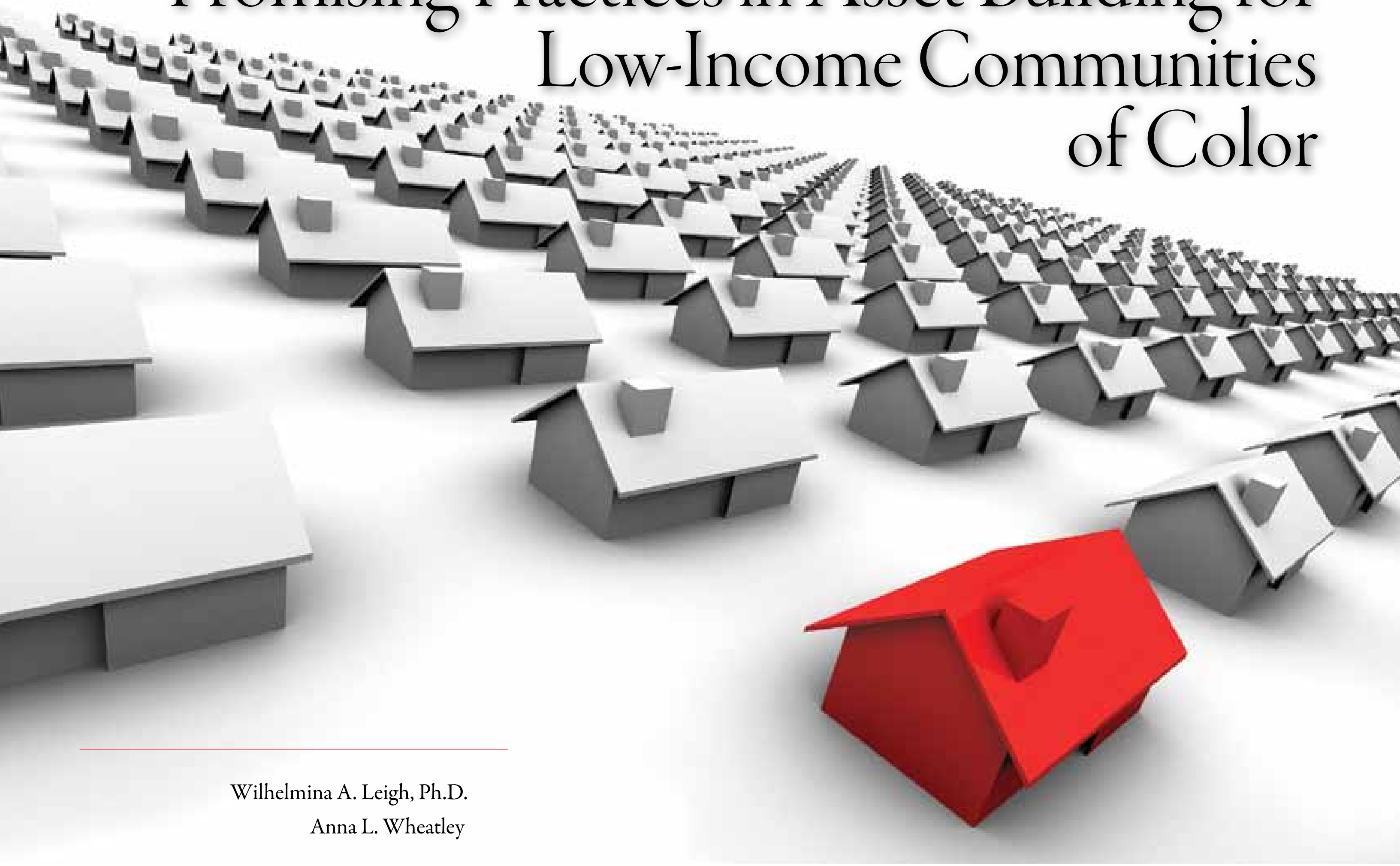
Promising Practices in Asset Building for Low-Income Communities of Color



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The recent economic downturn has likely caused America's enormous wealth gap to widen. In 2007, the median family wealth (or net worth) of African Americans was $17,000, one-tenth of the wealth of white families ($170,400) at that time. The collapse in 2007 of the subprime market for home mortgages led to not only the 2008-2009 recession but also to the decline of homeownership (the major source of wealth for most people in the United States), especially among low-income people and people of color. Although recessions bring economic hardships to families across the income spectrum, their burden on low-income families and individuals is especially severe.

As an antidote to the 2008-09 recession and the loss of homeownership triggered by the subprime mortgage market collapse, states could implement programs and policies to help their low-income residents increase their asset holdings. Such action could also help to narrow the racial wealth gap. To assist states in identifying practices that have promise for helping low-income people build assets, the Joint Center for Political and Economic Studies examined in selected states differences in programs and policies implemented to foster asset building among low-income people. This analysis, supported by the Ford Foundation, builds upon the *Assets & Opportunity* scorecards prepared by the Corporation for Enterprise Development (CFED) in 2002, 2005 and 2007-08.

To identify promising practices in asset building for low-income people, the Joint Center analyzed data for two groups of states—those with high CFED asset-outcome rankings and those with low CFED asset-outcome rankings. The ten highly ranked states are Delaware, Hawai'i, Iowa, Maine, Michigan, Minnesota, New Hampshire, Vermont, Washington and Wisconsin. The ten states with low rankings are Alabama, Alaska, Arizona, Florida, Georgia, Mississippi, Nevada, New Mexico, South Dakota and Texas. In the CFED scorecards, states that rank higher on overall asset outcomes among low-income people generally have smaller populations of color than states with lower overall asset outcome rankings. For example, Iowa and Maine (with small populations of color) are among the states that make homeownership affordable to low-income people by providing dedicated funding for their Housing Trust Funds, a promising practice to foster homeownership. By comparison, Alabama, Alaska and Mississippi—three states with larger populations of color—do not provide this type of funding for homeownership support.

Promising Policies, Practices and Programs

Programs implemented to help low-income people build wealth have two main purposes: to provide financial security and to facilitate asset building. Examples of programs and practices most commonly used to foster financial security are Individual Development Account (IDA) programs, state Earned Income Tax Credit (EITC) programs, unemployment insurance programs and raising asset limits in public assistance programs to expand coverage of low-income people. Asset facilitation programs include college savings plans, business development programs, workforce development programs, financial literacy programs and homeownership support programs. Any and all of these programs can be designed and implemented with features that we label as "promising." In other words, these features enable the programs to serve greater numbers of low-income residents or to help low-income residents more rapidly accumulate assets. Several of these programs and features are discussed below for the highly ranked and the low ranked states.

IDAs are matched savings accounts that encourage monthly saving by low-income individuals and families for the acquisition of approved assets—usually a first home, post-secondary education, or starting a small business. A promising feature for IDA programs is the use of state dollars or federal dollars for the savings match. Six of the highly ranked states (Iowa, Maine, Michigan, Minnesota, Vermont and Washington) offer an IDA program supported by state funds, in contrast to the single low ranking state (New Mexico) that does so. In all of the highly ranked states as well as all of the states with low rankings, community-based organizations also receive federal funding to support IDA programs.

State EITC programs provide low-income people a credit against the state taxes they pay. Most of the highly ranked states offer state EITC programs; in fact only two states (Hawai'i and New Hampshire) do not. New Mexico is the only state with a low ranking, however, that has a state EITC program. One way for states to use their EITC programs to foster asset accumulation is to allow EITC income tax refunds to be split and for a portion to be directly deposited into a savings account. None of the 20 states studied currently has this program option.

The use of categorical eligibility standards is a promising practice to expand eligibility among low-income people for public assistance programs administered by states (such as TANF, or Temporary Assistance for Needy Families, or SNAP, the Supplemental Nutrition Assistance Program). With categorical eligibility, proven eligibility for one program (such as TANF) is accepted as evidence of eligibility for another (such as SNAP). Categorical eligibility saves both time and money in program administration. Six of the highly ranked states (Delaware, Maine, Michigan, Minnesota, Washington and Wisconsin)—but only three of the states with low rankings (Arizona, Georgia and Texas)—administer public assistance programs using categorical eligibility.

In the implementation of state Unemployment Insurance (UI) programs, several promising practices have been identified, including extending eligibility to part-time workers. Eight of the highly ranked states (all except Delaware and Michigan) provide benefits to part-time workers, as do four (Arizona, Nevada, South Dakota and Texas) of the states with low rankings. Indexing benefits to state wage growth and establishing an automatic trigger to extend the duration of UI payments (if unemployment is high) also are promising features. Only three of the states with low asset-outcome rankings (Nevada, New Mexico and South Dakota) index UI benefits to state wage growth, as do six of the states with high asset-outcome rankings (Hawai'i, Iowa, Maine, Minnesota, Vermont and Washington). Fewer states with both high and low rankings have an extended UI benefit trigger—three highly ranked states (New Hampshire, Vermont and Washington) and two states with low rankings (Alabama and New Mexico).

States can simultaneously foster the two main purposes of wealth building programs to provide financial security and to facilitate asset building (via business development)—by implementing a self-employment UI allowance. A self-employment UI allowance enables individuals who are eligible for UI and who wish to start a business (to provide them employment) to collect a weekly self-employment allowance while developing their businesses. Three of the highly ranked states (Delaware, Maine and Washington)—but none of the states with low rankings—offer this allowance.

To facilitate asset building by enhancing financial literacy, states can mandate economic education and personal finance education throughout their school systems. Most states (with high rankings and low rankings) have requirements for economic education within their school systems; fewer, however, mandate personal finance education. Allowing TANF recipients to satisfy their work requirement by taking financial literacy classes is another way financial literacy education could be provided to help low-income people understand how to build assets. Currently, none of the 20 states studied allows the receipt of financial literacy education (by itself) to satisfy TANF work requirements. Delaware, however, provides financial education as part of the job training and education that satisfy mandated weekly work for TANF recipients.

Summary & Conclusions

When compared to the states with low rankings and larger populations of color, the highly ranked states (with smaller populations of color) are more likely to implement programs whose features are generally viewed as promising to help low-income people build assets. How the racial/ethnic composition of a state interacts with the promising practices is difficult to sort out, however. The inverse relationship between the overall ranking on asset building outcomes and the percent of people of color in a state likely reflects the intergenerational legacy of various federal policies (such as slavery of Africans brought to the United States and the forced removal of American Indians to reservations). The magnitude and intractability of the racial wealth gap in the United States suggest that this inverse relationship will indeed be difficult to change. In today's economic environment, states interested in adopting promising practices to help low-income residents build assets are likely to prioritize these practices by their cost. Low-cost or no-cost practices include allowing the direct deposit of part of a state EITC tax refund into a savings or investment account, establishing categorical eligibility for government assistance programs, and allowing TANF beneficiaries to satisfy their work requirement by taking financial literacy classes. Implementing program features such as these could help the states with low rankings to move toward parity with the highly ranked states in terms of asset building outcomes among their low-income residents.

Wilhelmina A. Leigh, Ph.D., is a senior research associate and Anna Wheatley is a research assistant at the Joint Center for Political and Economic Studies. Related reports by the authors are entitled "Asset Building in Low-Income Communities of Color, Part 1: Predisposing Factors and Promising Practices in States Effective at Asset Building for Low-Income Residents" and "Asset Building in Low-Income Communities of Color, Part 2: State Comparisons." Both reports can be downloaded from the Joint Center Web site (www.jointcenter.org).