Helping the Poor Accumulate Assets

Over the last decade an entire field has emerged from the idea that, given the right incentives and supports, even very poor people will save, accumulate assets, buy homes, start businesses, and pursue higher education. In the process, the thinking goes, they are likely to improve their knowledge of and participation in the financial system—and pass along a sense of possibility and empowerment to their children, breaking the cycle of poverty.

Organizations such as the Corporation for Enterprise Development (CFED), www.cfed.org, have embraced that idea and are making strides in helping the poor accumulate wealth. However, there is still a long way to go. The daily struggles of low-income people tend to be under the radar, and media coverage of hurricanes, tornadoes, and other disasters makes them visible only for a while.

The large-scale traumatic events of the last few years underscore the value of basic financial tools—a bank account, a credit card, a strong credit rating, and knowledge of how to navigate the financial system—
in helping a family get back on its feet. But dealing with disasters is not the only reason to have assets.

As lawmakers who have enacted policies helping many Americans accumulate assets recognize, planning for the future, buying homes, preparing for retirement, sending children to college, and weathering unexpected financial storms are all important for daily living. If one includes the tax incentives for mortgages, retirement savings, and the like, the federal government has a large stake in asset building. In 2003, for example, it spent $335 billion (conservatively measured) on asset building.

But do the government’s incentives help the poor? CFED research suggests that the incentives are largely uncoordinated and disproportionately beneficial to those who already have assets. CFED’s analysis of the largest asset-related spending categories in the federal budget shows that more than one-third of the benefits go to 1 percent of Americans, those who typically earn more than $1 million per year. In contrast, less than 5 percent of the benefits go to the bottom 60 percent of taxpayers. For years, most of the low- and moderate-income individuals and families in the bottom 60 percent have not been assisted by the federal government to build assets at a level comparable to the benefits received by people at higher income levels.

**Individual Development Accounts and Assets**

Interest in helping the poor build assets dates back to at least the late 1980s, when Michael Sherraden, the director of Washington University’s Center for Social Development in St. Louis, offered a theory of welfare and assets.

Two events coincided to get Sherraden thinking along new lines: conversations with welfare recipients who were frustrated that they could never get ahead; and lively discussions among Washington University faculty regarding the school’s new retirement-savings program, a defined-contribution plan. Sherraden began to understand that assets matter to people in ways that income alone does not—and that institutions have a role in determining who accumulates assets, just as Washington University had a role in its professors’ accrual of assets through the retirement plan.

Sherraden’s 1991 publication, *Assets and the Poor*, prompted interest in a new tool: the individual development account, or IDA. Just as an industry’s employees feel encouraged to use a 401(k) because they know their employer will add to their savings, the poor may feel encouraged to save in an IDA because it offers matching dollars.

An IDA savings account is set up to meet a specific goal—an asset such as a home, an advanced degree, or a new business. Government, private, or nonprofit agencies match the money for reasons of their own. Private foundations, for example, may support IDAs to test how well an asset-building approach can move people out of poverty. Financial institutions may participate for both philanthropic and business reasons. Their funding qualifies for credit under the Community Reinvestment Act, plus account holders sometimes become consumers of mortgages and other bank products.

The mid-1990s saw the first individual-development-accounts programs. But the big push started in 1997, when a multimillion-dollar demonstration project—the Downpayment on the American Dream Policy Demonstration—was launched. The five-year initiative was led by CFED in cooperation with the Social Development Center and several national foundations. Within two years, CFED and its partners had leveraged data from the early years of the demonstration to advocate for what would become the Assets for Independence Act. That federal legislation and the funding it made possible helped create a new field of IDA practitioners, policymakers, financial institutions, and funders, who put the tools for saving into the hands of those whose opportunities were limited.

**Increasing Ways for the Poor to Build Assets**

IDAs were the first concrete manifestation of a shift in focus from income maintenance to wealth accumulation for people outside the mainstream. Perhaps even more important, they became the catalyst for other asset-building strategies.

One adaptation has extended the IDA concept to children. In 2003, CFED—in partnership with the Center for Social Development, the University of Kansas School of Social Welfare, New America Foundation, key funders, and 13 community and experimental partners—launched the Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy and Practice Initiative.

The multiyear national program develops and tests ways to match financial education for children and youth with each of their savings-account goals. The initiative partners are currently using SEED to test different account structures, including standard savings accounts, Coverdell education savings accounts (tax-free college accounts; formerly known as Education IRAs), state 529 accounts (state-sponsored college investment accounts), and mechanisms for rolling unused account balances into individual retirement accounts.

In addition to savings vehicles, increasingly creative ways to provide financial services that help low-income people build assets (such as stored value cards that link people not only to transaction-related services but to mortgages and other asset-building opportunities) are becoming part of a bigger econom-
Helping the Poor Build Assets: Connecticut

by Ellen Scalalettar, J.D., and Douglas Hall, Ph.D., Connecticut Voices for Children

Nationally, the bottom 60 percent on the economic ladder collectively holds less than 5 percent of the nation’s wealth.¹ In Connecticut, asset inequality by race is particularly stark. The median net worth of Connecticut households headed by Caucasians was $153,900 in 2002, 28 times greater than the $5,446 median net worth of minority-headed households.² Despite such extremes, poverty-reduction measures have largely focused on reducing inequality in income only, through cash and cash-like assistance. It is true that benefits such as Medicaid, Food Stamps, the Earned Income Tax Credit, and Supplemental Security Income have significantly reduced the number of Americans living in poverty—in 2003, for example, by nearly half of what it would have been that year without such programs.³ But federal programs have been less successful establishing long-term economic self-sufficiency.⁴ That is why Connecticut, for one, is promoting a multifaceted approach that combines income- and asset-building programs for poor families.

Connecticut is paying particular attention to individual development accounts, the matched savings accounts that help poor families accumulate enough cash to make asset-enhancing purchases. IDA participants’ savings are matched at a predetermined ratio by government, the private sector, or nonprofit organizations.

In 1998, after the federal welfare law of 1996 let states include IDAs in their welfare-reform plans, CTE, Stamford’s community-action agency, established the first Connecticut IDA program. The following year, State Treasurer Denise Nappier convened a task force on how to structure an effective statewide program. With Treasurer Nappier’s advocacy, the resulting report led to a law establishing the “Connecticut IDA Initiative” for low-income, employed people and qualified disabled people.⁵

The legislation sets a maximum match rate of $2 for every $1 saved by a participant. The match must not exceed $1,000 in a calendar year and $3,000 for the duration of the program. The legislation requires the state’s Department of Labor to establish an IDA Reserve Fund to hold all state IDA appropriations and any supplemental grants, donations, and private contributions.⁶

The Connecticut IDA Initiative allows saving for the following: education and job-training costs; a home purchase; entrepreneurial activity; and, in contrast to the otherwise comparable federal Assets for Independence Act, the purchase of an automobile to obtain or maintain employment and a lease deposit on a primary residence. Since 2000, the Connecticut Department of Labor has managed $2.9 million in support of IDAs, consisting almost equally of federal, state, and private funds.⁷ To date, there have been more than 850 IDA accounts, both under the state program and independent of it. Already, 257 account holders have reached their savings goals.

A good example of an IDA program created by a nonprofit organization independent of the state statutory framework is the Jim Casey Youth Opportunities Initiative. The initiative combines extensive financial education with an IDA account in an effort to improve the financial outcomes of youth transitioning from foster care to adulthood. Savings are matched 1 to 1 with private charitable dollars.

The state’s IDA programs also provide financial education before accounts are opened and ongoing asset-related training. Crisis intervention or re-employment services are available if needed.

Additional IDA funding came in 2005 from the Connecticut General Assembly, which included in its newly created Housing Trust Fund some $300,000 of bond funds dedicated to IDAs that promote home ownership. However, because the IDA program did not receive a General Fund appropriation, it is unclear whether, and to what extent, using IDA money for needs other than home purchases will continue to receive state support.

² Douglas J. Hall, Connecticut Family Asset Scorecard (New Haven: Connecticut Voices for Children, May 2005), p. 10. According to 2000 U.S. Census Bureau data, the average annual per capita income in Connecticut for white, non-Hispanic residents is $32,000, compared with $13,000 for Hispanics and $17,000 for black, non-Hispanics.
⁵ A person must have a qualified disability or be earning income and be part of a household with adjusted gross income not exceeding 80 percent of the area median income. See Office of State Treasurer Denise L. Nappier, Legislative Initiatives 2000, www.state.ct.us/ott/legislativeinitiatives2000.htm#ida.
⁷ One private-sector funder alone, the former Fleet Bank, contributed nearly one-third of these funds.
ic-opportunity picture.

The next question is how to help the poor protect the assets they acquire. Although any family may experience misfortune that suddenly strips away assets, low-wealth families are especially vulnerable. Unexpected health-care costs, unfair or predatory lending, and asset limits imposed on people who still need some public assistance all impede upward mobility. Researchers are looking into steps that federal and state governments might take to monitor and curb predatory practices. In addition, nonprofit organizations are discussing programs such as expanded financial-literacy classes to help people keep and build on what they have accumulated.

New Tools

In May 2005, CFED released its first Assets and Opportunity Scorecard.

The scorecard is a tool for measuring how easy or hard it is for U.S. families in different parts of the country to achieve the American Dream, which CFED sees as resting on two pillars. First is families’ ability to build assets that they can use to send children to college, weather unexpected financial troubles, and create a sound economic future. Second are safety nets and safeguards that provide financial security after a job loss, medical emergency, or other traumatic life event.

The scorecard can pinpoint local needs and give planners ideas for helping the poor build assets. It clarifies issues state-by-state and looks at state policies that help or hinder the ability of citizens to get ahead. Among the facts the scorecard reveals are the increases in bankruptcy filings and the decrease in numbers of Americans who are covered by employer health insurance or who use financial services. It says that in 2002, for example, only 29 percent of Americans had a checking account, down from 33 percent in 1996. It also addresses the role that state policy can play in building wealth by, for example, promoting homeownership, improving health-insurance availability, fostering entrepreneurship, and encouraging banks to offer products that meet the needs of all potential customers.

One sign that asset building, which started with individual development accounts, is growing more sophisticated is the renaming of the asset-building field’s biannual learning conference. Once called the IDA Learning Conference, this year’s event is dubbed “2006 Assets Learning Conference—A Lifetime of Assets.” Significantly, the first IDA Learning Conference, in 1995, attracted only 150 people. In 2006, about 900 participants representing all aspects of the movement are expected: account holders, practitioners, policymakers, funders, financial institutions, and government advocates.

Similar events are in the works. For example, a series of forums around the country, coordinated by CFED and the Federal Reserve System, will bring together leaders in economic policy, community development, philanthropy, and the financial industry to promote and support homeownership, business ownership, savings, and investment.

In fact, all signs point to an increase in creative partnerships and new ideas to further the potential for families and communities to make good on the American Dream.

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Endnotes


2 See http://www.cfed.org/focus.m?parentid=31&siteid=504&id=505.