 or S. 3557, would create a Kids Investment and Development Savings Account (KIDS Account) that would allow any U.S. born citizen born after its passage or under the age of 18 and below a predetermined income level, to have a "Lifetime Savings Account." This account would encourage savings and financial education through the federal matching of saved

dollars until the individual reached the age of adulthood, at which time he or she would be required to use the saved money toward the purchase of an asset such as higher education.<sup>xii</sup>

- The Savings Bonus Act, S. 3372, would reward working-poor families who save their tax refunds for retirement, their children's college education and other long-term purposes by matching the savings of low-income workers who save in IRAs, 401(k)'s, 529's, Savings Bonds and 6-month or longer Certificates of Deposit.<sup>xiii</sup>
- The New Saver's Act, S. 1967, would introduce innovative and low-cost ideas to increase savings and access to financial services for all Americans as it would bank many who are unbanked as well as create Young Savers Accounts; add college savings to the Saver's Credit; revive and promote U.S. Savings Bonds; improve 529 college savings accounts; and promote asset building and financial education at tax time.<sup>xiii</sup>
- Other state or federal legislation that provides further resources and assistance to the creation of state-wide Individual Development Account (IDA) programs. This is of particular interest in Nebraska as Opportunity@Work and other organizations have been working on the creation of a state-wide IDA program.

*Direct attention and resources toward current programs that have been created to increase the financial stability and economic wellness of Nebraska's families. Efforts should be strengthened to promote public awareness and education of established programs that provide support for a variety of asset-building components. Increased knowledge of asset-building opportunities and program availability will surely increase participation in current effective, but underutilized programs such as:*

- Volunteer Income Tax Assistance Centers (VITA sites)
- Housing Authority Agencies across the state
- Workplace Financial Education programs
- Microenterprise Investment
- Community Action Agencies of Nebraska
- Individuals Development Account programs

## Conclusion

The vitality of our society and the economic strength of our communities depend on the development of asset-building and ownership. Asset-based policies build a strong foundation for family financial security and true economic self-sufficiency. The federal and state governments and individuals must continue to work for policies that encourage savings and preserve existing assets. This process will take vision, progressive thinking and leadership if it is to include all Americans in asset accumulation policies and significantly reduce social inequality and divisions.<sup>xliv</sup> As Bertrand Sosa, a founding partner of MPOWER Ventures states, "This is a strategic investment ... Asset-building products represent an important new realm for financial innovation the private sector has not yet addressed, but with great power to dramatically transform what's possible for many Americans seeking a better, more secure financial future."<sup>xlv</sup>

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This issue brief was researched, drafted and co-authored by Cameron Hinkson, a third year student at Creighton University and intern for Opportunity@Work at Voices for Children in Nebraska, under the direction of Annemarie Bailey Fowler, co-author and Opportunity@Work Coordinator.

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