PROMISING STATE ASSET DEVELOPMENT POLICIES: PROMOTING ECONOMIC WELL-BEING AMONG LOW-INCOME HOUSEHOLDS

A RESOURCE GUIDE FOR POLICYMAKERS AND THE PUBLIC

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FOREWORD

Our nation is in need of a new domestic policy vision and a compelling framework through which to achieve it.

Even before the recent decline in the economy, the country was faced with the paradox of hunger amidst prosperity, record-high employment but with many struggling to make ends meet, and an increasing wealth gap of concern to liberals and conservatives alike. Families that consider themselves part of the nation's solid middle class struggle from paycheck to paycheck, worried about mounting bills, unforeseen health expenses and college education for their children. Families once at the margins are now in the workforce, playing by the rules but living on minimum-wage checks that yield below-poverty wages – for too many, their reward is increased hunger and a bleak future. In short, "things" are not good for many families throughout the nation. We have no coherent policy vision to improve matters, we face an economy sliding south, and many political leaders continued to squabble over the same tired issues that got us here in the first place.

This document reflects the assumption that we can do better, and that the idea of asset development holds the key to a unifying policy vision for the future. Asset development is a concept that embodies common goals and shared values across much of the political spectrum, because its goal is social mobility and poverty reduction by building human capital and financial wealth, in tandem with policies to achieve adequate incomes. It combines the liberal objective of reducing poverty with the conservative dream of individual wealth building to achieve the shared goal of economic well-being for American families. Through public policy the nation built a strong and vibrant middle class. Programs such as the Homestead Act and the G.I. Bill reflected governmental investments in household well-being, and this strategy later was augmented by other investments like pre-tax retirement accounts and home mortgage deductions. But what has been a boon for many has been beyond the reach of millions. Asset development is a policy framework that will enable us to invest in all our people, not only some, by seeing the common needs of families rather than their differences. In short, asset development is a way to enable all of our people to gain the means to achieve greater opportunity and security.

This publication identifies novel asset-building policies that have been put into practice in the states. As such, it is a *roadmap* for officials, policymakers and the public by which to assess what other states are doing, and what they might do to promote greater economic security among households in their own states. Over time we will make available new and even more promising pathways by which states are investing in their families and children. The aim of providing this information is to enrich policy dialogue and to spur concrete action toward reaching this goal.

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TABLE OF CONTENTS

page

Foreword

Introduction I – 1

Income Assets

Overview II – 1
Federal and State Minimum Wage Laws II – 3
Living Wage Ordinances II – 4
How to Measure Minimum Family Economic Well-being (textbox) II – 6
Unemployment Compensation II – 8
Modifications Responding to Workforce Trends II – 8
Federal Earned Income Tax Credit II – 10
State Earned Income Tax Credits II – 11
How EITC Can Interact With Other Asset Building Policies (textbox) II – 12
Earned Income Disregard For TANF II – 13
Strengthening the Link Between Earned Income Disregard and Asset Development (textbox) II – 15

Policy and Program Examples

State Unemployment Compensation (UC) Policies That Enhance the Economic Security of Low-Income Workers II – 19
Working Family Credit (Minnesota) II – 23
Job First (Connecticut) – Earned Income Disregard II – 25

Sources II – 27

Human Capital

Overview III – 1
Workforce Investment Act of 1998 (textbox) III – 3
Employment Readiness Programs for the Less Skilled III – 4
Strategies for the Harder-to-Employ to Build Human Capital (textbox) III – 5
Specialized Skills and Career Ladder Training III – 6
Role of Community Colleges in Training Low-Skilled Workers III – 7

page

Post-Secondary Degrees III – 9
Employment Retention and Advancement III – 11

Policy and Program Examples

WorkFirst Programs: Community Jobs, Families that Work, and Workplace Basics Skills (Washington) III – 15
Project QUEST, Inc. (San Antonio, Texas) III – 19
WorkFirst Programs: Pre-Employment Training and Work-Based Learning Tuition Assistance (Washington) III – 21
Parents As Scholars Program (Maine) III – 25
RIte Works Employment and Retention Services Program (Rhode Island) III – 29

Sources III – 33

Financial Assets

Overview IV – 1
Enabling Low-Income Families to Build Financial Assets IV – 2
Supported Savings Accounts - Individual Development Accounts IV – 3
Publicly Supported IDAs IV – 3
Matching Savings to Increase Financial Assets IV – 8
Matched Savings Specifically Directed to Increasing Human Capital IV – 9
Earnings-Related Escrow Accounts IV –10
Housing Assistance-Related Incentives for Building Financial Assets IV –11
Family Self-Sufficiency Program IV –12

Policy and Program Examples

Savings and Self-Sufficiency IDA Program, The Bay Area Collaborative – LIFETIME Partnership (California) IV –17
Worker Income Security Project (California) IV –21
Northland Foundation Business-Assisted IDAs (Minnesota) IV –25
Child Care Workers IDA Program, Childspace Cooperative Development, Inc. (Pennsylvania) IV –27
Individual Learning Accounts (Pennsylvania) IV –31
Individual Learning Accounts (United Kingdom) IV –35
Full Employment Program (Massachusetts) IV –37
AFS JOBS Plus Program (Oregon) IV –39
Rent Escrow Program (Massachusetts) IV –43

page

Family Self-Sufficiency Program for Montgomery County (Maryland) IV –47

Increasing the Asset Building Capacity of the FSS Escrow Account (textbox) IV –49

Rainier Vista Garden Community, Seattle Housing Authority Jobs-Plus Rent Incentive and Escrow Program (Washington) IV –51

Section 8 Homeownership Program, Community Development Corporation of Long Island (New York) IV –55

Sources IV –59

Introduction

The nation is in need of a new domestic policy framework and, in many respects, its building blocks are now being fashioned by state policies. This publication commences an effort by the Asset Development Institute to identify state policies and programs that demonstrate the capacity to turn traditional domestic policy on its head, by investing in the capacity of all American households to maximize economic well-being and productivity.

The New Deal framework served as the policy cornerstone for more than six decades, but it has been undermined by a lack of political will, shaken by an increasingly competitive and complex global system of trade, and challenged by new technologies and products that have altered the world of work. It also has been challenged by the demands of an extended life span and new relationships of care and support within families and across generations. For these reasons, policies to reward work and stabilize household income - the minimum wage, unemployment insurance, social security, and protections for organized labor - have become less effective. The boundary between those who were once on welfare and those who are the working poor has been blurred, so that the traditional division between each is increasingly irrelevant. What they do share in common, however, is the need to be part of the opportunity structure of state and federal policies for investment that have been largely responsible for building a strong middle class in the nation.

The Promise of an Asset Development Policy Framework

Within the states, elements of an asset-based policy framework are emerging, to address the common needs and aspirations of all households by rewarding work, promoting initiative and self-reliance, and embodying widely shared beliefs about fairness and opportunity. This emerging framework represents an investment in building capacity among American households to achieve economic security and well-being. Its approach is at once fair and novel:

- Measuring well being in terms of income, but also in terms of building human capital and financial assets
- Meeting short-term needs, but also building assets for the long term
- Remedying deficiencies, but also building individual capacities
- Making fewer judgments about who is “truly needy,” and, rather, assuring universal access to assets to promote self-reliance, initiative, and growth.

At their core, asset policies will enable individuals to acquire and renew the skills required for good-paying job, own a home, start a business or new career, weather the storms of personal or family crises, and live comfortably in retirement.

Current policy promotes asset development, but primarily for the more affluent. Those who enjoy a more comfortable and vastly different life style are enabled to do so in large

measure because they are the beneficiaries of government largesse through policies that helped them accumulate assets. The Homestead Act and the GI Bill, for example, were for their respective eras the means to create a larger, more secure middle class. Today, pre-tax retirement accounts help families build for the future, and home mortgage deductions enable acquisition of the largest tangible asset available to most, a home, through a direct governmental subsidy to homeowners. Similar subsidies sustain a system of college and workplace education and training that have helped them improve their workplace skills in order to move up the economic ladder. So broad and commonplace are these governmental investments that many Americans view them with an expectation, if not as an entitlement. A truly inclusive policy framework would extend such asset-building opportunities to all Americans.

The Elements of an Asset-Building Framework

A framework for asset building has many elements, typically thought of in terms of individual assets. *Income is an asset* because it provides the means to subsist and eventually accumulate wealth. For the vast majority of households, it is employment-based income by which they ultimately attain economic well-being. Government policies, such as unemployment and minimum wage laws, protect and enhance employment income. Other policies, including Transitional Assistance to Needy Families (TANF) assistance and Food Stamps, provide income in cash or kind to bolster employment income. Another key to economic opportunity is *human capital*, which includes the knowledge and skills that enable individuals to obtain good jobs and move up the economic ladder at work. In addition, *financial assets* such as checking and savings accounts, stocks, bonds, and equity in property are critical means to economic security and opportunity. They enable people to maintain a home, start a business, meet life crises, supplement employment income, and sustain retirement. Other assets, such as community resources, may come into play, but individual assets are of paramount importance insofar as they directly impact the economic well being of households.

Fulfilling the Promise of an Asset Development Policy Framework

Certainly, as with any policy innovation, there will be a need to refine the conceptual framework and the language of "assets. But it is equally, if not more important, to identify and assess concrete policies, programs, and initiatives that give meaning to the concept and test its promise. Current policies that serve low-income households are being expanded, extended, or redesigned to better aid those households and new and promising ones are also in the making. Frequently, such initiatives are taken by states or communities and, initially, are of small-scale. Some have their origin in private, non-profit sector initiatives, but may be encouraged and supported by the public sector. Among these endeavors are the seeds from which large scale, even universal asset building policies at the state and federal level will grow.

The **Income Assets** section recognizes that asset development typically begins with employment-based income. Government policy has long played a role in enhancing and protecting income from employment, but policies need to be updated or new ones added

to reflect today's realities. For example, policies like the minimum wage are geared to maximizing the rewards from work, but need to more closely reflect the requirements for minimum economic well-being. Other policies are linked to employment but entail a different government role. The long-established unemployment compensation system, a tool for assuring an adequate income stream in the face of job loss, must be updated to reflect the realities of the contemporary workplace and family life. More recently fashioned policies, such as the Earned Income Tax Credit, which leverage earned income to assure that those who work attain an adequate household income, need to be strengthened and refined. Finally, policies such as the earned income disregard are geared to making the transition of those moving from cash assistance to participation in the workplace a real and meaningful step toward economic well-being.

The **Human Capital** section is grounded in the premise that the lifelong process of building and maintaining human capacity is critical to personal development and opportunities for greater rewards derived from the workplace. Asset building policies in this sphere range from those that enable individuals to enter the workplace, to ones that build upon and enhance those capacities to achieve economic mobility through work. Especially for those challenged by the transition from welfare cash assistance to work, the former include strategies aimed at building a basic stock of human capital, including training and interpersonal skills. Even when they have made that transition, there are approaches that build the capacities essential to their retaining jobs. For them as well as for many others, the latter include policies aimed at their developing specialized skills that are linked to meaningful career ladders of opportunity.

The **Financial Assets** section addresses the importance of policies that enable low-income households to build financial assets. Some new and promising initiatives are grounded in the premise that supports and incentives comparable to those already provided to the more affluent, should be available to those of low income so they, too, can accumulate such assets through saving. Initiatives along these lines vary widely, but often share in common a goal of linking initial efforts to save to further asset-building efforts, such as owning a home, enhancing human capital, and starting a business. Many promising approaches are tied to community organizations; others are promoted through the workplace. Still other policies have taken root in programs for housing assistance and are connected with strategies that link a transition to private housing to building of income assets, human capital, and financial assets.

The nation appears on the edge of a major domestic policy transformation. Policy investments that built a large and strong middle class are now being extended in many states to invest in low-income families as well. State-based policies detailed herein show that an emerging asset-based investment framework already is taking shape in the nation, built in the states perhaps to emerge eventually as the cornerstone of a new domestic policy framework for the nation.

Income Assets

Overview

Employment-based income is the principal tool with which the majority of households ultimately attain economic well-being. Most households have no meaningful chance to build financial and other types of assets unless they have adequate employment income. Recognition of the paramount importance of earned income is manifest clearly in current and long-standing government policies.

While the labor market largely mediates the income stream and other benefits that flow from holding a job, government policy has a history of regulating the labor market to protect and enhance employment income. Most policy makers realize, however, that in today's economy the earned income of the working poor often is not sufficient to sustain many families at even a minimum standard of well being. For many of those with limited or no income from employment, the government provides some income stream, either in cash or in-kind. Examples of such assistance include Medicaid, housing subsidies, food stamps, and benefits through the Transitional Assistance to Need Families (TANF) block grant. The justification for these supports has been increasingly linked to employment, reflecting the belief that able-bodied adults should support themselves and any dependents to the degree possible. For example, the enactment of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA) that created TANF, was based on this fundamental premise. For most families, the receipt of cash assistance is now treated as transitional income support during periods of unemployment or underemployment (even though many families able to effect this transition frequently end up as the working poor.)

The federal government and many states are revising existing policies to enhance or supplement earnings to reward the work effort of low-income households. This section considers strategies for improving four types of policies that bolster employment income as an asset:

- Revise **minimum wage laws**, by which federal and state governments have established a floor for wages paid by employers, to help raise the living standards of working families, particularly new entrants to the work force and enact **"living wage" ordinances** which establish a higher wage for employees of government contractors or recipients of government subsidies.

- Update **federal and state unemployment compensation systems** to better sustain low-income workers who lose their jobs, particularly those who have recently moved from receipt of cash assistance into the workforce, but are either not eligible for or are inadequately covered by current laws.

- Expand the federal **Earned Income Tax Credit (EITC)**, which provides an important income supplement for a significant number of families and

individuals, and enact innovative **state-level EITCs** (modeled after federal policy) which can enhance its effect.

- Improve **earned income disregard policies** for TANF recipients which allow those who enter the workforce to continue to receive sufficient cash assistance under TANF, both to better augment their low wages and to reward their work efforts.

Federal and State Minimum Wage Laws

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act (FLSA) of 1938. Its passage followed several attempts by states to pass their own minimum wage laws. Although labor market forces principally determine the benefits that will be realized from work, it was decided that government should intervene to establish a floor as to the minimum certain employers should pay their employees. FLSA has been amended numerous times to expand the kinds of workers covered by the minimum wage provision, so that today it applies to about two-thirds of wage and salary workers. Recognizing that the federal minimum wage nowadays raises few families out of poverty, some states have established their own higher minimum wage and some localities have established even higher "living wages" that apply under specified circumstances.

The federal minimum wage is not indexed to inflation or any other standard that reflects changes in the cost of living. Rather, increases are subject to periodic votes in Congress. Through the 1980s there were no increases in the minimum wage and its real value adjusted for inflation fell to a level lower than at any time since 1950. Between 1990 and 1998 the minimum wage was raised four times, yet it only recovered about one-third of the value it had lost in the 1980s. The current federal minimum wage is $5.15 an hour, still far below its 1968 peak value (in today's dollars) of $7.50 an hour. The recently proposed change to raise the federal minimum wage in three stages to $6.65 an hour by 2003 would restore its real value only to what it was in the early 1980s.

The most recent increases in 1996 and 1997 directly impacted 10 million workers (about 8.5% of the workforce), 71% of whom were adults and 58% women. Just under half worked full-time and another third worked 20 to 34 hours per week. Most minimum wage workers' families are highly reliant on their income, with the average minimum wage worker responsible for providing more than half of his or her family's weekly earnings. If wages grow to keep pace with inflation, by the time the recently proposed increase is fully implemented in 2003, approximately 7 million workers (about 6% of the workforce) will be directly impacted.

Increases in the minimum wage typically cause a "spillover effect", pushing up wages for workers earning just above (up to dollar more) the new minimum wage. Individuals in this wage group are more likely to be older (81% are adults) and to work more hours (61% are full time) than those whose wages have been directly affected by the increase. It is estimated that 10.5 million workers (8.7% of the workforce) would experience a "spillover effect" if the minimum wage were increased to $6.65 an hour.

Today, ten states and the District of Columbia have established a minimum wage that is higher than the federal minimum wage of $5.15 an hour. Currently, the highest state minimum wages are in Massachusetts and Washington State at $6.75 and $6.72 an hour, respectively. Washington is the only state that factors in inflation when determining its rate with annual adjustments based on the consumer price index for urban wage earners.

(For jobs to which both the federal and state minimum wage applies, the higher standard is used.)

If increases are modest or incremental, concerns that raising the minimum wage will cause employers to decrease the number of entry-level low wage jobs are not supported by research. Since the federal minimum wage increase in 1996, the unemployment rate has fallen from 5.2% in September 1996 to 4.2% in late 2000. Labor market trends for workers most affected by the minimum wage increase – including younger workers, workers with lower educational levels, single mothers, and minorities – show that the increase in the minimum wage has had no negative impact on their employment rate.

Evidence from Oregon also suggests that state minimum wage increases can have a significant positive effect on entry-level wages without decreasing employment opportunities. The state increased its minimum wage in stages in the mid-1990s, raising it to $6.00 an hour by January 1998. While average starting wages fell for Oregon parents leaving welfare prior to the increases in the state minimum wage, average starting wages rose with each minimum wage increase, reaching $6.91 an hour in the first quarter of 1998. During this period, available evidence does not suggest a negative impact on employment opportunities due to the increases. Employment growth in the retail trade, an industry often impacted by minimum wage increases, was similar to overall employment growth in Oregon at that time.

During the 1960s and 1970s, the federal minimum wage was set at a level sufficient to support a family of four just under the poverty line, but since the 1980s, this has no longer been true. Year-round, full-time workers paid at the current federal minimum wage earn $10,712 a year, not enough to afford basic housing, food, and childcare for a family of four or even bring a family of two up to the poverty level threshold. The **Earned Income Tax Credit (EITC)**, initiated in 1975 and subsequently expanded, has closed this gap for families with one or two children, although not for larger families or households with no children.

But the evidence indicates that an income near or even slightly above the poverty level is not sufficient to support a family in many regions of the country. This has led both to proposals to revise the poverty level measure and the concept of a "self-sufficiency" wage. (See **How to Measure Minimum Family Economic Well-Being**.)

Living Wage Ordinances

In an attempt to raise wages of some low-income workers closer to a level sufficient to support their families and set an example through jobs created by public funding, over 50 localities have enacted "living wage" ordinances. In the cities and counties where ordinances have been initiated, they generally apply to employers who have a contract with local government or businesses that receive economic development subsidies from the locality. The wage rates specified by living wage ordinances range from just under $7 an hour in Milwaukee, Wisconsin to a high of $12 an hour in Santa Cruz, California. More than half the ordinances also require or encourage employer-provided health insurance.

Studies of the first living wage ordinance, enacted in Baltimore, Maryland in 1994, found that it did not result in job loss or an appreciable decrease in the number of firms competing for city contracts. Increased costs for wages were absorbed by improvements in efficiency and decreased employee turnover rates. The small decrease in the number of bids per contract was not high enough to lower competitiveness or raise contract costs. Even if the costs to contractors did increase, it was still profitable for these firms to do business with the city, since profit margins ranged from 10% to 20% of production costs, while wage increases from the ordinance only amounted to an estimated 2% of production costs.

A recent bill introduced in Congress would require businesses to pay workers employed by federal contractors a living wage tied to the amount a full-time worker would need to support a family of four at the poverty line ($17,050 a year or $8.20 an hour in 2000). An estimated 162,000 employees of federal contractors earn less than $8.20 an hour and potentially would be covered by this legislation. (In 1999, only 32% of these workers were covered by any law requiring that they be paid at least a prevailing wage, which is usually defined as the median wage for each occupation and industry.) The majority of federal contractors paying poverty-level wages are defense contractors (62%). Most such contractors are large businesses (59%), not small businesses or non-profit organizations.

How to Measure Minimum Family Economic Well-being

A central goal of asset development policies is to enable all families to attain a minimum level of economic well-being and a meaningful opportunity to move ahead. Income assets are key to achieving that goal. In the mid-1990s, the debate about welfare reform often focused on the narrow goal of moving families from welfare to work, presupposing that they would become "self-sufficient," but without defining the term. Some would define self-sufficiency in terms of the income needed by a family of a given composition in a given place, to adequately meet its basic needs – without public or private assistance.

However the phrase "self-sufficiency" is defined, a family attaining poverty-level income is unlikely to be self-sufficient. The official U.S. poverty measure, devised almost four decades ago, compares a family's income with a level then believed to be necessary to attain a minimum standard of well-being. It was based on the premise that families of particular sizes required a specified "market basket" of food, which comprised one-third of all necessary household living costs. The poverty level for an average family, therefore, equaled three times the cost of the food basket. Recent surveys indicate that as compared with the early 1960s, the proportion of income now spent on food has declined for all families, although the decline has been less for low-income ones. More important, though, since that time costs of other necessities, such as shelter and utilities, have risen significantly compared to the expense of food. In addition, while measures of the incidence of poverty do not include as part of income resources from some non-cash assistance government programs such as food stamps, they also do not take account of increased needs for paid childcare, health care, and transportation. In 1995, an expert panel convened by the National Academy of Science recommended the following changes to setting a poverty level and determining the incidence of poverty:

- Base the poverty measure on actual costs for food, clothing, and shelter
- Use another method to adjust for family size
- Make adjustments to reflect geographic differences in housing costs
- Include as income non-cash government food and housing benefits, and tax-related benefits such as EITC
- Deduct mandatory expenses such as taxes, work expense, childcare costs, child support payments, and out-of-pocket medical costs.

To date, the official method for calculating the poverty level has not been changed. However, several groups have attempted to fashion a better means of determining the income level indicative of minimum economic well-being. In the early 1990's, Wider Opportunities for Women (WOW) formulated what they termed the "Self-Sufficiency Standard". The standard is set at a level sufficient to meet minimum nutrition standards, to obtain adequate housing, and to pay for child care, but does not allow for longer-term needs, such as retirement, purchase of major items, repayment of debt, or major emergency expenses. WOW, working in conjunction with affiliated organizations, has calculated this standard for Washington, D.C. and 13 states and their metropolitan areas. For example, WOW and the Women's Educational and Industrial Union found that a two-

How to Measure Minimum Family Economic Well-being (continued)

parent family with two children in Boston, Massachusetts in 1997, required $42,564 per year in income. The Economic Policy Institute (EPI) has devised a "basic family budget" by identifying budget items it argues are necessary for a working family to maintain a "safe and decent standard of living", and then determining how much it costs to provide each item at an adequate level. EPI's budget includes food, housing, health care, transportation, childcare, other necessary expenses, and taxes. EPI determined that a family of four living in Baltimore, Maryland, for example, would need an annual income of $34,732, equivalent to a single wage earner working full-time at $16.70 an hour. Using a somewhat different method, the JOBS NOW Coalition in Minnesota determined that a single parent with three children living in the Minneapolis/St. Paul metropolitan area in 1994 needed a minimum of $35,805 a year. (These estimates of needed income compare to an official poverty rate of $16,400 for a family of four in 1997.)

It is clear that, under existing law, even with the help of the EITC, many single-wage earner families with a member earning the current minimum wage (or a "living wage") cannot attain minimum economic well-being.

Unemployment Compensation

The unemployment compensation (UC) system has served as a key government policy to maintain employment income assets during economic adversity. However, UC now serves fewer than it might because it remains substantially the same as it was when it was established under the Social Security Act of 1935, despite significant changes in the economy, at the workplace, and in family life over the intervening period. Indeed, in 1999, on average only 38% of unemployed persons were receiving UC benefits.

When UC was created, the beneficiaries were largely thought of as individuals temporarily out of full-time work and likely to return to that or similar work after the interruption of their employment (although eligibility for benefits was not literally tied to full time work). For that reason, originally, there was no provision for retraining. In contrast to what was then called Aid to Dependent Children (ADC) and now is the TANF "welfare" program, UC benefits are not means-tested. Rather, qualification for benefits depends upon individuals' prior attachment to the workforce, evidenced by their record of work and earnings. Even with such attachment, though, individuals can be disqualified for reasons such as voluntarily separating from work without good cause. Moreover, once they qualify for benefits, they continue to receive them only if they are "able and available for work." The benefits mandated are linked to earnings, but are partial and temporary. State-determined weekly benefit amounts vary widely. They generally replace between 50 and 70 percent of the individual's average week pre-tax wage, up to some state-determined maximum. The national average weekly benefit was $215 in 1999. Benefits are limited to 26 weeks in most states. (A Federal-State Extended Benefits Program, originally established in 1970, offers at least 13 weeks of additional benefits during periods of high unemployment.)

Unemployment Compensation has always operated as a combined federal-state system in which states have had great latitude in determining tax rates, benefits, and eligibility. It is supported almost entirely by taxes directly imposed on employers. (Three states also require contributions by employees.) There is a 6.2% gross federal tax on the first $7000 of wages paid annually by covered employers to each employee. Employers may be able to credit up to 5.4% for payments they make to their state program. (There is an additional 0.2% federal tax, which funds the federal half of the cost of the Extended Benefits Program.) The system has always been "experience-rated," meaning that the payments employers make to their respective states depend upon how heavily their former employees have drawn upon the system.

Modifications Responding to Workforce Trends

Serious concerns arise because assumptions, made when the UC system was established, about the economy, work, and family life have, over time, been undermined. The system was framed with full-time, largely male wage earners in mind. But today, the number of part-time, part-year, and temporary workers has greatly increased, to nearly one-third of the workforce. Many women have entered the workforce and their participation has helped to swell those numbers. Moreover, women often serve in low-skill jobs, not the

relatively higher-paying ones in the traditional, yet shrinking manufacturing sector, but rather, lower paying ones in the rapidly expanding service sector. More generally, the low wages earned by most lesser skilled workers make it harder for them to meet earning requirements to qualify for UC benefits. At the same time, while many workers must balance the demands of work and family in the new economy, it is women who disproportionately carry the load of caring for the young, disabled, and elderly, and in navigating increasingly irregular work schedules. (The Family and Medical Leave Act of 1993 now enables workers at relatively large businesses to take a leave for family-related reasons, but many do not because the leave is unpaid and they cannot afford the financial loss.) Moreover, there is now a heightened awareness of the problems of domestic violence and sexual harassment and their adverse impact on women's employment.

These social and economic changes have rendered the traditional criteria for defining attachment to the workforce out of date. Currently, a survey of national and state data indicates that low-wage, part-time workers and women workers collect UC at rates that are two to three times lower than all workers on the average, and attributes that outcome to outdated and restrictive eligibility rules. Even though part-time workers (70% of whom are women) are employed an average of 36 weeks a year and average 21.5 hours per week of employment, it has been estimated that those over 25 are half as likely to receive UC benefits as full time workers. This is so, even though their employers pay UC taxes on their wages.

While "work first" welfare policies have made extended reliance on cash assistance less possible, the kind of work experience that welfare leavers are likely to have makes drawing upon UC benefits more problematic if ever needed. Such individuals have difficulty satisfying earnings requirements because of their low wages, and the interruptions to work that result from their need to meet family responsibilities. Further, they are more likely to be disqualified from benefits because job loss is more likely deemed to be their "fault," in part because they must attend to family responsibilities. Finally, family obligations may bar them from benefits because they are unable to search for or accept full-time employment. (See **State Unemployment Compensation Policies That Enhance the Economic Security of Low-Income Workers**.)

Note: There are important issues about elements central to the original design of the UC system that may be worthy of serious discussion, but are not canvassed here. For example, when the system was created, the maximum amount of wages that could be taxed was the same as that set for Social Security payroll taxes, $3,000, which represented over 92% of the wage base. However, over the years while the Social Security maximum has risen to over $70,000, the UC maximum has increased to only $7,000, limiting the resources available to the system and shifting the relative tax burden to employers of low-wage employees and their workers. Further, it has been argued that determination of qualifying wages and the level of benefits should take account of wage subsidies that supplement the incomes of low-wage workers, e.g., should include monies that would have been received from the EITC. It also has been contended that because the system is largely state-run and is experience based, insofar as employers cannot pass on their costs to consumers and workers, this creates incentives for "race-to-the-bottom" among the states to limit eligibility for and the amount of benefits.

Federal Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) was initiated in 1975 to make the tax system more equitable for workers struggling to support their households. It was expanded in recent years to more effectively supplement the wages for low- and moderate-income working families. Nearly 20 million families and individuals filing federal income tax returns – roughly one tax return in six – claim the federal EITC. Approximately 85% of eligible households participated in the program in 1990, and it is estimated that the percentage is even higher today after further program expansion and promotion.

Federal EITC payments are indexed to inflation and determined by earned income and family size. Any amount of earned income triggers the credit, which then rises with earnings at a rate based on family size, and plateaus at a specified earned income level. After reaching a plateau, it begins to decrease continuously with additional income until it becomes zero. In tax year 2000, the federal credit reached a maximum of $3,888 for a family with two or more children and $2,353 for a family with one child, at earned income levels of $9,720 and $6,920 respectively. When family earned income reaches $12,690 for both types of families, the credit begins to phase out, becoming zero at $31,152 for the family with two or more children and $27,413 for a single child family. Low-income workers without a qualifying child also may receive a federal EITC, but the maximum credit for individuals or couples without children is only $353.

The federal EITC is a refundable tax credit – if the amount of a family's credit exceeds the amount owed in taxes, the family receives a refund check for the difference from the Internal Revenue Service. The credit is not counted as income in determining eligibility for food stamps, Medicaid and (in most states) TANF assistance.

The EITC is widely credited for supporting work and reducing poverty:

- The proportion of single mothers who were in the labor force rose sharply between 1984 and 1996. EITC expansions instituted during that period were found to be responsible for more than half of the increase.

- In 1999, about 4.7 million people, including 2.6 million children, were kept out of poverty as a result of the federal EITC.

- The program's ability to lift working families out of poverty is especially great in the South, where a higher proportion of working families tend to have lower wages and consequently are more likely to qualify for EITC.

Because EITC is administered through the tax code, most recipients claim the credit when they file an income tax form. Families also have the choice to receive a portion of their benefits throughout the year with each paycheck. Over 95% of EITC recipients elect to receive their credit as a lump sum payment when they file their income tax return, rather than include it in their regular pay check. There is not sufficient research to assess

why those who claim the EITC prefer to receive it as a lump-sum. Informal reports suggest that it may be a means to save money for unanticipated expenses, or to maintain as a financial asset for other future uses.

This practice is consistent with recent research that shows that many EITC recipients use their refunds not only to meet day-to-day expenses, but also to make the kinds of investments – paying off debt, investing in education, obtaining better housing – that enhance financial security and promote economic opportunity. Interviews with 7,000 low-income families in Chicago found that a large majority of recipients now anticipate receipt of the credit and factor it into their household financial planning. Between 75 and 80% of respondents reported using some of the credit to pay a bill or make a commodity purchase. However, almost one-half also stated that they would save some or all of their EITC check. Other stated uses directed toward asset building included paying tuition (16% of respondents), or covering the costs of acquisition or maintenance of a car (22% of respondents).

Note: Although not examined here, there are several proposals for improving the federal EITC. Because child poverty is higher in large families, it has been proposed that another category be created for families with three or more children to increase their tax credit. Also, in some cases, when two low-income individuals marry, their joint income causes them to be subject to a substantial reduction in their combined tax credit, thus experiencing a "marriage penalty", which could be alleviated by a separate computation of EITC applicable to married couples. Finally, the tax credit for individuals with no children is very small and merits review, especially as it relates to the capacity of non-custodial fathers to pay child support.

State Earned Income Tax Credits

The success of the federal EITC has led a number of states to enact state credits that supplement the federal one. Fourteen states – Colorado, Illinois, Iowa, Kansas, Maine Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont, Wisconsin, plus the District of Columbia – offer state EITCs modeled on the federal credit. Most states base their EITC on a percentage of the federal tax credit and use the same cut off points for eligibility. The percentage of the federal EITC ranges from 5% in Illinois, Maine, and Oregon, to 32% in Vermont and 43% in Wisconsin for families with three or more children. Minnesota averages 34% of the federal EITC, but its percentage is adjusted to ensure that no family experiences a net loss of income as their earned income rises. (See **Minnesota Working Family Credit**).

In ten of the states, the credit is refundable, as is the federal EITC. That is, in the event the amount of the credit exceeds the individual's tax liability, he or she receives from the government the difference between the amount of the credit and that liability. Because a state refundable EITC is effectively a payment from public funds to support work for low-income families, TANF funds can be used for the refundable portion. A refundable state tax credit provides those with the lowest wage jobs more disposable income to meet day-to-day needs, cover unanticipated expenses, or save for the future.

How EITC Can Interact With Other Asset Building Policies

Enhancing Income Assets: When Minnesota contemplated expansion of its state Earned Income Tax Credit (ETIC), it discovered that policies intended to aid low-income families in meeting household and work-related expenses do not always work in concert with another to achieve the intended outcomes. (See **Working Family Credit**) This recognition has led to consideration of mechanisms for coordinating these policies.

One such proposal by the Economic Policy Institute (EPI) responds to adverse effects that arise at the federal level for low-income families, from the combined operation of the federal EITC, the federal dependent exemption, and the federal child tax credit. For example, EPI's analysis showed that in 1999, for a single-head of household with two children with up to a modest gross income level, e.g., $20,000, the marginal tax rate might have exceeded 40%. (Additional complications arise if account is taken of (1) the federal child and dependent care credit and (2) "cafeteria plan" deductions for expenses for childcare incurred by workers whose employers make such a plan available.) The loss is potentially even greater if benefits from means-tested programs such as Medicaid, Food Stamps, and housing assistance are reduced as earned income increases. EPI proposes a Universal Unified Child Credit that integrates tax provisions applicable to households with children, as a way to: a) simplify the tax law, b) reduce work disincentives that currently apply to low- to moderate-income households, c) reduce the marriage penalties that moderate-income households face, and d) reduce the need for other welfare provisions.

Building Financial Assets: Research has shown that the vast majority of those who are eligible for the EITC prefer to collect it as a lump sum payment when they file. A study of Chicago EITC claimants reported that almost one-half planned to save some or all of their EITC check and that more than 80% were saving for at least one equity-building purpose such as purchasing a car, home, or education for themselves or their children. For these reasons, it has been urged that there be EITC-linked savings polices aimed at lower income households. One such policy would be to spur deposit of EITC savings in Individual Development Accounts to enable individuals to more rapidly build savings through matched contributions. Another is to educate the welfare-to-work and other low-income populations on financial literacy and help them establish a relationship with mainstream financial institutions to avoid dissipation of their potential savings through expensive check-cashing outlets and costly short-term loans from tax refund vendors. Yet another change would be to establish an asset limit policy for SSI and Medicaid recipients modeled after that used for Food Stamps, which exempts EITC payments from counting as an asset for 12 months after receipt.

Earned Income Disregard for TANF

Since the mid-1960s, the former Aid to Families with Dependent Children (AFDC) welfare program held forth the expectation that those who could reasonably move into the workforce, would do so. The efforts of families transitioning to work were supported by "disregarding" a portion of their outside earnings when calculating their welfare benefit level. Under the AFDC earned income disregard policy, during recipients' first four months of employment, the first $120 of what they earned plus one-third of their remaining earned income was not counted in determining the amount of their grant. But during subsequent months, whatever they earned after the initial $120 disregard was subtracted from their grant. At the end of a year, the earnings disregard was reduced to $90, a sum seen as sufficient to offset work-related expenses. Thus, after one year a low-wage working family could be no better off financially and possibly worse, depending on the actual cost of work-related expenses.

With the passage of PRWORA in 1996, federal law left it to each state to determine the duration and amount of a recipient's earned income that will be disregarded in determining benefit eligibility and cash assistance levels. Only four states (Colorado, Delaware, Georgia, and Indiana) continue to follow the old AFDC rules. Most states have substantially increased the amount and/or duration of the disregard to reward the work efforts of welfare recipients. More generous earned income disregards supplement income when initial employment in entry-level jobs does not provide sufficient wages to support a family and build a future. Recent research suggests that earned income disregard policies can significantly increase employment and earnings among welfare recipients.

- Minnesota's Family Investment Program (MFIP) increases that state's basic welfare grant by 20% for those entering employment, and reduces benefits by 62% for every dollar earned. An evaluation of the program in its pilot stage found that half of the single-parent participants who were on welfare at least two years were working, compared to 37% of those in the AFDC control group, over the first nine quarters of the program. The average quarterly earnings of these recipients were $955 compared to $779 for the control group. The combined quarterly income from earnings and cash assistance was $2,700 for MFIP recipients and $2,348 for AFDC recipients.

- Illinois' Work Pays disregard policy reduces cash assistance benefits by one dollar for every three dollars earned. Families with earned income remain eligible for cash assistance until their non-cash assistance income reaches the federal poverty level. By November 1998, the portion of the Illinois caseload that was working had reached 40%, up from 12% in 1994. (Although assisted by a healthy economy, administrators also credit the disregard policy.)

It should be noted that unintended consequences may result from such disregard policies. They can cause a family to use up their time-limited benefits earlier. Every month during which the family receives a cash assistance grant funded through TANF, no matter how

small, counts against the federal 60-month lifetime limit on benefits. Once the family has reached the lifetime limit for TANF benefits, it is ineligible to receive any further cash assistance during future periods of unemployment or underemployment.

Illinois was the first state to "stop-the clock" by using its Maintenance-of-Effort (MOE) matching funds, rather than TANF funds, to pay for benefits to eligible families working at least 30 hours a week. MOE is the spending level a state must maintain for certain programs each year to receive its full federal TANF formula grant. Under certain circumstances, federal regulations permit a state to fund families' cash assistance benefits solely through MOE funds. If the state chooses to do so, that stops the TANF time limit clock. In order to supplement earnings from work without threatening future eligibility, several states, in addition to Illinois, are now using MOE funds to implement policies that allow families to continue to receive cash assistance.

Strengthening the Link Between Earned Income Disregard and Asset Development

In order to bolster the net income of low-wage earners, many states have decided that it is beneficial to allow more generous earned income disregards for families receiving TANF cash assistance. Greater income alone increases the likelihood that their families will be able to begin building assets by setting up a savings account, purchasing or upgrading a vehicle to get to work, or paying for tuition or training that can lead to a better job.

For example, one stated goal of the generous earned income disregard policy for **Connecticut's Jobs First** program is to aid families in building assets to prepare them for longer-term self-sufficiency. Connecticut does not reduce cash assistance benefits at all as earned income increases (thus foregoing the opportunity to reduce state expenditures), until the family's earnings are at the federal poverty level or the family reaches the time limit.

States also can use the earned income disregard policy to more directly build assets for low-income families. A state, instead of retrieving the reduction in cash assistance paid to recipients when earned income increases, can use these funds to support financial asset building. For example, a state might adopt Illinois' earned income disregard policy of reducing the cash assistance grant by only $1 for every $3 earned, and take the dollar held back and deposit it into an escrow account for the family. The family could access the accumulated amount in the escrow account for specific purposes when cash assistance is terminated. Savings could reach several thousand dollars after only a year or two, and represent a substantial opportunity to achieve greater economic security for families leaving welfare.

The deposits in such an escrow account could be funded from TANF block grant. Even if the state is using its Maintenance-of-Effort (MOE) funds for the cash assistance portion to "stop-the-clock" for the family, funds used for the escrow account might still come from TANF. Such a use would not be considered "assistance" under the TANF regulations, and therefore not trigger the TANF time limit clock.

Establishing a savings account linked to obtaining and maintaining employment is similar to the escrow accounts that **Massachusetts' Full Employment Program** and **Oregon's AFS JOBS Plus Program** have initiated for participants in their subsidized work programs. These programs link financial incentives for employers and monetary supports for participants who acquire an income asset – a job – with building financial assets through employer deposits into a special savings account.

Policy and Program Examples

State Unemployment Compensation (UC) Policies That Enhance the Economic Security of Low-Income Workers

Asset Development Strategy: To enhance the economic security of bw-income workers by revising unemployment compensation policies that do not reflect contemporary economic and social realities.

An "Alternative Base Period" (ABP) for Defining Labor Force Attachment: An individual's prior attachment to the workforce is a major factor in determining qualification for unemployment compensation (UC) benefits. Such attachment is defined with reference to a "base period," typically a year, and as well as the amount of earnings during the period. Traditionally, only earnings in the first four of the last five completed quarters have been counted. This criterion can exclude from consideration as much as six-months of earnings for workers, i.e., those who apply for benefits just before the end of a quarter. The result is to limit or delay benefit eligibility for individuals with episodic work experience, particularly low-wage and female workers. Twelve states - **Maine, Massachusetts, Michigan, New Jersey, North Carolina, New Hampshire, New York, Ohio, Rhode Island, Vermont, Washington, and Wisconsin** – now have established Alternative Base Periods (ABPs) that allow workers' most recent earnings to be counted in determining whether they qualify for UC benefits. For example, in **Massachusetts**, eligibility is based on the last three completed quarters plus the most recent earnings in an uncompleted quarter. Moreover, this ABP is used to calculate the individual's unemployment benefits if it would yield a level of benefits 10% or higher than amount that would result from use of the conventional base period. It has been estimated that the ABP costs only 3 to 8 percent more than the standard system, but incorporates about 6 to 7 percent more workers into UC receipt and that the chief beneficiaries of the ABP are low-income workers, women, people of color, part-time workers, and construction workers.

Using Time Worked Rather Than Wages to Define Labor Force Attachment: Whichever base period is used, the requirement that UC claimants have earned a minimum sum of money during that period (and in many states, have earned a minimum amount in at least one quarter) disadvantages low-wage workers who might work many more hours than higher wages ones, but still do not qualify for benefits. Instead, states can use the time worked as the criterion. **Washington** State and **Oregon** have done so, requiring that a claimant have worked at least 500 or 600 hours, respectively, in his or her base year.

Allowing Pursuit of Part-Time Work to Satisfy Work Search Eligibility Requirements: Part-time workers are frequently ineligible for UC. In part this is because they do not earn enough – especially if they are low-wage workers – to meet minimum earnings requirements. But they also cannot meet the requirement in all states that a claimant both be able to work and be available for work. In many circumstances, those who search for part-time rather than full-time work, mostly women, and especially those with young children who leave welfare, may not be deemed available for work. The National Employment Law Project (NELP) has identified **California, Colorado, Delaware, District of Columbia, Illinois, Massachusetts, Montana, New Jersey, and Ohio** as having responded in a limited way to this problem, with **California** having the best practice. In that state, if a UC claimant shows "good cause" for limiting his or her work search to part-time work, then he or she remains eligible for UC so long as there remains a "substantial field of employment" for which the claimant is available. The agency bears the burden of showing that the claimant's restriction leaves him or her unavailable to a substantial field of employment. However, NELP notes that a simpler and more effective provision would not

require that the claimant have a prior history of part-time work, but rather simply insist that he or she be looking for a certain number of hours of work a week.

<u>**Taking Account of the Barriers to Continued Employment Posed by Family Relationships and Sexual Harassment on the Job:**</u> Among the major reasons for a claimant being disqualified from initial UC benefits is his or her leaving prior employment without "good cause". However, in most states, the reason for loss of employment must be related to work. States can adopt policies that reflect a modern understanding of the adverse impact of workplace sexual harassment for which women are largely at risk. However, there also are important issues of job loss nominally unrelated to work that disqualify claimants, particularly women and often welfare leavers. These causes arise from the challenges of contemporary family life that concern caring for the young, elderly, and disabled, and the problem of domestic violence. In the former case, a worker might have to quit her job if she is not employed by a company that is covered by the Family and Medical Leave Act (FMLA) of 1993. Even if covered, she may be deterred from taking a leave because the FMLA does not require paid leave. With respect to the latter case, domestic violence can cause loss of a job from non-attendance or poor job performance.

North Carolina is among an increasing number of states - **Arizona, Arkansas, Connecticut, Idaho, Illinois, Kansas, Maryland, Maine, Massachusetts, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Washington and Wisconsin** – in which an individual may still qualify for benefits (even though job loss relates to care of family members) when the conduct falls under a statutory or judicial exception for reasons that are of an "urgent, compelling and necessitous nature." North Carolina has an "undue family hardship" exception that allows an individual to refuse a work shift change when it would interfere with his or her ability to care for a minor child or to care for a disabled or aged parent. Recently, **Wisconsin** addressed the problem of child care by statute, although in a limited way. An individual who has been hired for a particular shift cannot be disqualified if she refuses, because of a lack of childcare, to accept a transfer to another shift, so long as she is able to work and available for full-time work on the shift for which she was hired.

Moreover, **Wisconsin** is one among thirteen other states – **California, Colorado, Connecticut, Delaware, Nebraska, New Hampshire, Maine, New Jersey, New York, North Carolina, Oregon, Rhode Island, and Wyoming** - whose laws treat domestic violence as "good cause" for leaving work. In **Massachusetts**, separation from a job for that reason has been interpreted as falling under the "urgent, compelling and necessitous nature" exception. Moreover, although a large number of states address the issue of sexual harassment, **Wisconsin** (along with **Rhode Island** and **Illinois**), has made the most progress in making it easier to establish sexual harassment as "good cause" for leaving a job. Recently enacted Wisconsin law employs an expansive definition of sexual harassment "which encompasses not just criminal or unwelcome sexual advances in the workplace but also hostile work environment." However, even these domestic violence and sexual harassment provisions are only first steps since the burdens of proof and other requirements they impose do not make the protection they offer as readily available as they might be.

Some family-related issues arise not out of the "good cause" requirement but rather from the "able and available to work" criterion. For example, an individual who receives a leave to provide family care (perhaps under the FMLA), may satisfy the good cause requirement, but still be barred from UC benefits if that individual states that she or he is not able and available for future work. This past year, legislation was introduced in a number of states, in response to final regulations issued by the U.S. Department of Labor, authorizing the states to provide UC benefits to workers taking a leave to care for a newborn or newly adopted child. **Massachusetts** passed

legislation to approve such UC benefits for up to twelve weeks in the event of the birth or adoption of a child; however, the governor vetoed the bill.

Raising Benefits Generally or Tying Them to the Number of Claimants' Dependents: Overall, the level of UC benefits in the U.S. has been relatively low compared to those offered by comparable systems in Western European countries. Moreover, the level of benefits varies widely across the states. In 1999, the national average weekly benefit was $215. The minimum weekly benefit ranged from $0 in New Jersey to $102 in Rhode Island while the maximum ranged from $122 in Puerto Rico to $646 in Massachusetts (a figure which included the maximum dependency allowance). So, even if a wage earner qualifies for UC benefits, they may be insufficient to meet his or her basic needs. If the wage earner has dependents, the problem is even more acute. At least 11 states provide additional UC benefits to claimants with dependent children and/or elders. **Massachusetts** offers the most generous allowance, $25 per week for each dependent child up to age 18. It also covers children over age 18 unable to work by reason of physical or mental disability and children between the ages of 18 and 24 who are full time students. However, the total allowance is capped at 50% of the claimant's weekly benefit rate. (Currently, the maximum total benefit is $712 ($477 base plus a potential $235 in dependency allowance). By contrast, although **Connecticut**'s dependent allowance is smaller, $10 to $15 per week, it can add up to 100% of the individual's weekly benefit check.

Facilitating Participation of UC Participants in Training Programs: Starting in 1970, federal law barred states from denying UC benefits to individuals who participate in an approved training on the ground that the individuals were not meeting the work search and availability requirements. To date, generally only vocational basic education appears to have been approved by states. For many workers, including welfare leavers who can qualify for UC, participation in such programs might offer the chance to enhance job skills while receiving income support. Among the states that have established separately funded training programs, **Washington** has the broadest one. Currently, its separate account, funded by up to $20 million in dedicated UC payroll tax revenues, allows qualified individuals up to 52 weeks of benefits. However, for an unemployed individual to qualify for the training benefit, he or she must be "unlikely to return to his or her previous employment because of a diminishing demand for his or her skills" and "have worked in an occupation or with a particular set of skills for at least three of the last five years." Hence, such criteria would likely exclude the vast majority of individuals who have left welfare for work. However, other workers in low-wage occupations might be benefited where there has been a permanent reduction in operations at their workplaces and their skills are in diminishing demand in their local labor market.

Assuring Eligibility of Temporary Help Workers for UC: The number of individuals engaged in non-traditional ("alternative") work arrangements has dramatically increased to about 10% of the employed workforce. Among them are temporary help agency workers whose estimated number (depending upon the survey technique) ranges from 1 to 3.5 million individuals. A 1998 report by the federal Bureau of Labor Statistics gives the number as 1.3 million in 1997. According to that report, such workers are more likely than other workers to be young, female, black, or Hispanic. Nearly a third of the women are raising children. About 80% work full-time (at least 35 hours). A majority of temporary help agency workers state that this is the only type of work they can find and many others accept such work with the hope that it will lead to permanent employment. Temporary help workers have the lowest earnings of alternative workers. This is, in part, a reflection of the clerical and machine operator jobs they typically hold ones that pay lower-than-average wages. Temporary help agency workers commonly do not receive health insurance and pension benefits. Many are now at risk of being locked into such jobs. For these reasons, states should oppose efforts (which have been successful in some jurisdictions) to deny

these workers UC benefits if they refuse to seek another assignment from the temporary agency, or to treat them as "independent contractors," not employees, who are not eligible for benefits.

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Working Family Credit (Minnesota)

Asset Development Strategy: To enhance income assets by providing low-income working families with a supplement to earned income in the form of a refundable tax credit, the credit being formulated to allow those making the transition from welfare to work to maximize the net benefit from increased earnings.

Using the State EITC to Adjust for Termination of TANF Cash Assistance: Unlike other states, Minnesota no longer calculates its state tax credit as a flat percentage of the federal Earned Income Tax Credit (EITC). The Working Family Credit (WFC) was instituted as a refundable credit in 1991 equal in amount to 15% of the federal EITC. The percentage was scheduled to increase to 25% of the EITC in 1998. However, beginning with the 1998 tax year, Minnesota revised its formula for calculating the credit in recognition of its adverse impact on families who were leaving welfare for work.

The planned increase in WFC would have had little value for families receiving cash assistance from Minnesota's welfare program, Minnesota Family Investment Program. MFIP benefits (which combine cash assistance and food stamps) are reduced as earned income rises. They are lost entirely when family income reaches slightly less than 120% of the federal poverty level. Also, as these individuals' earned income increases, they pay higher federal payroll taxes and receive less of a federal tax credit. Without a revision of the formula for determining the WFC, a modest rise in earned wages would have actually resulted in a reduction of take-home income for these families.

For example, under the originally scheduled increase of the WFC to 25% of the federal EITC, a family with two children and one adult who worked full-time and gained a raise in hourly pay from $6.00 to $7.00 per hour – a *gross gain* in annual income of $2,000 – would have suffered a *net loss* in net annual income of $76. A further raise from $7.00 to $8.00 per hour would have netted the family only $184 from the potential increase of $2,000 in gross annual earned income. Because reducing poverty is one of the stated goals of Minnesota's welfare program, a solution to this little or "no net gain" dilemma was required.

The remedy was to change the method of calculating the WFC from a flat percentage of the federal EITC to a percentage based on earned income taking into account the reduction in MFIP benefits. An additional plateau occurring in the phase-out range was built into the credit determination for families facing the "no net gain" problem. The change resulted in low-income families receiving a Minnesota tax credit of approximately 20% to 42% of the federal EITC in Tax Year 1998, rather than the scheduled flat 25%. Further legislation, taking effect in Tax Year 2001, increases the minimum percentage to 25% of the federal EITC, with an average of 34%.

The effects of this change during the 1998 Tax Year were anticipated to result in as much as an additional $120 credit for families with one child and up to $450 more for families with two or more children. The most significant increases went to one-child families with incomes of $14,100 to $17,400 ($6.78 to $8.37 an hour for one full-time year-round worker) and families with two or more children with incomes of $15,100 to $27,250 ($7.25 to $13.10 an hour).

Note: The Minnesota WFC was decoupled from the federal EITC only *for families with dependent children*. The credit for workers without children remains set at a flat rate of 15% of the federal EITC.

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Job First (Connecticut) – Earned Income Disregard

Asset Development Strategy: To encourage employment, increase net income and enable accumulation of financial assets by maintaining the level of the TANF cash assistance grant even as earned income rises.

Using the Earned Income Disregard Policy to Increase Net Income and Encourage Savings: In Connecticut, the entire cash assistance grant to Jobs First (TANF) recipients is maintained even if they are employed, until either (a) they earn a poverty-level income, or (b) they have received cash assistance for 21 months and their earned income exceeds the maximum grant amount for their family size (e.g. $543/month for a family of three). By doing so, Connecticut disregards earned income to a greater degree than any other state during the period in which a family is receiving TANF cash assistance.

An evaluation of Jobs First reports that during the first two and half years of the program (early 1996 to mid-1999), 82% of those who participated in Jobs First were employed at some time, compared with 74% of the AFDC control group. In the last full quarter before recipients began reaching the time limit, 56% of all Jobs First group members had worked at some point, compared with 46% of AFDC group members. But the totals mask the fact that the employment rate of long-term welfare recipients with no recent work history and no high school diploma, nearly doubled for Jobs First participants (32% as compared to 17% for the control group). On the other hand, there was almost no increase in employment or earnings for the most job-ready Jobs First participants (who may not have needed a policy change to successfully cycle off welfare.)

The evaluation of the Jobs First program found that, during the 30-month period of the study, participants had an average of $1,293 earned income and $2,378 more combined income than members of a control group operating under the old AFDC rules. The study also reports that Jobs First families were more likely to have savings and to own a car. Although the majority in both groups reported no savings, this was true for 63% of the Jobs First group compared to 71% of the control group. Savings over $500 were reached twice as frequently by Jobs First participants (8.1%) as the control group (3.9%). Also, 36% of Jobs First participants owned a car compared to 29% of the control group.

An adverse feature of Connecticut's earned income disregard policy is that families experience a sudden and substantial reduction in net income, due to the immediate and total loss of TANF cash assistance, as earned income reaches the poverty level or the time limit is reached. Families whose cases were closed because they reached the time limit and no longer qualified for benefits due to their level of earned income, experienced a dramatic reduction in combined income from earnings and public assistance – from $4,435 in the quarter before reaching the time limit to $2,988 in the quarter after the time limit. Although some families have accumulated financial assets, most do not have sufficient savings to overcome a future financial crisis. States implementing a more generous earned income disregard policy might consider a more graduated loss of supplemental cash assistance or the creation of a financial buffer to be accessed if needed after cash assistance has ended. (See **Strengthening the Link Between Earned Income Disregard and Asset Development**.)

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Human Capital

Overview

Most Americans rely on employment as the principal means to sustain and enhance their economic well-being. To a considerable degree, whether an individual can secure employment and the benefits he or she gains from it depend upon the individual's skills, knowledge, and experience. These, in turn, are largely the result of education and training in a school or other setting. They constitute an important aspect of what is generally referred to as "human capital".

Access to the means to enhance human capital is critical not only to secure employment, but also to gain opportunities to move up the economic ladder at the workplace. For those with little or no work experience, education and training may be needed to acquire so-called "hard skills" (technical knowledge and task-related skills), but also what are termed "soft skills" (interpersonal relationships, communications, and problem solving skills). Even when individuals are successfully employed in their first jobs, increases in their earning capacity and economic mobility at the workplace often depend upon opportunities to upgrade their knowledge and skills.

The need for effective strategies to build human capital and increase work opportunity cuts across the working population, including young and older workers, displaced and disabled workers, and low-income individuals. Considerable knowledge about different approaches to build human capital comes from studies of individuals receiving welfare assistance. For example, past research findings from programs initiated under Job Opportunities and Basic Skills Training (JOBS) – the employment program established in connection with Aid to Families With Dependent Children (AFDC) program – helped drive the "work first" philosophy embedded in the Transitional Assistance for Needy Families (TANF) program created in 1996. This approach emphasizes getting a job, any job, quickly. But now, further experience and research is leading many policymakers to rethink the "work first" approach. Simplistic strategies focused on short-term gains are evolving into programs that recognize that the varied abilities of those on welfare and other low-income individuals, call for differing approaches to maximize their potential to succeed in the workplace. The goal has become not only to ensure that they secure initial employment, but also that they gain the skills to acquire a good job with benefits, receive supports necessary to continue in the workforce, and have access to opportunities for career advancement.

This section highlights strategies that offer promise in enabling individuals to acquire human capital and to expand their opportunities to enhance income and financial assets. The featured programs are primarily intended for individuals transitioning off TANF cash assistance. But they also may serve other low-income individuals in recognition of the circumstances and needs they share with those who, at the time, happen to be recipients of such assistance. The section begins with an introduction to the **Workforce Investment**

Act. The parameters for much of what states will do in the future to support the development of human capital will be defined by the provisions of the Act. The narrative and accompanying program examples then focus on:

- **Employment Readiness Programs for the Less Skilled** designed to assist individuals for whom initial entry into the workforce is a great challenge, with attention given to **strategies for the harder-to-employ to build human capital**.

- **Specialized Skills and Career Ladder Training** that offer low-skilled workers the means to secure not just any job, but a job with higher wages, benefits, and opportunities for advancement, with a special focus on the **role of community colleges in training workers,** follows.

- The merits of obtaining a **Post-Secondary Degree**, and means by which states can opt to make this benefit available to TANF recipients is next examined.

- **Employment Retention and Advancement** strategies that enable individuals, especially the low skilled who are at greatest risk, to increase job retention and the chance of moving on to better jobs conclude the section.

Workforce Investment Act of 1998

The federal Workforce Investment Act (WIA) is intended to encourage states and localities to construct a coherent, modern and effective system of labor exchange and workforce development. Although states had until July 2000 to begin implementation, some are still struggling to incorporate the scope of what is called for in the Act. The WIA requires that 19 federal employment, job training, and literacy programs be joined as partners in the new system and suggests that an additional five be included as well. The new law is based on four key principles:

- Integrated services through the establishment of multiple agencies and programs at one-stop centers, and through other forms of linkage.
- Universal access to a set of basic workforce development services.
- Individuals' decision-making power over training funds through vouchers, along with information needed to make informed decisions.
- Greater accountability for program outcomes and a commitment to continuous quality improvement by states.

States are required to offer a range of services including access to training and support for employment retention and wage advancement. Specific requirements include:

- States and localities must establish business-majority, workforce investment boards to oversee programs for youth, adults, and dislocated workers.
- Three tiers of services must be made available – core, intensive, and training. Individuals must receive at least one core service and one intensive service before gaining access to training. Core services include initial assessment, intake, referral, and job placement. Intensive services include in-depth assessment, career planning, work experience, and case management. Training includes classroom instruction, on-the-job training, and customized training.
- Core services must be universally available and delivered through "one-stop" centers. At least one center in each locality must have co-located services.
- Training must be provided through "Individual Training Accounts," similar to vouchers. Training can be provided through contracts only in certain instances, such as for on-the-job or customized training.
- To be eligible for training, an individual must be unemployed or underemployed and not able to obtain satisfactory employment through the core or intensive services; have the skills and qualifications to successfully participate in the selected program; and enter a program that offers employment opportunities in the local area or where the individual is willing to relocate.

Although the Act creates an opportunity to establish a comprehensive approach to building human capital for less skilled workers, there is concern that available funds will prove to be insufficient to provide services to all eligible adults. Not having sufficient resources to provide more intensive services and training to all whom might benefit, states could opt to require every individual to undertake a job search and accept any available job, and only if that fails, provide access to intensive services and training.

Employment Readiness Programs for the Less Skilled

Some individuals are not readily able to advance their economic well-being through employment. Studies of women receiving welfare cash assistance shed light on the obstacles that interfere with getting and maintaining adequate employment. While this research has found that personal and family barriers can inhibit maintaining employment sufficient to support a family, lack of the skills germane to the work environment is the most common barrier to a good job.

Skills are the critical ingredient for advancement for those starting at or near the bottom of the employment ladder. For welfare recipients, this presents a bigger challenge than for many others. Several researchers who analyzed data to assess the skill levels of women who were AFDC recipients before welfare reform, found they could be categorized into three approximately equal groups according to job-related skills. Based on tests of basic skills that are highly correlated with employment and earnings, recipients could be categorized as very low skills, low skills, or moderate/advanced skills. While one-third of the AFDC adult population exhibited very low skills and another third low skills, only 13% of non-welfare women fall into the first category and 25% into the second. Today the difference between recipients and non-recipients may be even greater. The creation of job opportunities within the strong economy of the 1990s, coupled with the drastic decline in the welfare caseload, indicate that many of those who are still receiving welfare cash assistance are the least prepared to enter the workforce.

While the focus here is on those policies and programs that build human capital by developing job-related skills, other obstacles to work should not be ignored. One study found that 12% of welfare recipients report inherent barriers, such as health problems or disabilities, that substantially prevent them from working in a typical job setting; another found that nearly two-thirds report some type of barrier to working outside the home other than low skills. But even when less permanent impediments to minimum economic well-being are addressed, such as childcare issues, transportation problems, and a history of substance abuse, the skill barrier remains. For those who do not face permanent obstacles to work, building human capital can significantly contribute to workforce entry and advancement.

Welfare recipients who have very low basic job skills (including limited English), lack sufficient soft skills, have little prior work experience, and may encounter other barriers to work, have come to be referred to as the "harder-to-employ". Extensive review of evaluations of welfare-to-work programs generally reveals no clear patterns for effective strategies to support the harder-to-employ. However, programs offering a mix of job search, education, training and work experience were found to be more effective than single focused programs.

Washington State provides an example of programs that incorporate these components in an effort to assist the "harder-to-employ" acquire the human capital they need to succeed. Although Washington, like other states, began welfare reform with an emphasis on "work first", it soon realized that although many families were entering the workforce, most of

them were not better off economically. Many were struggling to adapt to the workplace and maintain employment. The state responded by initiating a diverse array of programs and services that are evaluated and refined to ensure that work leads to improved economic well-being, not only for those receiving cash assistance and those leaving welfare, but also for other low-income families. (See the program descriptions for **Washington's WorkFirst** programs.)

Strategies for the Harder-to-Employ to Build Human Capital

Extensive review of programs serving the harder-to-employ has led analysts at the Center on Law and Social Policy to conclude that effective programs:

- Adopt long-term, flexible, individualized employment strategies and reward incremental steps toward success.
- Create opportunities for those with very low basic skills and/or very limited work experience to build their education and job skills incrementally.
- Use time-limited, publicly funded combinations of paid work and learning where appropriate.
- Create occupational training programs that integrate or concurrently provide English as a Second Language or workplace-related basic skills instruction.
- Combine substance abuse, mental health, and counseling services with work or with activities that prepare individuals for work.
- Help learning-disabled parents develop coping strategies, and work with employers, training providers, and testing agencies to identify low-cost, reasonable accommodations.
- Provide alternative sources of ongoing social support – such as peer groups or ongoing relationships with staff – for low-income parents who lack support from family and friends.
- Screen participants for personal and family issues, on an ongoing basis.

To develop the capacity to offer these services, programs should:

- Invest in ongoing staff training, co-locate specialized staff, and create mechanisms for coordination of services among staff.
- Work with private employers and intermediaries to provide intensive job coaching at the worksite.

Specialized Skills and Career Ladder Training

For most job seekers obtaining employment in a growing economy is not difficult. The greater challenge is for low-skilled workers to get a "good job", that is, one characterized by higher wages, benefits, and opportunities for advancement. While traditional low-skilled jobs in manufacturing and heavy industry have diminished, fewer new jobs offering the same advantages have become available. Rather, relatively more "good jobs" require a higher level of specialized technical skills. This has increased the importance of skills training at a time when the emphasis under welfare reform has been on "work first", an approach that values recipients seeking any job, over their gaining the education and training necessary to secure "good jobs".

Many low-income individuals lack the human capital, that mix of education and technical skills, needed to qualify for the better jobs. For them, the ability to move into a good job depends on access to effective skill upgrading services. In the past, individuals who had low skills and lacked a high school diploma were often steered into basic education programs to obtain a GED (high school equivalency certificate) as the means to improve their employment prospects. But research has repeatedly found that relying on traditional, stand-alone adult education services does not result in increased hourly earnings for low-income parents.

Another traditional route to acquiring the human capital necessary to obtain better jobs is through certificate and degree programs in specific fields of study. Although the benefits of obtaining an associate's or bachelor's degree or certificate are well documented (see **Post-Secondary Degrees**), it may not be a viable or practical option for every low-skilled job seeker. Some may not be able to afford to spend several months or years in an education program (or even be permitted to if they are receiving TANF cash assistance). Some may not want to invest the time when they are not sure of their own occupational objectives.

An answer for those with moderately low basic skills (even if they lack a high school diploma or GED) may be a combination of pre-employment and on-the-job training designed to teach specific skills that can qualify them for a good job and create opportunities for advancement. Short, specially designed courses in curricula based on mastering specific competencies (developed in partnership with employers) along with broader skills, can quickly prepare workers to enter skilled jobs and reassure potential employers that they are qualified. Upward movement from entry-level positions can be aided through certificate or degree programs divided into short segments that can be coordinated with a work schedule or taken during brief lapses in employment.

One approach has been to target training to meet industry and employer needs across sectors experiencing job growth. Local employers are engaged in designing training to prepare and place people in positions in high-demand occupations for which they normally would have had little or no opportunity to compete. Introductory skills training blends work and learning by linking classroom education with hands-on application of the skills being taught. This approach can help employers build a more skilled workforce and enable workers to stay employed and move up.

Role of Community Colleges in Training Low-Skilled Workers

Many community and technical colleges are uniquely situated to lead in the development of specialized skills training. They may more readily and with greater speed make curriculum adjustments than large universities and be in a better position to know local labor force and industry demands. Although community colleges once largely offered preparation for admission to four-year college programs, they increasingly have become training institutions whose programs prepare students to directly enter an occupation or to advance up the career ladder after they are employed. This shift is primarily a response to the needs of businesses that are motivated by a combination of intensified competition, rapidly advancing technology, and a tighter labor market. Both large corporations and smaller businesses are seeking effective training partnerships to meet their expanding need to train entry-level workers and to upgrade the skills of current workers. Community colleges have the potential to offer a broad range of existing or easily adapted courses, access to a pool of faculty expertise that often combines classroom education with field experience, academic credit, and continuing education resources.

Some large corporations have led the way in seeking out community colleges to provide their employees the customized training that previously had been offered in-house or through contracts with private consultants. Examples of these partnerships include Daimler-Chrysler in Michigan, Intel in California, and Boeing in Washington. These corporations can afford to have job-specific training designed for them and finance a contractual arrangement with a community college. The needs of smaller businesses may be better served through sector training designed for positions in multiple companies needing employees who possess similar skills. By focusing on the training needs of clusters of employers, community colleges can prepare students for high demand jobs that require similar skills for which employers may be willing to jointly underwrite some of the costs.

State policymakers also have recognized that community colleges can offer those on welfare and other low-income workers the opportunity to acquire the skills necessary to obtain better jobs and career ladder advancement. Although TANF's 12 month limitation on vocational education has forced some welfare recipients to abandon education programs, community colleges now are being asked to restructure their courses to better complement the work experience and skill level of many on welfare. In **Washington State** (see related program descriptions), TANF funds were awarded to community and technical colleges to cover the cost of designing shorter classes; increasing evening and weekend offerings; hiring staff to provide advising and career planning; and developing working relationships with business and agency partners. Across the state, 171 courses were redesigned to meet the learning needs of welfare recipients and other low-income workers. Mt. Hood Community College, in partnership with the Oregon Department of Human Resources and local businesses, has developed several targeted skills training programs to prepare low skilled workers for better jobs in such diverse trades as welding, veterinary assistance, and high tech. Since 1993, with city and state support, **Project QUEST** in San Antonio, Texas (see program description) has worked with area businesses to prepare local residents for targeted, hard-to-fill occupations so they would

not need to turn to public assistance. From the beginning, the program teamed up with community colleges to provide the necessary skills training.

Post-Secondary Degrees

Gaining a post-secondary degree can be important to getting a job that pays good wages. The "wage premium" for a college degree has soared (although it varies widely depending on the degree earned.) In 1979, the first job of a college graduate with a bachelor's degree typically paid 35% more than a high school graduate's first job. By 1999, the premium had grown to 80%. But the cause of this difference may not be what one would first assume. Analysts have concluded that the difference results from a marked relative decline in entry-level wages for those with only a high school diploma, rather than from a large increase in entry wages for college graduates. This highlights the importance of policies to sustain the income of low-skilled workers, it also underscores the importance of building human capital to increase economic security and opportunity.

Although the most marked salary benefit accrues to young adults who start their first professional job after graduation, obtaining a degree also has proven monetary value for older adults who are already employed. For example, state data for California workers documents that the median earnings during the last year of college compared to the median earnings three years after college represent a 54% increase in earnings for those gaining associate degrees and 29% for those receiving certificates. A national analysis of labor market returns for post-secondary education found that women with associate degrees earn between 19-23% more than other women (even after controlling for differences in who enrolls in college), and women who obtained a bachelor's degree earned 28-33% more than their peers.

An earlier study measured the impact of post-secondary education on the independence and employment of AFDC recipients. Surveys of women in three states (New York, Illinois, and Tennessee), conducted more than a year after graduation, reported that an average of 88.7% had been employed since graduation, and an average of 77% determined that it was their college degree that enabled them to secure their present job. Those who completed a four-year degree were the most likely to have left welfare for stable employment and to be earning a salary adequate to support a family.

Even though receipt of a degree has proven financial value not only for the individual, but also for the state in terms of tax revenue on higher incomes, some states have requirements that make it difficult for welfare cash assistance recipients to participate in post-secondary education. This has led to a decrease in the number of AFDC/TANF families reported as participating in education and training from about 5.8% of the caseload in FY '96 to about 2.7% in FY '99. TANF regulations impact participation in post-secondary education in several ways. States have the option to exclude academic education directed toward obtaining a degree from the list of activities that count as meeting the work requirement. If a state opts to include this activity in its definition of vocational education/skills training, an individual can receive cash assistance through TANF for no more than 12 months.

But not all states chose to exclude pursuit of a post-secondary degree from fulfilling the state's requirement to be involved in work activity. Maine (see program description for

Parents-as-Scholars) and Wyoming led the way in allowing welfare recipients to pursue an associate or bachelor's degree and still receive cash assistance and other benefits. They have since been joined by seven other states (Georgia, Illinois, Iowa, Kentucky, Rhode Island, Utah, and Vermont) in permitting cash assistance recipients to fully meet state work requirements by continuing in post-secondary education activities after a year. Illinois provides an illustration of the direction these states are now choosing to take:

- As of January 1999, TANF recipients in Illinois had the option to attend a two or four year college program full-time. If they maintain a 2.5 grade point average (on a 4.0 scale), there is no work requirement and their five year benefit "time-clock" is stopped while they are attending college. Participants continue to receive their full cash assistance grant, food stamps, and Medicaid. Child care and transportation support is available through the state welfare department. Tuition assistance is available through standard student financial aid packages. Months in which the participant does not attend classes, such as summer vacation, and is not working at least 30 hours a week, count toward 60-month time limit.

States like Illinois, which have opted to exceed what is a permitted work activity for TANF assistance, use state Maintenance of Effort (MOE) dollars, rather than restricted TANF funds, for cash assistance during part or all the time the recipient is engaged in an education program. Use of MOE funds also enables 13 other states to allow recipients to participate in a combination of work and education beyond the 12 months allowed through TANF. However, in another 13 states, post-secondary education still does not meet any portion of the state's requirement for 30 hours a week of work-related activity, thus virtually excluding all welfare cash recipients from the benefits of a post-secondary education.

Employment Retention and Advancement

Research points to less than promising job retention and advancement patterns for very low skilled and low skilled workers. Unemployed workers with few skills find jobs less quickly and, when employed, lose those jobs more quickly than more highly skilled workers. Results of several studies conducted prior to welfare reform show that of women who left welfare for work (many of whom were low-skilled), as many as 75% lost their jobs within one year and 25 to 40% returned to welfare during that year. Research on the participation of young men in the labor market suggests that for the majority, low wage work serves as the first rung on a ladder towards higher wage employment, but a significant minority moves in and out of the labor market and does not make the transition to better jobs.

On the other hand, recent data indicates that less skilled workers who remain employed can expect steady, albeit relatively modest, wage growth equivalent to that of their counterparts amid medium skilled workers. But such increased wages appear to be linked to employment retention rather than job retention. Analysis of U.S. Census Bureau data sets suggests that high school dropouts who change jobs voluntarily once a year (but not more often) experience higher wage growth than those who stay in their old job. Thus, selective job change, especially by those employed in small businesses with only limited job ladders, may be a way to increase wages over time. Effective initiatives for increasing the income of less skilled workers who have entered the labor market should focus on maintaining steady employment by quickly finding new jobs when there is involuntary job loss, and preparing workers to actively seek better employment opportunities when and where available.

Rigorous research on services to help low-income parents retain employment was conducted by the federally funded Post-Employment Services Demonstration (PESD) project implemented in four cities in the mid-1990s. This project examined the effectiveness of case management services for welfare recipients entering the labor market. The results were disappointing, reporting little difference in increased job retention or earnings between project participants and the control group. Although this outcome is in part attributable to strong economic conditions and the availability of services to the control group, program design features are also believed to have affected the results. The program's lack of pre-employment involvement and high caseloads precluded intense involvement with families who wanted more assistance.

Limited entry-level job skills, lack of soft skills, non-family-friendly work environments, and personal or family problems are all factors that may lead to job loss among new workers. Smaller scale private programs that appear to have achieved high employment retention rates have found a mix of pre-employment and post-employment services to be effective. In addition to training in soft and hard skills, pre-employment services include efforts to anticipate of issues that will arise during the transition to work. Attention is given to arranging child care and identifying options for emergency backup, planning transportation and identifying backup alternatives, developing a detailed budget to include new work-related expenses, and helping other family members prepare for the adjustment. Once employed, new workers are contacted frequently in the first few

months, as job loss occurs most often during that time. Work-related problems may be avoided through developing relationships with potential employers beforehand and seeking feedback about job performance after employment begins. Access to small, one-time emergency funds help overcome obstacles, such as needed car repairs. To realistically provide this level of services, caseloads do not exceed 50 to 60 cases in these smaller programs.

In their current efforts to successfully move families off welfare into steady employment, most states have not embraced the comprehensive approach described above. Policy analysts have suggested that it would be prohibitively expensive to replicate the low caseload ratios of past small scale programs for all women leaving welfare. But **Rhode Island's RIte Works Employment and Retention Services Program** (see program description) attempts to incorporate many of the components that have proven successful. PSED research found that 20 to 40% of parents leaving welfare experienced much greater difficulty in maintaining employment than their peers. Although it may not be easy to predict which women are at highest risk of job loss, Rhode Island hopes that through its policy of exempting from TANF requirements those facing the greatest barriers to steady work and by offering others opportunities for education and training, it will be able to focus on those who will benefit most from pre- and post employment services.

New workers needing less intensive services may benefit from mentoring or coaching provided either through the employer or a state funded program. Over half of the employers participating in the business-initiated Welfare to Work Partnership report offering formal or informal mentoring for their new hires. Three-quarters of those with mentoring programs report improved work performance and two-thirds report higher job retention. Washington State recently instituted the Job Success Coach Initiative with contact to begin at the time of job search for those leaving welfare, and with the intent to expand the service to all low-income workers over time. Job coaches help access services that lead to employment retention and advancement in the workplace in line with career goals. The program was initiated after it was observed that those leaving welfare were not averaging higher earnings over time.

Responsive case management or mentoring should be coupled with the availability of supports. Employers participating in the Welfare to Work Partnership consistently report that investments in child care, transportation, and life skills do the most to promote retention of new hires, but most do not see their businesses as being in a position to respond to these needs. A study of Wisconsin employers who have hired recent welfare recipients found about half reporting tardiness or absenteeism problems – 72% of employers singled out inadequate child care as the cause; 41%, inadequate transportation, and 37%, physical health problems. These employers also did not believe it was their role to addresses these problems. If less skilled workers are to retain employment more incentives, such as tax credits, will need to be offered to employers to develop the capacity to address problem areas, and government funded programs will need to fill the gap.

Policy and Program Examples

WorkFirst Programs: Community Jobs, Families that Work, and Workplace Basics Skills (Washington)

Asset Development Strategy: To provide less skilled parents with (a) state subsidized paid work experience in community jobs; (b) basic family management, life, and job-related skills to enable them to succeed in those jobs; and (c) to provide those already in entry-level jobs with on-the-job training that can lead to increased earnings.

Description and Participants:

Community Jobs: Community Jobs provides work experience and training opportunities for harder-to-employ TANF recipients in all 39 counties in Washington State. The purpose is to build individuals' work and life skills through 20 hours/week of paid work for community, government or tribal organizations. This is coupled with one-on-one mentoring aimed at resolving barriers to work and training in adult basic skills. While participating in Community Jobs, individuals receive $6.72 an hour for their work and are eligible for the federal Earned Income Tax Credit. Further, only one-half of their earnings is deducted from their TANF cash assistance grant. Participants can remain in the program for up to nine months.

The program targets TANF cash recipients who have not complied with job search requirements, were not successful in getting employment, or have multiple barriers to employment. As of December 2000, 4,500 individuals had participated in Community Jobs. State welfare case managers refer qualifying TANF recipients to one of 17 contractors, who use aptitude and interest assessment tools to create an individual development plan and locate an appropriate work site. The contractors are expected to assist participants in overcoming barriers to work as well as have regular communication with work site supervisors and help resolve job site-related issues.

Almost all Community Jobs participants are co-enrolled in additional training and job advancement activities that are combined with work to fulfill the 40 hours/week of work-related activity requirement. Thirty percent are in community college programs, such as Families that Work (described below), while others are in different welfare-to-work training programs or counseling and parenting programs.

Families that Work: The Families that Work program model evolved out of Washington's version of the Even Start program, which is aimed at improving basic life skills of parents of children in Head Start. The 20 to 25 hour a week program prepares parents with low basic skills for work by combining literacy instruction with family management skills, such as parenting, managing time, arranging child care, resolving transportation problems, and other issues that often prevent single parents from succeeding in school or work.

TANF recipients may be referred to Families that Work programs if it is determined that they are not ready for the WorkFirst job search or have failed to obtain employment after conducting a search. Many of these individuals may be starting simultaneously in Community Jobs employment. The program also serves families who have left TANF cash assistance within the last two years or whose family income is below 175% of the federal poverty level. In FY '00-'01, it is anticipated that 2,000 parents and 4,000 children will be served. Three-quarters of these participants are either pregnant or have an infant under age one. (Washington requires parents of children three months or older to participate in work activities.)

Workplace Basic Skills: Workplace Basic Skills provides literacy training to low-wage workers in regular entry-level jobs (not Community Jobs positions) with a goal of wage and skill progression. The training is typically given at the work site for 6 to 14 hours a week. In some cases, the training occurs during the regular workday; in others, some of the training may be on the worker's own time. Instruction can involve small groups, tutoring or mentoring, pre- and post-training tutorials, and co-training with technical trainers.

Low-wage workers served by the program are either current/recent TANF recipients or workers whose family income is less than 175% of the federal poverty level who have insufficient literacy skills. Workplace Basics currently serves 1,100 workers in 35 businesses. Thirty colleges, community-based organizations, and labor unions across the state operate the programs. Over 90% of the participants have sought instruction in English as a Second Language (ESL). Instruction is also offered in basic math, reading, and communications skills. Although originally designed to be short courses of six to twelve weeks, now courses can extend up to a year, if longer instruction is necessary to reach proficiency.

Management and Funding:

Community Jobs: Community Jobs is administered by the Washington State Office of Trade and Economic Development (OTED) in partnership with the Department of Social and Health Service (DSHS), Employment Security Department, State Board of Community and Technical Colleges, and community agencies. OTED contracts with 17 groups of private, non-profit agencies that develop jobs in government, nonprofit, and tribal organizations, employ participants to work those jobs, and provide them with intensive support services. Contractors are held accountable through performance-based contracts that link payment to the number of participants successfully placed at a work site and engaged in training.

Community Jobs, along with other WorkFirst programs, is funded with federal TANF and state MOE funds. Declining cash assistance caseloads allow Washington to make funds available for these programs without large additional state appropriations. In December 2000, annual funding for 2,500 Community Jobs participant slots was committed through FY '03.

Families that Work: Currently, all but three of the 34 community colleges in the state offer the Families that Work program and nearly all residents has access to the program. The exceptions are isolated areas where essential childcare is not available. The budget for FY '00-'01 is $4 million, principally financed through TANF funds, although $840,000 is funding formerly spent on the Even Start program.

Workplace Basic Skills: Community colleges, private non-profit organizations with experience in basic skills instruction, and employers can apply to the Office of Adult Literacy for grants (supported by TANF and MOE dollars) to provide Workplace Basic Skills. Grant funds cannot be used to pay for computers, student stipends, transportation, or childcare. Business partners are required to make a direct or in-kind contribution equal to at least 20% of the total project cost, but the average contribution is over 40%. The state spent $1.3 million on the program in FY '99-'00. The $1.03 million that was budgeted for FY '00-'01 was already expended by September, but additional funding is anticipated, due to the positive reception of this program among the business partners.

Outcomes and Effectiveness:

Community Jobs: Analysis of December 1999 unemployment insurance wage data from the 12 counties included in the original pilot (begun in August 1998) found that two-thirds of all participants obtained unsubsidized work after leaving Community Jobs. Of those who successfully completed their paid community projects work a year or more prior to December 1999:

- 76% found employment in the first two quarters after leaving the program
- 53% were still employed in the 4th quarter after leaving the program

Those who found work reported a median of $914 in income earned during the first quarter after leaving the program. The median increased to $2,172 by the fourth quarter. One year after leaving the program, participants had an average total annual income of $14,772, more than double their income on TANF cash assistance ($6,552) prior to beginning Community Jobs.

Prior to their involvement in Community Jobs, the majority of participants had no real opportunity to sustain work because of their limited education, poor work history and difficult family situations. A survey and focus groups conducted in January 2000 found that Community Jobs prepared participants for unsubsidized work. Nearly 90% of the participants rated their overall Community Jobs experience positively. Participants and work site supervisors consistently identified the job experience and skill building provided by work sites as the main benefit of the program. When assessing new participants' work potential, 39% of work site supervisors raised issues relating to lack of job readiness "soft skills" and participants' personal and family barriers to work, while only 9% identified technical or "hard skills" as their main concern. By program completion, 85% of both the participants and work site supervisors reported that Community Jobs helped prepare participants for work by increasing skill level and finding means to overcome barriers through its accompanying support and training components.

Families that Work: Participants in Families that Work made measurable gains in basic skills as a result of participation in the program 20-25 hours a week. About 90% of the participants who completed at least six months of training demonstrated better skills in managing family and personal responsibilities and increased preparation for work or job training, as measured by a basic skills competency text developed by the state. Approximately 45% of Families that Work participants advanced to a work experience position, such as Community Jobs, or got or retained unsubsidized employment. According to DSHS case managers, although participants acquire some of the "soft skills" needed to function in the work environment, many participants need further training in "hard skills" to be prepared for employment in better jobs.

Workplace Basic Skills: In a survey of 650 workers, nearly all said they used their Workplace Basics training on the job. Based on the results of the state's basic skills competency test, 85% of those instructed demonstrated measurable improvements in their basic skills. A survey of job supervisors reported that increased worker self-confidence was the greatest area of success for their company. Other successful results were in productivity, worker relationships, and worker adaptation. Also, by the end of the first year of the program, over half of the participants in Workplace Basic Skills had gained a 10% or higher increase in their wages. (As a condition for having the program at their work site, employers must commit to considering program participants for promotions and wage increases.)

Promise and Challenge:

Community Jobs: Although the program increases annual income, only two-thirds of those who are referred by case managers decide to enroll in Community Jobs. Their reasons for choosing not to participate in the program have not been documented, but there are serious consequences for some families. If a family who previously was subject to a 40% reduction of their TANF benefits for failure to comply with job search activities does not participate in Community Jobs (and is not granted an exemption), they forgo an opportunity to regain full benefits while the clock continues to run against the 60-month lifetime limit for assistance.

Other challenges include improving job retention and opportunities for advancement. While three-quarters of the participants are employed shortly after completing their Community Jobs placement, only just over half are employed in the 4th quarter after leaving the program. Program administrators speculate that difficult personal lives and lack of focus on long-term goals interfere with the ability to stay committed to a job. Also, not as many participants as anticipated have taken advantage of the option to enroll in **Pre-employment Training (PET)** (see program description) after completing Community Jobs, to gain the skills that can help them obtain jobs that offer better pay and greater opportunity for advancement.

Families that Work: Participants in Families that Work would benefit from stronger program ties to the Pre-employment Training program, as would Community Jobs participants. Although PET is seen as the opportunity for these individuals to receive more "hard" or technical skills training, there is no well established referral link between the two programs.

Workplace Basic Skills: Program administrators acknowledge the need to better reach those who require help with remedial learning in math and reading, but have not yet found a way to do so. The demand is greater for ESL training because language deficiencies are more apparent and there is less stigma in participation. Also, modifications in the program are being considered to better accommodate those who are seasonally employed or lose their jobs because of periodic plant shut downs. Such employees may not have any free hours during busy times, yet during down times, they may be available to engage in Workplace Basic Skills training nearly full time.

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Project QUEST, Inc. (San Antonio, Texas)

Asset Development Strategy: To identify industries that have a high demand for better jobs, and, through customized training programs, prepare unemployed and underemployed workers to fill those positions.

Description and Participants: Project QUEST grew out of the efforts of two community-based organizations in response to the loss of manufacturing jobs in the San Antonio area. Its workforce development program provides employer-focused career training. The program identifies the skills required to succeed in targeted, hard-to-fill occupations and then recruits, trains, and develops workers so that they are qualified and ready to fill employers' needs. Assessment tools are used to evaluate participants' aptitude and interest to match candidates with jobs for which they are best qualified. Customized training programs, which may take up to two years to complete, are developed or identified at local community colleges with input from employers. Employers may pay wages for new employees-in-training and provide special equipment and tools needed. If necessary, basic and developmental education is provided for English and math skills to prepare for more challenging classroom training curriculum programs. Targeted industries and occupations include a variety of jobs in the medical field, business and information systems positions, maintenance/repair work, and technicians for the service sector.

Applicants are referred to Project QUEST through community outreach centers operated by volunteers and recruited through churches, social service agencies, and word-of-mouth. Almost three-quarters of current participants are women; 68% are Hispanic; 13% are African-American; 45% are single parents; 35% are individuals without dependents; and almost half receive some form of public assistance (14% are TANF recipients). Participants must have a high school diploma or GED to enter the program and be motivated to complete the program.

Management and Funding: Project QUEST relies on the community-based agencies that initiated the program to provide outreach and public education. Local employers identify occupational needs and prerequisite training. Project QUEST staff collaborate with area community colleges to develop the training program. Project QUEST can provide some emergency assistance and link participants to other services such as transportation and child care, which are subsidized by the city of San Antonio. The annual budget for the program is $3.2 million with an average cost per participant of $7,284 per year.

Outcomes and Effectiveness: There have been over 2000 participants since the program began in 1993 and 700 participants for the contract year ending September 2000. Since the program's inception, about three-quarters of those who began training successfully completed the program with an average length of participation of 17 months. Those who drop out of the program before completing their training do so for numerous personal and logistical reasons. Beginning in Spring 2000, the program began to measure job retention at regular intervals up to 24 months. Initial reports found that ninety days after completing the program, 95% report being employed. After three years, former participants report a 15 to 20% increase in wages.

A 1995 survey of QUEST participants up to that time found that 80% of those with positive terminations were working and over 10% were participating in further training. Those who were accepted into the program, but had to terminate early, also had a good employment record with over 60% working and 7.6% participating in other training. These positive outcomes for all who are accepted in the program may be attributable, at least in part, to the care given to only accept applicants with requisite skills and motivation. The 1995 study found that about 40% of those

who sought preliminary information decided not to pursue enrollment. An approximately equal percentage of those who applied were screened out by program staff for not meeting minimum education requirements, exceeding income cut-offs, or not confronting at least one other barrier to work (i.e., single parent).

Promise and Challenge: Project QUEST's work with local industry to identify high demand, good jobs, and with community colleges to design customized training to prepare skilled workers for these positions, has served as a model for many skills-building programs across the country. New industries and businesses have been attracted to the San Antonio area because of the promise of an effective mechanism for training the skilled labor they need. According to the program's administration, key to the program's success is employer-driven training that is of sufficient duration to prepare the less-skilled for skilled positions, combined with intensive case management services when necessary.

Some of the program's success may be attributable to its receipt of funds from numerous private and public sources, allowing more flexibility in establishing admittance criteria and program requirements than programs obligated to serve a designated population (i.e., those transitioning from welfare to work). Project QUEST's strong ties to the community not only help generate financial support, but also in-kind programmatic support from the private sector. The use of volunteer outreach workers located at community centers and recruiting though community institutions, such as churches, also may help reduce fear and stigma that would otherwise defer potential participants.

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WorkFirst Programs: Pre-Employment Training and Work-Based Learning Tuition Assistance (Washington)

Asset Development Strategy: To provide low-income parents with (a) job-related skills that enable them to gain better paying entry-level jobs and (b) supplemental financial tuition support to enable low-wage workers to receive college-based training to improve skills that will allow them to move up to higher paying jobs.

Description and Participants:

Pre-Employment Training (PET): The goal of Pre-Employment Training is to assist low-income parents develop the skills needed to obtain jobs for which they were not previously qualified. Although TANF cash assistance recipients are the primary intended beneficiaries of this program (their activities counting toward their work requirement), other low-income parents below 175% of the federal poverty level may also participate.

Community colleges and private vocational training schools develop training programs with employers who have identified job openings. Training is designed to respond to skill shortages as demonstrated by labor market statistics for the local area. (For example, statewide labor skills shortages have been documented in the fields of information technology, building trades, food processing, and health care.) Enrollees receive training aimed at preparing them for specific jobs in response to employer needs. Employers not only commit to giving first consideration to hiring those who complete the training, but also to offering them wages that exceed the average wage in the field and benefits.

PET programs are intensive, often 30-40 hours per week, and are typically 12 weeks in length. Longer training units can be instituted if needed to prepare participants for work in a very demanding field, if the training includes paid work experience, or if participants need more basic skills or ESL instruction. Enrollment in some training units may require a high school diploma or a GED. Instruction can include a combination of classroom-based basic skills training and work-based customized technical training. Colleges can award credit if the training meets their criteria. Employers cannot use PET to substitute for previously offered in-house training.

Work-Based Learning Tuition Assistance: Funds are provided through Work-Based Learning Tuition Assistance to aid low-income workers who may be transitioning off TANF cash assistance or are earning less than 175% of the federal poverty level to advance in their chosen careers. (In the first year of the program ('98-'99) just over half of the participants were current or former welfare recipients.) The primary goal is to offer to people who have entered low-wage employment the financial means to continually access training that improves their skills and provides them with opportunities for better employment and wages. This financial aid fills the gap when students enroll in non-credit continuing education courses or for fewer than 10 credits in a degree program, thus not qualifying for federal Pell grants, or while waiting for financial aid from Pell grants to begin.

Training supported by this financial assistance must be linked to an individual's work goals and to a career/educational plan that will lead to better skills and higher wages. This assistance can be used for tuition, fees, and books for any of the following training programs when other financial aid is not available, or will be delayed or insufficient to cover full costs:

- Any vocational course or set of courses
- Vocational certificate/degree program
- Basic skills classes, including ESL and GED
- Customized or Individualized Pre-employment Training
- Continuing education courses

Management and Funding:

Pre-Employment Training: The Department of Social and Health Services (DSHS) disburses the TANF and MOE funds used for Pre-Employment Training through the State Board for Community and Technical Colleges (SBCTC). To qualify for such funds, interested community colleges and private vocational training schools must create a partnership with local employers to identify and design the needed training. In the first year, 26 providers were awarded funds ranging from $32,000 to $534,000. The providers included 23 colleges and 3 private institutions partnering with over 250 employers to offer 51 training programs in fields in which there was a demonstrated labor shortage.

Work-based Learning Tuition Assistance: In FY'98-'99, $5 million was given to the State Board for Community and Technical Colleges to allocate to public institutions for Work-based Tuition Assistance. One-fifth of this was from a special state legislative appropriation with the remainder from TANF and MOE funds. Colleges were allocated funds based upon an estimate of how many eligible participants were in each community. By mid-year in the first year of the program, some colleges had used all of their funds, but others had used as little as 25%. Funds were shifted to the communities that needed them most, with final allocations ranging from $51,000 to $258,000 per college.

Outcomes and Effectiveness:

Pre-Employment Training Program: Three-quarters of the individuals participating in PET programs during FY '99 completed the training, and 71% of the participants during the first half of FY '00 completed the program. Of those who completed the training at some time during that period, over two-thirds were placed in jobs. Administrators reported that half of participants who completed the program in FY '99 had a starting hourly wage of $7.50 an hour or higher. By contrast, only 28% of other adult TANF recipients who began work then received starting wages of $7.50 an hour or higher.

One of the largest PET programs is offered at Shoreline Community College in Seattle. The program had a total of 284 participants in the first two years. Almost three-quarters of the participants completed the program and of those who completed it, 79% entered employment. Of the 161 who were employed, 60% received paid benefits. The average starting wage was $9.89 an hour. Preliminary retention and advancement data are available for the 41 students who got jobs in the Spring 1999 training cycle. The average entry wage for these students was $9.57. After one year, about half of the students had received wage increases. The average wage for those who experienced a wage or job change was $10.29, representing a 7.5% annual increase.

In its first year, PET succeeded in enrolling just over one-third (1,069) of the intended 3,200 participants. The low enrollment is attributed to a delay in start-up, lack of timely referrals, and referred individuals' lack of qualification for the training. Reports from Shoreline Community College indicate that at least on that campus recruitment into PET was up significantly in the second year at 179 participants, compared to 105 for the first year. But in the current year, only 80 participants are enrolled at Shoreline although the program's capacity is 210. This lower

enrollment is a result of fewer referrals from case managers who may be urging more WorkFirst recipients to move into job search or at least determining they are not ready for PET training.

Work-based Learning Tuition Assistance: First year ('98-'99) projected enrollment targets were set for each public two-year college in Washington for a total of 5,000 participants. Actual enrollments varied greatly from the projections - results ranged from 23% to 244% of the targeted number. Of the 4,300 recipients who were awarded financial assistance, 1,200 (28%) earned at least 10 credits or completed a short-term training plan by June 1999. SBCTC will track of earnings, through Unemployment Insurance records, of participants for a long as they continue in training.

Colleges were successful in attracting to the program low-wage workers, many of whom were former welfare recipients, but it was more difficult to reach current TANF recipients. This is attributed to local DSHS workers not always engaging in wage progression planning with welfare adults and not urging participation in training as a follow-up to entering employment.

Promise and Challenge:

Pre-Employment Training Program: Overall, PET has succeeded in placing many TANF recipients and other low-income parents in better paying jobs. But a closer comparison of first and second year results indicate that continued success in placing individuals in good jobs may become more of a challenge.

Of those who completed PET training during FY '99, 78% had job placements, but during the first half of FY '00, the percentage of graduates with jobs dropped to 58%. Although Shoreline Community College continued to report a higher success rate than the state average in the second year, its graduates also were less successful in obtaining jobs and received lower wages. In the first year, 82% of those who entered PET at Shoreline completed the program and of those who completed the program, 82% entered employment. In the second year, the completion rate was only 64%, of whom 78% entered employment. The average wage also declined between the two periods, from $10.51 to $9.41 an hour.

The lower success figures reported by Shoreline Community College and the program as a whole for the second year may indicate that the newer participants are less prepared to move into the above-entry-level job market. Program administrators report that, although participants' literacy levels were the same in the second year, they had fewer "soft skills", such as communication, conflict resolution, and family management skills. Administrators found that in the space of a 12-week program it was harder to provide students in the second year with the skills they needed to qualify for positions with employer partners. As a result, they were placed in less preferable, lower wage jobs to start, with the hope of helping them to move up after placement. (The drop in wages reported by Shoreline in the second year is also attributed to the fact that fewer single women were convinced by staff to train for better paying manufacturing jobs.) The **Families that Work** program (see program description) offers basic skills training, including "soft skills", to better prepare enrollees to benefit from vocational skills training. But not as many individuals as expected are participating in that program as a precursor to PET.

Work-based Learning Tuition Assistance: Balancing school, work, and family is an extraordinary challenge for many low-income workers, including welfare recipients. This problem was at least partially addressed by a program change that allowed employment in work study jobs on campus (including a new WorkFirst Work Study jobs program) to fulfill the TANF work requirement for those still receiving cash assistance.

Colleges in rural areas found it difficult to serve seasonal workers. These individuals do not have a standard workweek, but must work extended hours when jobs are available and have little or no work in the off-season. The colleges have proposed allowing seasonal workers to "bank" work hours so they are still considered eligible for Work-based Learning Tuition Assistance when they have time to enroll in training courses during off-peak periods.

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Parents As Scholars Program (Maine)

Asset Development Strategy: To provide income and other supports that will enable qualified parents receiving welfare cash assistance to gain a post-secondary education, so that they can acquire economically self-sustaining employment.

Description and Participants: The Parents as Scholars (PaS) program provides a package of supports that enable low-income parents of minor children to attend a two or four year college degree program. Families eligible to receive TANF cash assistance can participate in PaS on a voluntary basis. To the extent that program resources and space permit, an applicant to the program must be admitted if: she does not already have the skills necessary to earn at least 85% of Maine's median income; the post-secondary education sought will significantly improve the ability of the family to be self-supporting; and the individual has the aptitude to successfully complete the proposed post-secondary program.

PaS is an option of the ASPIRE program, Maine's employment and training program for TANF recipients. The ASPIRE case manager reviews the applicant's past work experience and educational history, along with her preferences for post-secondary education. Information from the State's Department of Labor is used in determining occupational earning potential and consideration is given to job market demand for both the applicant's prior occupation and the new proposed field of study. PaS students may attend the college of their choice. Students, with good cause, may take up to three years to complete an Associate degree and six years to complete a Bachelor degree. Students must engage in a combination of class attendance, study, training, and work which averages at least 20 hours per week during the first 24 months of the program. PaS aid continues beyond 24 months, if the participant remains in the education program and either works 15 hours per week, or engages in a combination of class attendance, study, training, and work for a total of 40 hour per week. Maintaining a minimum 2.0 grade point average is required.

PaS participants receive the same assistance and services as other ASPIRE clients, including:

- Cash assistance for living expenses and food stamps
- Assistance for childcare and transportation costs
- Up to $500 per year for car repairs and $300 for auto insurance while enrolled in PaS
- Up to $750 per year for books and supplies not covered by grants and scholarships
- Work expenses up to $300 for special clothing and $500 for tools, licenses and fees per year
- Medicaid plus eye care, not otherwise covered, up to $150 and dental care up to $2,000
- Tuition assistance, if students are ineligible for financial aid (grants, loans or scholarships)

Management and Funding: The Parents as Scholars program is administered by the state Department of Human Services (DHS). State legislation authorizes up to 2,000 participants. State caseworkers provide case management services. Support services, such as childcare, are accessed through contracts with private individuals and agencies serving PaS and other ASPIRE families.

In state FY '00, $3.8 million was budgeted for the Parents as Scholars program and it was necessary to seek supplemental funding to cover higher than expected expenditures for childcare. The FY '01 budget for PaS is $4.2 million. Financial support for PaS comes from the Maintenance of Effort (MOE) funds that states must expend to qualify for the full federal block grant for TANF. Because PaS is not sustained by federal TANF dollars, an individual's

participation in PaS is not counted against her federal lifetime limit of 60 months for cash assistance, nor does she need to meet the federal work requirements.

Outcomes and Effectiveness: Since the program's inception in 1997, over 2,000 individuals have enrolled in PaS. Currently there are 964 students: 215 at technical colleges where the most popular majors are business administration and nursing; 329 are working on an associate degree with social work, medical assistant, and law enforcement the most common fields of study; and 420 are in baccalaureate programs most frequently majoring in social work, education or nursing.

PaS's short-term success is measured by whether the financial aid and services provided enable parents to complete post-secondary education. Long-term success will be measured by participants' ability to acquire and retain employment that provides sufficient income to end their reliance on government assistance programs for low-income families. Results of a comprehensive evaluation of the program's short-term objectives, conducted in June 1999 by researchers at the University of Southern Maine, have not yet been published. It surveyed participants' educational status prior to participating in PaS, past employment history, experiences in using support services, and participants' analysis of how the program has benefited them.

No mechanism is presently in place to evaluate whether there has been success in reaching the long-term goal of the program. One small informal study of PaS graduates suggests only limited progress – 68% of the respondents were employed, and of those employed, approximately half earned incomes above the poverty level. Twelve of the 19 respondents to the survey had completed a bachelor's degree program and seven an associate degree program. Of the thirteen respondents who reported being employed, eleven worked in their field of study. Of those employed, six reported incomes between $10,000 and $30,000, while five earned under $10,000 and two earned over $30,000. The six graduates not employed reported that they were awaiting results of licensing exam or job interviews, were unable to find reliable childcare, or were preparing to start a business.

Anecdotal information from PaS participants suggests that the personal strengths and informal support system individuals bring to the program, coupled with a case manager who encourages them to challenge themselves and teaches coping skills, have led to the most positive long-term results.

Promise and Challenge: The program operates well below capacity – peak enrollment was just over half of the cap of 2,000 participants – yet participation is equivalent to almost one-tenth of Maine's TANF cash assistance population. Some students have dropped out of the program due to academic failure; others have had to leave due to family crisis. It is not anticipated that enrollment will substantially increase. Because of the very strong economy, some of the best potential new candidates may be choosing to directly enter employment. Fewer of those who continue on or who become eligible for TANF may be qualified to enroll in a post-secondary education program and, hence, can not participate in the Parents as Scholars program.

There are limited partnerships between the program and the colleges in which participants are enrolled. In part, this may be because students are free to choose any college, public or private. Each college in the state university and technical college system has a designated point person for PaS, but the degree of commitment may vary and there is no such position at private schools. There is also no requirement for partnerships between the colleges in which participants are enrolled and local employers to design degree programs to match employment opportunities or to couple classroom education and on-the-job training. Similarly, most colleges have not adjusted course schedules to meet the time demands of single parents.

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RIte Works Employment and Retention Services Program (Rhode Island)

<u>Asset Development Strategy</u>: To overcome barriers to employment retention for TANF recipients through (a) pre- and post-employment training and support with the goal of increased earned income and job advancement, and (b) technical assistance for employers to increase opportunities for employment in good jobs.

<u>Description and Participants</u>: The Rhode Island's RIte Works Employment and Retention Services (ERS) Program was initiated to meet the hiring needs of employers and the job placement needs of Rhode Island families transitioning off welfare cash assistance, the Family Independence Program (FIP). Services are provided to employers and FIP recipients both before and after employment begins, based on the belief that job retention begins before job placement.

Pre-employment services for FIP recipients include an assessment of individual and family strengths, short and long-term goal setting, assessment and planning for child care and transportation needs and resources (including back-up resources), and planning for the adjustment to job routines for both worker and family. Services to prepare those entering employment include teaching "soft skills" such as time management, problem solving, communication skills, and how to be a team-player. If an assessment of hard skills and interests determines that more training is needed, community-based organizations or community colleges provide training in computers, adult literacy, and ESL as well as specific skill areas.

The ERS unit works with employers in several ways. It assists them in finding work-ready, qualified candidates for their vacancies from among FIP recipients. Workers pre-screen candidates to meet the employer's requirements, and make sure childcare and transportation are accessible the hours and days needed. Staff advise and assist employers to access federal and state tax credits, wage subsidies and other benefits. Employers may be eligible for a wage reimbursement of $2.50 per hour up to a maximum of $2,600 in the first six months of employment. They also may be qualified to receive the federal Work Opportunity Credit (WOTC), the federal Welfare to Work Training Credit (WWTC), and the state New Employee Tax Credit. As part of job advancement strategy, staff advice employers of grants, such as Project Upgrade and the Human Resource Investment Council's Competitive Improvement Grant and additional state tax credits, such as the RI Adult Education Tax Credit, the RI Job Training Tax Credit that have workforce development as a focus. A critical component of employment retention is on-going communication with the employer.

After the employee is on the job site, the retention specialist takes a pro-active, holistic approach, and may be called upon to act as teacher, advocate, counselor, negotiator, mediator, or employment services specialist. During an individual's first three months of work, contact may be as frequent as three times a week, but at least once a month. Program participants are encouraged to remain in their positions for a minimum of six months to one year before considering a job change to increase their employment-related skills, have recent work experience on their resume, and secure a positive work-related reference. Although changing jobs to obtain better ones may be a long-term goal, additional interventions are made to assure that the individual does not leave the current one prematurely. The unit administrator reports that most job loss that occurs within the first three months is the result of a "quit", rather than because of action taken by the employer. Staff at RIte Works work with these individuals to immediately reassess their work readiness and reengage them in a job search. After the employee has been on the job for at least six months and is stabilized, a plan is developed for staying in the position,

preparing for job advancement, or seeking another job. The employee can continue to receive retention services after cash assistance has terminated due to increased earnings for up to 18 months following placement in employment.

Management and Funding: Rhode Island is not a "work first" state. Under FIP, following an assessment and the development of an employment plan, FIP recipients may engage in work-related skill building activities, such as post secondary or short-term vocational training for up to 24 months. In the 25th month, FIP recipients must be engaged in some form employment or work experience activity for at least 20 hours a week. (FIP recipients are exempt from the work requirement if they have a child under age one or one of several other family or personal barriers to employment.) Employment retention is a part of the initial employment plan and a part of all the contract and vendor programs with the goal of employment.

ERS unit staff and the services they provide are funded through TANF and MOE expenditures. The goal of the ERS unit is to maintain a caseload for each worker not greater than 60-70. ERS staff actually have three categories of "clients" in their caseload – job seekers, job holders, and employers. ERS is not the sole entity in Rhode Island responsible for FIP employment placement. Through the training/education/work readiness contracts in place with the FIP vendors and other providers, similar job retention services are required to be provided.

Outcomes and Effectiveness: Since FIP was implemented in May 1997, the caseload has steadily declined from 18,904 to its present number of 15,900. Of the families still receiving cash assistance, at least 5,000 are exempt from the work requirement (plus possibly others who do not show up in the readily accessible data). Another 3,428 families currently have earned income with their FIP benefits serving as a cash supplement.

For those who enter the workforce, partnerships developed with employers (often capitalizing on tax incentive programs and grants) have resulted in positions with customized on-the-job training offering guaranteed good wages upon completion. For example, one employer offered 13 positions with paid training in welding/ship fitting and the necessary work-related math skills. The entry wage was $8 an hour, with the pay increasing to $13-$14 after about three months. Another employer partnership with a nursing home offered 14 nursing home assistants positions. One week of unpaid training in "soft skills" was followed with six weeks of paid vocational skills training at $7.25 an hour, resulting in full-time positions at $8.25 an hour at completion. At other job sites, employers have hosted adult literacy, GED, or ESL classes for their workforce. Each customized, employer-based training includes an employer financial contribution that may be offset through the tax credit program(s). The ERS program has not documented wages at the point of exiting the program, but sample months suggest the success in placement in better paying jobs at entry – in September 2000 the average starting hourly wage was $8.35 and for those entering work in November 2000, it was $7.38 an hour.

Promise and Challenge: Rhode Island's FIP, of which the ERS unit is a part, has two guiding principles – poor children should be no worse off than before welfare reform and adults should be able to access education and training, if needed, before being required to enter the workforce. Rhode Island policy makers decided that long-term investments in families receiving cash assistance were more important than quickly reducing welfare caseloads. It is recognized that for this population it is difficult to combine full time work with additional education/skills training necessary to advance to better paying jobs. The human capital investment model incorporated in the FIP legislation at minimum provides the individual a start in the workforce at a wage which is higher than minimum wage and encourages participants to recognize that learning is a life long process.

Rhode Island tries to ensure that those required to work receive the necessary training and services to not only get jobs, but also to maintain employment. A challenge for this approach is the potential cost. When welfare changes were initiated, states with larger caseloads may have found it difficult to offer this level of intense services to all families moving from welfare to work. This problem could possibly have been addressed through an initial assessment to determine if intense pre- and post-employment case management services were called for, or whether less involved mentoring or coaching assistance were needed. Now that welfare caseloads are down, many states may have more available funding, but are faced with the challenge of contacting those who have already left the system to make an offer of employment retention and advancement services. Past program experience has shown that welfare leavers may resist becoming re-involved with the system. Also, the advantage of pre-employment involvement with both workers and employers has been lost.

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Financial Assets

Overview

Perhaps most familiar among individual assets are *financial assets*, such as savings and checking accounts, stocks and bonds, and equity in property. They provide a stream of money income. Many are also readily convertible to money – a lump some of cash - by sale. Clearly, access to such assets affords people opportunities and empowers them. At the extreme, a large quantity of such assets can yield a substantial amount of income to sustain everyday life. But even for the vast majority of people who must support themselves from employment, building financial assets is important, and sometimes even critical. They substitute for or supplement employment income - when people lose a job, can only work part-time, or suffer a reduction in pay - or augment social security income for individuals during their retirement years.

Financial assets also empower people in other ways. They enable individuals to make a down payment on a home, to pay for education or training that will enable them to move up the job ladder, or to start a new business. Such assets allow a significant purchase such as a car (or a major car repair), or pay for a computer, which may be important to work, the operation of a business, or education. When a disaster, emergency, or tragedy threatens to disrupt people's lives, financial assets enable them to better survive the crisis.

Financial assets also affect how people feel about themselves, their lives and their ability to change their lives. They give a sense of ownership, choices, and a better future for which they can plan and strive. The security, status, or power that financial assets afford may also influence how people feel about and behave toward others and how those others feel and behave toward them. As stakeholders, they can gain a sense of ownership and investment (for example, as homeowners in their community) that not only gives them self-respect but can engender respect by others. In turn, they can have a greater appreciation of the role and needs of other stakeholders. Finally, financial (and perhaps other) assets also increase the opportunity and chance for success across generations. This may involve having financial resources that can be a legacy to give to children at death. It also means being able to help family members to buy a first home or start a business; pay for college or other post-secondary education or training; purchase the car they need for work; or provide critical resources to tide them over in face of a financial crisis.

Heretofore, financial asset building policies have been primarily directed to the more affluent, largely ignored those who are not and, at the extreme, put obstacles in their path. For example, pre-tax retirement accounts help families build for the future and home mortgage tax deductions enable acquisition of the largest tangible asset available to most, a home, through a direct governmental subsidy to homeowners. Tax-favored, private employer-based policies that subsidize the provision of medical and other benefits are not immediately directed at wealth accumulation, but they effectively enhance the income

flow available for saving. Meanwhile, large numbers of low-income Americans either are unable to take advantage of such policies or benefit far less from those policies than the affluent. Moreover, low-income Americans are often discouraged from financial asset accumulation because they are disqualified from participation in income benefit programs such as Supplemental Security Income (SSI) and Food Stamps, if their assets exceed a very low level. Further, government policy has failed to assure to many low-income households access to mainstream financial institutions. Such institutions provide accounts, means for payment of bills and money management, credit, and other services that may be crucial to the ability to save and accumulate financial assets, purchase homes, or to start a business. Relatedly, many households lack the financial knowledge and skills to navigate issues of credit, debt, and money that can be key to asset building in the new economy.

Enabling Low-Income Families to Build Financial Assets

In recent years, a number of innovative policies and programs have been aimed at building the capacities of low-income families and affording them means to gain a financial stake. Some of these efforts are only pilot or experimental ones. They have been supported by varied combinations of contributions from the private, non-profit and for-profit sectors, and federal and state governments. Typically, these endeavors have involved providing financial "match" or incentives to participants who fulfill specified individual asset-building responsibilities. These responsibilities may include saving, building of human capital, acquiring and maintaining a job, or achieving job mobility. Frequently, the programs require that the monies accumulated by means of financial matches or incentives be directed toward further asset-building activities, such as home ownership, education and training, and a business start-up. Participants are often afforded one or more supports that enable them not only to meet their current asset-building responsibilities, but also to successfully build financial and other assets in the future. This section, which describes such efforts, is organized into three parts:
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- The first gives a broad overview of programs that facilitate financial asset building by supporting the behavior of saving set in a community or workplace context. (See **Supported Savings Programs – Individual Development Accounts (Overview)**) In some cases, the saving is directed to a potentially broad range of objectives. (See **Matching Savings to Increase Financial Assets**). In others it is narrowly aimed at gaining the means to build human capital. (See **Matched Savings Specifically Directed to Increasing Human Capital.**)

- The next details strategies that reward work by linking an individual's successful completion of a period of employment to gaining access to a financial asset. (See **Earnings-Related Escrow Accounts**.)

- The last part describes programs set in a housing context and nested in broader schemes of public assistance for housing. These approaches offer recipients an opportunity to build financial assets tied to their success in maintaining or increasing income from employment and, in some cases, their making a transition

to private sector housing. (See **Housing Assistance-Related Incentives for Building Financial Assets**.)

Supported Savings Accounts - Individual Development Accounts

A prototype for many of the policies and programs that focus on building financial assets has been the Individual Development Account (IDA), a concept pioneered by Michael Sherraden in his seminal book, *Assets and the Poor.* As a general matter, IDAs have already demonstrated promise as a means to enable low-income families to accumulate financial assets. The strategy operates from the premise that low-income families can save and accumulate financial assets if the proper supports are in place. IDA Accounts are dedicated savings accounts containing deposits by low-income account holders and matched by private and/or public sources. Publicly supported IDA programs only followed upon the apparent promise of prior, private pilot IDAs.

The narrative that follows describes the range of IDAs, both publicly and privately supported. However, specific program outcomes and impacts, especially as they relate to program design and operation, are largely derived from experience with privately supported IDAs that have had a much longer track record. In particular, they reflect the experience of what is probably the largest IDA demonstration project, the privately-funded American Dream Demonstration (ADD), which started in June, 1997, had 2,481 people holding accounts as of June 30, 2000, and lasts until the end of 2001. These IDA participants have been described as being "more disadvantaged" than the overall U.S. population at or below 200 percent of the federal income-poverty guidelines in that they are more likely to be female, African-American, and never married. However, they are "more advantaged" in that they are more educated, more likely to be employed, and more likely to have a bank account.

The next section describes typical features of the design and operation of the more recently established, publicly supported IDAs. They do not appear to differ significantly in this regard from earlier, solely privately supported IDAs. For this reason, conclusions based on the ADD experience may very well be applicable to publicly supported IDAs.

Publicly Supported IDAs

Participants and Description: Current publicly supported IDA programs share many features in common with each other:

- They have similar *enrollment criteria*: individuals may participate if they (a) are TANF eligible or (b) have annual incomes at or below a specified percentage of the federal poverty level or fraction of area household median income or (c) are eligible for the federal Earned Income Tax Credit (EITC).

- As noted, IDAs are *accounts* established for program participants who commit to making deposits. Once enrolled, participants typically remain eligible for matches only if they make deposits into those accounts in specified minimum amounts and at a specified frequency.

- By design, all IDAs involve *matched savings*. To date, match rates for IDA programs have ranged from 1 to 1, to 3 to 1, although in some cases additional matches from other sources are permissible. Matches may be limited in amount on a monthly, annual, or multi-year basis and may be as high as $2,000 per year and up to $10,000 over a period of years. Programs appear to universally exempt the matching monies from state taxation and disregard it for the purpose of determining benefit program eligibility for which income is a criterion. Match money is generally kept in a separate, parallel account. It is disbursed for allowed purposes only when the participant successfully completes program requirements, including those relating to saving.

- Public, just like private, IDA programs vary in the *uses permitted for matched savings*. For many such programs, the primary purposes for which monies in IDA accounts may be expended are homeownership, small business development, and post-secondary education or job training. However, other purposes are allowed by some states. They include retirement, car purchase or repair, home repairs or improvements, one-time family medical emergencies and (limited) health care costs not covered by insurance, emergency expenses (approved by the implementing organization), entrepreneurial activity, and the approved cost of work-related activity, such as child care.

- Public, as do private IDA programs, incorporate a range of other *client requirements* and provide a variety of *client services* that appear to vary widely. They may include participation in individual financial counseling, attendance at economic literacy or education classes, workshops related to individuals' specific savings goals, and peer support groups. They may also be linked to tax preparation services, for example, ones which enable participants to receive EITC funds.

Program management and funding: Support for IDAs at the *federal* level takes several forms:

- Under the Transitional Assistance to Needy Families (TANF) program, states are allowed, but not obliged to include IDAs as part of their welfare reform programs and Welfare-to-Work grants.
- The Assets for Independence Act (AFI) authorized monies for competitive grants to non-profit IDA programs. To date, $10 million was appropriated for that purpose for each of FY '99 and FY '00, and an additional $25 million was recently appropriated for FY `01.
- The Office of Refugee Resettlement within the Department of Health and Human Services provided $5 million in competitive grants in 1999 for states and non-profits to offer IDAs for low-income refugees. An additional $3 million was offered in 2000.
- Pursuant to a ruling by the Federal Financial Examination Council, banks' support of IDAs is credited under several tests which banks must pass under the federal Community Reinvestment Act (CRA).

- Financial institutions that receive a Bank Enterprise Award from the Community Development Financial Institutions (CDFI) fund can be given up to $50 per IDA to offset administrative costs of IDAs.

Support for IDAs at the *state* level also takes several forms:

- Direct competitive appropriation of funds for matching (and in some cases for administration or technical assistance).
- Tax credits or tax deductions for private contributors of match funds to eligible IDA programs.
- Use of TANF monies to carry out a program to fund IDAs (match funds and administration or technical assistance).
- Use of Welfare to Work funds for IDAs (match funds and administration).
- Use of Community Development Block Grant funds to match funds in IDA programs.
- A refundable tax credit for savings placed in an IDA.

Overall administration of state supported programs is located in a range of state agencies, but direct management is by non-profit organizations.

Program Outcomes:

Savings outcomes: Available data tends to refute the idea that certain groups are simply "too poor" to save and participate in an IDA program. It appears that individuals of low income, even those who receive public assistance, adhere to "middle class" values about sacrificing and saving now for future benefits. The most recent analysis of ADD data (through the end of June 2000) indicates that over 80% of the participants had positive net deposits. The average and median net deposits per month were $25.42 and $17.96, respectively. For all participants, the average and median savings rates (defined as the ratio of the average monthly net deposit to gross monthly household income) were 2.2% and 1.3%, respectively. Perhaps surprisingly, the savings rate appears to *rise* with *lower* income levels.

Participation outcomes: The ADD data have also been analyzed to identify demographic characteristics correlated with success (though these should not to be confused with what may be underlying causal factors linked to those characteristics). Program dropouts tend to be more disadvantaged than savers, e.g., they are younger, have fewer assets and more debt, never entered into a marital relationship, and are presently on welfare. Race may matter, but gender apparently does not. Not unexpectedly, dropouts are fewer among those employed full-time or those who have not involuntarily lost a job. But, surprisingly, the level income (among program participants) may have little effect on dropping out.

Non-savings outcomes: Although immediate savings-related outcomes are important, others may loom as large. Most tangibly, savings enable participants to purchase a home, start a business, or gain more education. Furthermore, improved education in financial matters, including economic literacy and money management skills, enables program participants to develop attitudes and gain skills related to saving that can be successfully

employed even when a match is no longer available. Moreover, anecdotal evidence points to less tangible results such as changes in the participants' attitudes, that is, a new or renewed sense of confidence, an ability to set goals - even goals they may have never even envisioned - and to actually attain those goals. A recent survey of participants' self-perceptions points to similar results. But, it is suggested that such outcomes should be viewed not just as the effects of having a savings account, but also as outcomes of a program which includes economic education, expectations for savings behavior, incentives to save, and staff and peer support as well.

Program Promise and Challenges:

The savings outcomes reported from comprehensive and systematic analyses made in connection with the ADD demonstration program suggest that IDAs offer the promise of enabling many low income individuals to take initial and meaningful steps toward financial asset-building. Further work needs to be done to confirm what are now numerous, but still largely anecdotal reports of other kinds of important outcomes, savings and non-savings related. One savings-related outcome is a possible long-term, positive impact of participants' initial experience with supported saving on their future efforts at non-supported saving. Another is the effect of an increased connection with mainstream financial institutions and expanded skills gained in navigating credit, budgeting, and other issues on the ability to build financial assets more generally.

One non-savings-related outcome might be fundamental changes in participants' attitudes about their long-term ability to define, plan, and pursue personal asset building strategies, not necessarily limited to financial ones. Those changes may also include the impact of a greater sense of personal efficacy on their relationship with family members and others. In the program design context, the savings goals allowed might unnecessarily narrow the range of individuals who benefit from particular IDA endeavors. For example, being able to acquire or repair a car, purchase work clothes, or buy tools or equipment for self-employment, may be most important for some as an asset-building strategy, but those choices may not be permitted. (The choice of savings goals also appears to have some impact on savings outcomes, apart from match rate incentives.)

Optimism that such outcomes may emerge is tempered by recognition that a number of personal factors appear to have a bearing on success in IDA programs and, hence, limit its promise for some low-income individuals. For example, those who are seriously stressed emotionally or financially may not be able to sustain the required commitment to the program. If debt and credit problems are obstacles to acceptance, applicants may be rejected but if they are given the opportunity to work those problems out and gain related budgeting and income management skills in the interim, they may qualify at a later time. Correspondingly, having a stable employment and work schedule and sufficient earned income to enable regular savings is generally important.

Success also depends upon motivation, the willingness to establish goals and commit to achieving them. In this regard, client contact and individual attention appear to be important. For example, the making of savings deposits and maintenance of saving is

spurred by the match incentives, exhortations, and mechanisms that make saving easy and that lock it in. In addition, support in the form of advice, counseling, and advocacy in the event of a personal, job and housing related crises, may be necessary. Non-crisis supports may also be important, as is group support. Further, IDA programs recognize that even if participants are successful at saving, they need support and resources that will enable them to use their newly acquired financial assets to achieve the goals they have chosen.

Thus, for new IDAs, in addition to what appear to be substantial requirements for staff at start-up, there is continued need for staff to motivate and support participants, frequently one-to-one, as well as monitor their programs. It is not surprising then that at their relatively early and relatively small scale of operation, the ADD IDA programs have been expensive to run; the same appears to be true for other programs, many of which are at a roughly comparable stage of development. The most recent rough estimate for the ADD program of administrative expense was $3 for each $1 of net deposits. (An estimated 4.5 hours of staff time per participant-month were required.) However, it may be that that efficiencies of scale at the program level may bring down costs. Moreover, some elements of the program, such as the financial literacy component, may be standardized and made widely available to IDA programs. Alternatively, training or other services can be contracted out to organizations that specialize in that component and partnerships with those managing the program can be formed.

Matching Savings to Increase Financial Assets

The first group of accompanying program descriptions complements the foregoing general description. They focus on IDA programs that are targeted in ways that are of special interest, such as their focus on serving a particular segment of the low income population or the institutional locus of the effort. So, for example, **LIFETIME's Savings and Self-Sufficiency Program** in California is geared to current or recent TANF recipients who want to accumulate financial assets to build their education and skills to achieve access to good jobs and job mobility. By contrast, the **Worker Income Security Program (WISP)**, also in California, is directed to low-wage, manufacturing employees and is workplace-based rather than community-based, as are many IDAs currently. The Minnesota **Northland Foundation Business Supported IDA** is also employment-based, but targets low-workers more broadly, and entails much greater employer involvement than does the WISP program. Finally, the **Childspace Workers Cooperative IDA** in Pennsylvania, although not workplace-based, is economic sector-focused, i.e., it serves both center- and family-based childcare workers. (It is also is unusual in that it is managed by an organization that embraces a larger mission of building financial and enterprise assets through a childcare workers' cooperative.) These examples serve to illustrate the adaptability of IDAs to a variety of settings and goals. At the same time they point to the different combinations of organizational competencies and resources that may be required to successfully achieve those goals in various contexts.

Matched Savings Specifically Directed to Increasing Human Capital

Two related approaches are illustrated by the accompanying program descriptions that detail the pilot **Pennsylvania Individual Learning Account** (ILA) effort and the recently launched large-scale **United Kingdom Individual Learning Account** initiative. The former operated like an IDA program in that it involved matches of savings, in this case by employees of participating firms. However, employers and the Commonwealth of Pennsylvania provided matches in equal amounts. The program was more focused than the typical IDA in that monies accumulated were specifically to be used for increasing participants' human capital, i.e., gaining education and training that had the potential for upward job mobility, particularly at the place of employment. The latter program is similar in that regard although it was set within a broader policy framework of encouraging lifelong learning, particular among segments of the population not otherwise able to benefit from existing education and training policies. It does not operate like an IDA in that participants don't save over an extended period of time and then have their savings matched. Rather, when eligible individuals first make an expenditure for education and training, they receive a very high match and then a more modest match (up to a limit) for further expenditures. (Note, that although this program was clearly not established by one of the States, it and certain other financial asset building policies that have been implemented or are under consideration in the United Kingdom might serve as models for policies that could be initiated at the state and/or federal level here.)

The experience of both programs may offer useful ideas for funding and operating Individual Training Accounts (ITAs) or vouchers under the Workforce Investment Act (WIA). (See discussion of the **Workforce Investment Act of 1998** in the section on **Human Capital**.) States have latitude in how they design their ITA/voucher systems. To date at least one pilot project, funded by the U.S. Department of Labor, is being carried out to link the ILA concept to the ITA vehicle. In turn, such small-scale endeavors may provide grounding for a more general and visionary scheme for an employee-employer-government funded Lifelong Learning Accounts (LiLAs) advanced by Samuel Leiken, Vice President of the Center for Adult and Experiential Learning. Among the principles he suggests to guide the design of such a scheme include universal eligibility for the accounts; portability of the accounts from one employer to another; and funding through voluntary, tax favored contributions by employees.

Earnings-Related Escrow Accounts

The six programs detailed in connection with the previous section are substantially similar to one another in that saving on the part of participants is matched by private and/or public monies, the accumulated sums being restricted to use for further asset-building activities. The next two accompanying descriptions, those for the **Oregon AFS JobsPlus Program** and the **Massachusetts Full Employment Program**, are like those six in that one outcome for participants is a financial stake which they gain upon completion of the program. However, the programs are different in that the participant behavior for which receipt of the stake is an incentive is obtaining and maintaining employment for a specific period of time, rather than saving. The amount of the stake is linked to the length of the period during which participants work. They also are different in that the ability of the participants to secure and maintain their jobs is enhanced by a public subsidy of the wages paid by the government to their employers. In other words, the program links incentives and monetary supports that enable participants to acquire and maintain a job as well as build financial assets.

Housing Assistance-Related Incentives for Building Financial Assets

The previous sections have focused on community- or employer-based programs that enable participants to accumulate financial assets for a variety of purposes. Another group of programs is housing-related, directed toward residents of federal and state public housing units, as well as those who receive cash assistance for private sector housing in the form of federal Section 8 vouchers. Common elements among all but the last of the programs described are the establishment of accounts in which participants accumulate financial assets. However, unlike IDAs, the sums in these accounts accrue not by virtue of saving, as such, but from diversion of a portion of the rent that participants might otherwise be obliged to pay to the public housing agency (the precise amount of money being deposited being linked to their success in increasing their earned income). Beyond those common features, the programs vary widely, not only in the purposes for which the accumulated sums may be used, but also in the variety of other incentives and requirements and supports that are incorporated.

The **Massachusetts Escrow Program** is simplest. It largely involves only the creation of such accounts (for solely state-subsidized public housing residents), funded by diverted rent revenues (supplemented by an additional state match), and linked to increased earned income, with the account monies being limited to use only for a transition to private housing.

By contrast, the federal Department of Housing and Urban Development's (HUD's) mandated Family Self-Sufficiency (FSS) Program has similar accounts but, as its name indicates, is geared to reducing recipients' reliance on "welfare assistance" with the possible corollary of no longer requiring housing assistance. (See **Family Self-Sufficiency Program**.) Moreover, not only are the sums deposited in the accounts linked to increased earnings, but also there are a constellation of personal and work-related supports aimed at spurring and aiding realization of the goal of "self-sufficiency." Further, there are no limits on the use of the escrow monies though participants might, in fact, use them for home ownership or other housing-related purposes. Success in the FSS program may, in turn, be linked to other promising asset-building strategies. (See **Increasing the Asset Building Capacity of the FSS Escrow Account**.)

The **Jobs-Plus Rent Incentive and Escrow Program** is yet more complex and ambitious. It provides to participants, accounts into which deposits are made and the deposits are linked to rent levels rather than either earnings or savings. Further, it also incorporates the additional advantage of rents that are frozen for two-year intervals (and hence, not linked to resident earnings) but ultimately are stepped up to a market rate. However, this financial incentive strategy is nested within a broader one that affords not only financial assets and the human-capital type supports that characterize the FSS program but also social capital resources. Moreover, the Massachusetts Rent Escrow Program and the FSS Program and many other similar strategies are *individually* directed, whereas the Jobs-Plus Program is, in part, *community* directed, i.e., it operates from the premise that if large numbers of residents within a single public housing community can be engaged in the program, the individual impacts will be mutually

reinforcing in a way that leads to an upward, community-wide spiral of well-being. Although Jobs-Plus Program is a demonstration program conceived in 1994, with relevant congressional authorization in 1996, under the Quality Housing and Work Responsibility Act of 1998 (QHWRA), there is the opportunity for public housing authorities (PHAs) to devise programs with similar attributes. Also, the Jobs-Plus Program was designed to facilitate reliance on resources of and collaborations with the mainstream public system (public housing, welfare, and workforce) as well as the private sector. The QHWRA specifically spurs PHAs to enter into cooperation agreements with welfare and public assistance programs.

The **Section 8 Homeownership Program** generally, and particularly the one described here, offers promise as another step on a ladder of opportunity for low income families, particularly as it relates to housing and home ownership. PHAs may choose to offer this program which embodies a financial asset strategy geared to participants gaining a financial stake in the form of equity in a home. However, rather than divert rent to an escrow account, it directs the flow of cash assistance in the form of a Section 8 voucher to building equity through mortgage payments. The program builds on participants' prior steps in developing human capital and gaining employment income assets in the FSS program. Moreover, the program incorporates training and supports that increase participants' capacities to protect, manage, and enhance the asset that ownership of a home can represent.

Family Self-Sufficiency Program

The National Affordable Housing Act of 1990 created the HUD Family Self-Sufficiency (FSS) program. This Act requires PHAs to develop FSS programs designed to coordinate housing supports with other public and private resources to help low-income families reduce their dependence on housing and "welfare assistance"*. HUD requires PHAs that, between 1993 and October 1998, received funding for public housing and Section 8 subsidy slots, to enroll in FSS the number of families equal to the number of these slots. The 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 (resulting from increased earnings) into escrow accounts to enable them to accumulate significant financial assets for homeownership and other purposes.

To operate a FSS program, a PHA must develop an action plan that describes the policies and procedures, anticipates the support service needs of families expected to participate, and estimates the number of eligible families. The PHAs must work with local social service agencies to offer a comprehensive set of education, job training, and other support services to aid families in achieving economic self-sufficiency and homeownership. The cost of case management services is met through HUD funding or the PHA's administration budget. Other services are to be accessed through community programs

*As result of a change made by HUD in 1999, "welfare assistance" does not include SSI, SSDI, Social Security, Medicaid, CHIP, food stamps, childcare assistance, and TANF benefits that do not count as "assistance". Thus, FSS families can no longer be penalized for continuing to receive any of these benefits.

or developed through alternative means of funding. For example, state funds from TANF or other sources can be used to fund skills training and the accompanying child care arrangements; local funds can be used to expand case management services; and corporate donations of equipment and skilled trainers can augment these resources. The **Family Self-Sufficiency Program for Montgomery County, Maryland** illustrates how these alternative resources can be used to enhance a program.

The FSS program is designed to overcome the usual disincentives to participants increasing their earned income. Tenants in public and assisted housing pay 30% of their adjusted income for rent. Thus, 30 cents of every additional dollar they earn is lost to increased rent payments. The disincentive may be compounded because welfare and food stamp benefits may be reduced and work-related expenses, such as transportation and child care, may increase with greater hours and earnings. Under the FSS program, the disincentive is reduced by the deposit into an escrow savings account of an amount equal to the rent increase that would otherwise result from the increase in earned income. The escrow deposits stop when the participant's income rises above 50% of the area median income or if the individual's earnings rise sufficiently to require payment of full rent. The sums held in escrow are not counted as an asset for the purpose of other programs, such as food stamps. HUD reimburses the local PHAs for the rental income lost by diversion to the escrow accounts.

Program participants enter into a contract that specifies their responsibilities and goals and the resources and support services that will be made available. Independence from welfare assistance must be one of the interim goals and the head of household must agree to seek and maintain suitable employment. HUD regulations allow program applicants to be screened for interest and motivation to participate in FSS, but bar conditioning participation on an applicant's education, job history, credit rating, marital status, or number of children. Upon completion of the contract terms (after five years, or seven if there has been an extension) or attainment of an income level sufficient to afford housing at fair market rates, participants receive their savings plus interest in the escrow accounts without restrictions as to its use. FSS participants forfeit their escrow savings if they fail to achieve their personal goals or fail to become independent of "welfare assistance" because of failure to seek and maintain suitable employment during the term of the contract.

The only nation-wide study of FSS found that, by the end of 1995, there had been over 60,000 participants, with 41,780 then current participants, 3,580 graduates, the remainder having either withdrawn or otherwise been terminated from the program. Most FSS programs reported difficulty meeting their quota, with only 25% having more applicants than the number of slots created between 1993 and 1998. Currently, there are approximately 55,000 participants in 1,400 FSS programs, most of whom have Section 8 vouchers. But, according to HUD's requirements, PHAs are obligated to enroll approximately 140,000 families in FSS.

Thus it appears that many PHAs have consistently failed to enroll the required number of

families in FSS. Survey and anecdotal data suggest that the primary reason residents do not participate in the program is the fear of losing rental assistance and other public assistance benefits if they do not fulfill their contracts. Although HUD regulations permit a PHA to terminate the Section 8 subsidy (but not public housing assistance) if the resident has not reached the FSS goal by the end of the five-year contract, PHAs are not required to do so and most do not. As noted, new HUD interpretation of the term "welfare assistance" clarifies that FSS participants can continue to receive many other forms of public benefits and still fulfill their contract. Another reason for low FSS enrollment may be reluctance among PHAs to invest effort into promoting what is perceived as an only partially funded mandate. The program relies heavily on case management services, the cost of which is only partially assumed by HUD for smaller PHAs and not at all for larger ones. PHAs that want their residents to take full advantage of what FSS can offer may have to supplement HUD funding with other sources such as state and local dollars.

The opportunity to build an escrow account is intended not only as a means to accumulate financial assets, but also as an incentive for enrollment in the program and a motivator for increasing employment. But not all eligible recipients of federal rental assistance stand to benefit. Deposits into the escrow account are generated only from increased earned income that would otherwise be applied to rent increases. If an individual is already earning income at a level near the maximum amount to be eligible for housing assistance, increased earnings will not generate significant savings and may make the family ineligible for housing assistance. By contrast, those who are already working but whose incomes are so low as not to risk loss of their eligibility for housing assistance, can benefit not only from deposits to the escrow account but also from programs that match savings in that account. This latter benefit can be gained through a link to an Individual Development Account program or other creative matching programs such as the mortgage program instituted by the Federal Home Loan Bank of Seattle (see **Increasing the Asset Building Capacity of the FSS Escrow Account**).

Policy and Program Examples

Savings and Self-Sufficiency IDA Program
The Bay Area Collaborative – LIFETIME Partnership (California)

Asset Development Strategy: To enable current or recent TANF recipients to obtain the education that will help them obtain good jobs by (a) matching their contributions to accounts (the monies in which may be applied to several asset-building goals, including education or education-related purposes) and (b) providing them with services which help them to identify and pursue their educational goals in order to obtain such good jobs.

Description and Participants: Low-Income Families' Empowerment through Education (LIFETIME) is one of a group of referral partners for the Savings and Self-Sufficiency (SASS) IDA Program. To be categorically eligible for SASS, individuals must (a) be a current or have been within the 12 preceding months a recipient in the California Work Opportunities and Responsibility to Kids (CalWORKs) program and (b) must either have worked (or been self-employed) during 6 of the preceding 8 months or have successfully completed a semester of school during that period. The employment must be unsubsidized unless it is a work-study job at a college or university. Individuals must also satisfy the criteria of the federal Assets For Independence Act (AFI), i.e., they must be at least 18 years of age, have earned income that qualifies them for the federal EITC, and own less than $10,000 in net assets at the end of the last calendar year. Overall SASS program enrollment is limited to 100 individuals.

LIFETIME, like other referral partners, recruits, identifies, and selects candidates for the SASS program. Because, as part of its larger organizational mission, LIFETIME provides peer support to and advocacy for recipients under CalWORKs who are seeking to or are already engaged in advancing their education, it draws upon that clientele for SASS. Most adults in the CalWORKs program must participate in up to 35 hours of "work activities" each week to continue to receive cash benefits. An individual enrolled in one of the undergraduate majors and certificate programs designated by the county welfare department as leading to jobs available in the community is deemed to be engaged in work activity. In such a case, the student must devote 32 hours per week to work activities, which can include time can be spent in class instruction, lab, internships, community service, or college work-study jobs. In some counties, time spent doing homework and studying may be included as well. If education is allowed as a work activity, the individual has 24 months to finish the program.

Individuals interested in the SASS program attend an orientation session and complete an application that is reviewed by program staff who determine whether applicants are "ready" for the program. The review takes account of whether they have outstanding judgments against them (which would make savings accumulations liable to garnishment), credit problems, or other challenges, such as being homeless (which must be addressed first).

***Financial Literacy Training**:* All enrollees must attend "Saving for Life," a 7-week, 14-hour course" which enables them to gain an understanding of the credit and banking systems and skills by which they can succeed in these systems, such as money management, goal setting, and evaluation of credit reports.

Asset-Specific Training: Upon completion of that course, enrollees participate in training relevant to their particular saving objective. LIFETIME provides services in connection with its mission, aiding current and recent CalWORKs recipients in advancing their education. Other SASS partners provide services with respect to the other two goals. Although, to date, LIFETIME

has had no role in the financial literacy training, it is now planning a class at a campus site and at a time convenient for participants.

Peer Meetings: Enrollees must attend monthly peer "Savings Club" meetings. At these meetings they can ask questions and share concerns and lessons with their peers. They also receive information on topics such as filing taxes, investing, saving for retirement, and opening new accounts.

Matched Savings: Participants in the program may save up to $1,000 per year for up to two years. The savings are matched at a 2:1 rate. Monies accumulated may be used for first time home ownership, job training or education, or the start-up of a business. Training and education includes vocational/technical training, community college, 4-year college, or training to obtain a professional certificate or license. Education-related expenses that are covered include tuition, fees, books and materials, and the purchase of a computer. (Direct financial support for participants' coursework is available from financial aid. That financial aid includes federal work-study monies. There is, in addition, state money available for work-study stipends from the on-campus CalWORKs departments. Of course, insofar as participants are working, their earned income can leverage EITC payments that can support their efforts.)

Management and Funding: This program receives funds under the federal Asset for Independence Act, a grant from the United Way, and TANF funds from Alameda and San Francisco Counties. LIFETIME receives funding for its role in running the program, but only from non-program sources. The lead agency for the program, which involves approximately 25 community-based organizations that are partners in the (San Francisco) Bay Area IDA Collaborative, is the East Bay Asian Local Development Corporation (EBALDC). EBALDC is responsible for implementation, fiscal management, and coordination of outreach. LIFETIME, like other referral partners, does provide programmatic and technical services. The Counties have largely had no role in the operation of the program except in the design stage.

Outcomes and Effectiveness: It is too early to report on specific outcomes, since recruitment only began in July 2000. Recruitment went slowly at first, but as of this writing, a total of 60 slots have been filled. LIFETIME enrolled 14 participants and expects that students in its upcoming financial literacy class will want to join. As with other IDA programs, those who already have had success in a program are its best recruiters. Participants include LIFETIME employees, among which are both former and current CalWORKs recipients.

Most participants save, regardless of income, many by dint of cutting expenses, a result consistent with LIFETIME's prior experience with IDAs. Not surprisingly, according to the Program Director, saving is the pre-eminent goal of the SASS program. In that regard, mid-term reports for that part of the ADD demonstration project in which LIFETIME has also been a part, indicate that by June 1999, the 132 individuals who enrolled during the period beginning in June 1998 (64 had enrolled by December 1998) saved a total of nearly $46,000 (apart from matching funds). In that project, only 11% of the participants were receiving TANF cash assistance and an additional 5% had formerly received TANF/AFC assistance. Among the participants with whom LIFETIME has worked, several have already successfully completed the program and used the accumulated monies to pay for tuition at private schools of higher education and bought computers.

Promise and Challenge: As noted, LIFETIME seeks to advance the educational goals of its clientele so its asset-specific work under the SASS program is related to those goals. CalWORKs recipients are allowed to engage in post-secondary education for up to two years. Tuition and fees

are waived for low-income individuals who attend community colleges and CalWORKs may pay for the cost of books. However, IDA account monies can enable participants to attend state colleges or the University of California, where the fees are $900 and $1500 per semester, respectively. The savings are clearly also important if individuals want to extend their education beyond the two year limit. This occurs because post-secondary education limited to two full years of education is thought to be insufficient; in any event, two calendar years allow enough time for some to complete an associate's degree. Moreover, if an individual is sanctioned or runs up against time limits and cash assistance is provided only to the individual's children, financial aid from the higher education institution can be used to sustain the family while IDA savings can be applied to education-related expenses.

According to the Executive Director of LIFETIME, apart from savings as such, "the experience [of] joining the earlier, ADD-supported IDA program had a profound, immediate and remarkable effect on the mothers enrolled in our class." Participating mothers and fathers "have nothing but great things to say about it. It has given them the most remarkable peace of mind and sense of hope of the future, and has enabled them to envision themselves coming out ahead of welfare reform." It also has increased self-esteem. These observations comport with the prior experience of the IDA Program Director. She emphasizes the importance to participants of gaining a sense of more control over their lives and of being able to set and achieve their goal. They feel that they can be "more" than what they are now and see that as important in enabling them to become role models for their children.

These effects correspond to what the Program considers to be individual factors that contribute to success: a participant's strong commitment of improving her education (and devising a plan to achieve that goal) and a strong belief that she has it in her to not only set such a goal but also attain it. The kinds of supports LIFETIME gives to participants, such as "general case management," also appear critical to their success. Staff urge and support clients in their immediate efforts to save, as well as help them to overcome obstacles, e.g., a problem with housing that might present a barrier to saving. LIFETIME's aid to clients in advancing their education appears also be very important. This ranges from working with the CalWORKs Departments located on all community college campuses to help disseminate information about IDAs; securing work-study positions (some with LIFETIME) through those Departments; being an advocate for and empowering clients to be their own advocates on not only educational but also other issues in connection with CalWORKs; and linking clients to resources that will help them identify coursework that will enable them to obtain high quality jobs that are, in fact, available in the labor market. Also, as noted, LIFETIME offers to participants jobs supported by work-study monies, the earnings from which are not set off against their cash assistance grants.

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Worker Income Security Project (California)

<u>Asset Development Strategy</u>: To provide to low-wage employees through their workplace (a) access to savings accounts with matched contributions from third parties, enabling them to accumulate financial assets; and (b) financial literacy education to facilitate saving and training to assure the effective use of savings for the designated purposes; and (c) on-the-job literacy training for employees; plus (d) business consulting services for employers to improve job opportunities at that workplace.

<u>Description and Participants</u>: The Worker Income Security Program (WISP) targets workers at small to medium sized manufacturing enterprises who either live in the Los Angeles Empowerment zone or reside in a primarily low-income area and earn less than $28,000 per year. After a year of planning, the program was launched in the fall of 1999 with four manufacturing companies, three in the apparel industry and one in the food-processing industry.

WISP offers to participants IDAs, financial literacy training, and on-site basic skills. It offers employers assistance in planning to enhance their competitiveness, which may include marketing and business development, and training related resources. WISP program staff conduct an orientation to evaluate the employees' interest in WISP. But before WISP is implemented in a particular workplace, at least 15 employees must be signed-up. A WISP counselor then conducts one-on-one interviews with all interested workers to discuss their financial goals and how the program can serve them.

Individual Development Accounts: A third party 2 to 1 match supplements the IDA participant's savings deposits. Participants agree to save at least $20 monthly over a period of at least 12 months. Although withdrawals are "strongly discouraged," they may be allowed in certain emergency situations. Arrangements are made to establish IDA savings accounts with banks that do not assess any monthly service fees. Initially, account holders were allowed to save toward home purchase or improvements, financing a small business, or education for participants or their children, or health care services (monies for uninsured participants to meet the expense of medical emergencies). Recently, low risk financial investments were added, e.g., Certificates of Deposit, Savings Bonds, Education IRAs, Retirement IRAs, and Mutual Funds. Such investments must be "maintained in the worker's portfolio for at least 5 years." Arrangements are in process for a stock brokerage partner to manage the investments at an estimated $60 annual cost.

***Financial Literacy Training*:** Participants take five 90 minute classes in which learn about such subjects as how to build credit, budget, buy a home, start a small business and invest in education. Participants must also attend training sessions related to their savings goal. In addition, they attend monthly savings club meetings that are coordinated at the workplace. At these meetings they hear outside speakers and provide ongoing peer support for one another in attaining savings goals.

***Work-Based ESL Training*:** WISP aims to offer to participants a customized curriculum that integrates English as a Second Language (ESL) with work-related training needs. Toward that end, a WISP staff member meets with employers to discuss their company's past training efforts, business needs and practices, and management structure. Originally, participants could sign up for ESL/Basic Skills training after completing the financial literacy classes, but now workplace training is done first. WISP's initial efforts focused on workplace language and math skills used on the job and in preparing workers for supervisory or "lead" positions. An area non-profit organization was retained to conduct the on-site training. Currently, participants are expected to

receive 120 hours of English instruction on-site incorporating subjects relating to safety at the workplace. The course is divided into two fifteen week, four hours-per week sections separated by a lengthy break. (Previously, it was offered over a single long stretch of 96 hours of instruction. However, that made attendance difficult for participants who had second jobs and overtime work and who may have needed to meet the needs of their families and children as well. Participants are neither give time off nor paid for the time they spend in any of the training.)

Business Consulting**:** WISP anticipates engaging individuals to offer to employers up to 32 hours of advice and support in the form of management consulting; development of charts to promote efficiency within the factory; and development of a business assistance plan to receive a Small Business Administration loan. The aim is to spur employer support for WISP by offering them a valuable, but otherwise not affordable service and to help them develop a human resource plan.

Management and Funding: The program was originated and managed by the Community Development Technologies Center, Inc. (CDTC), a regional nonprofit organization that provides training, applied research and technical assistance services in community economic development. The project receives no government funding. Money for matching IDA deposits comes from private and non-profit sources including Merrill Lynch, Union Bank, Citibank and the California Endowment and is intended to serve up to 120 workers.

Outcomes and Effectiveness: The first accounts were opened in October, 1999. As of November 2000 there were 63 employees participating at four sites. Attrition from the larger number of applications who attended an orientation program is attributable to the high job turnover rate and the fact that employees could not afford giving up overtime work hours to participate in the after-their-first-shift program activities. Others were unable to comply with partner financial institutions' requirement that they provide a social security number and two official IDs as a condition of opening an account. (A partner willing to accept alternative identification and not require a social security number helped overcome that obstacle.) Wages of enrollees range from $12,000 to $15,000 per year at one company, to above $20,000 at another. Participants include recent and current employees as well as temporary employees.

At latest report, almost all of those who opened accounts were still participating, although the program has been lenient about keeping those who have not met all of their savings requirements. Two participants left the program because they moved out of the area. The most successful program has been at the plant where the owner has been most supportive. At one company, the retention of an employee, who had moved up its ranks, to recruit participants proved highly successful, because of the trust that other employees had in that individual. The availability of direct deposit to make savings has also been helpful. Some participants have not only saved up to the maximum but also sought to make even larger deposits. The success in saving has been easier for single participants who do not have heavy family financial burdens.

The investment options chosen vary with the participant's age and background. For example, young, recent immigrant workers at one plant want savings to take back to their country of origin. Older workers, more entrenched, workers at another plant who have as many as 10 years or more of service and own homes and have credit cards, are interested in financial investments.

Early in the program there was considerable attrition in the ESL/Basic Skills program, the contributing factors being apprehension and misinformation about the WISP program content and requirements, work schedules, second jobs, child-care, physical exhaustion, lack of self-esteem due to educational limitations, and personal responsibilities. As a result, during the earlier phase of the program, only a small number of employees took and few completed the program at one

plant. For those who completed the program, the outcomes were positive. The change in the content and scheduling of the training noted above is aimed at increasing participation.

Promise and Challenge: Challenges to the success of the overall program include (a) problems with some workers being undocumented; (b) distrust by the participant population of banks; (c) attitudes reflecting cultural norms not oriented toward saving; and (d) inability to convince mid-level managers to support the program. Another issue may have been the wide variation in level of education among the Spanish-speaking worker population. Some were well educated in their country of origin; others were not able to read or write. An influx of English-speaking workers may impact the design of the training curriculum. Apparently, devising the relevant financial literacy curriculum took considerable effort. Components of it were contracted out to local non-profits. There is a concern that the curriculum component may, as a result, reflect too much the narrower interests of the contracting non-profits. The availability of a "ready-to-use" standardized financial literacy curriculum would be very helpful.

Critical to overall success is knowledge of and experience with the targeted industry on the part of the organization managing the program. CDTC had such experience and knowledge, in part, by virtue of its prior relationships with trade associations of manufacturing enterprises. Such relationships were also helpful in recruiting employers to become part of the program. They also helped establish the credibility of CDTC in the eyes of employees. In addition, it is important that program managers have knowledge about the experience of other IDA programs to adequately inform their own efforts. Further, they need to establish strong relationships with participating local banks and other partnering organizations to secure reliable and effective services to manage the financial accounts and to provide supportive services when the program goes into operation.

An evaluation report on the workplace-based ESL training component argues that it be can effective only if support is available at all levels of the company's management, but especially from upper management (which can in turn, spur support for the effort on the part of supervisors and group leaders). It proposes giving support to the training schedule and logistics. (It recommends "[o]ptimal scheduling for training productivity with one hour of company time and one hour of employee time".) It also suggests that the company contribute more resources by offering incentives or benefits for training in the form of salary increases or job advancement. In retrospect, it was not clear how useful to business the ESL training was. The period of training may have been too short to effect a significant improvement in workplace communication skills. Now, however, a new ESL provider has been engaged. In addition, a partner, California Literacy, has been retained to work with front office employees to help them become tutors for the non-English speaking program participants.

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Northland Foundation Business-Assisted IDAs (Minnesota)

Asset Development Strategy: To provide low-wage employees through the workplace (a) access to matched savings accounts with employer and third-party matches and (b) training in money management and education related to acquiring and/or managing those assets.

Description and Participants: The five-year Northland Foundation Business-Assisted IDA pilot program is scheduled to begin in early 2001 with eight Minnesota employers. The employers range widely in size, from 15 to 300 employees, and in their products and services, including banking, manufacturing, internet services, tourism, and food processing. To be eligible, participants must have been full-time employees of their company for at least one year and have a family household income (Adjusted Gross Income (AGI) as reported on their Federal Income Tax returns) not greater than 80% of the Regional Family Income. About 75% of 450 employees from seven of the employers are income-eligible for the program. (The figures for the eighth employer, a large financial institution, have not been ascertained.) Employers want control over the pool of participants, so the Northland Institute will select from a list of 10 employees chosen by that their employer. These selections are likely to be the lowest income employees of the group. Employers' involvement in the program results in part from their being socially responsible companies identified in conjunction with having previously obtained Community Development Finance Institution loan funds through the Northland Foundation. They see the IDA program as affording an employee incentive and a means for employee retention.

Employees' savings are to be matched dollar for dollar by their employers, up to a maximum of $500 per year and a maximum of $1,500 per employee over a five-year program period. An additional two for one match is made by Northland Foundation up to an annual maximum of $1,000 and a five-year total program match of $3,000. Matching fund contributions made by employers are considered taxable income to the employee, and are subject to withholding and FICA taxes, but funds contributed by the Northland Foundation are not.

Employees must deposit $20 per month from earned income to be eligible for matching funds, and can be terminated from the program (not their job) if they do not save at least $240 annually or make the minimum deposit for three consecutive months. (All savers must be enrolled in an employer-sponsored payroll deduction plan.) They must also attend money management and asset-specific education and training sessions. Employers have agreed to make at least two hours of employee time available per month for those sessions either on-site or at a nearby suitable location. The accumulated monies may be used for home ownership, improvements and repairs, employee education and training, and dependent education. Account holders can still use their savings, match funds, and earned interest for one of the permissible purposes within a year of leaving their job. Otherwise, the non-vested matching funds revert to the donors.

Management and Funding: The program is managed by the Northland Foundation although it will contract with various agencies and organizations to supply needed training. A bank partner will establish pooled escrow accounts for saving by each participating worker and match deposits and will waive minimum account balances and fees. Northland provides all funding for the program - currently aimed at establishing 50 IDA accounts - except for employer match contributions. Longer range goals are to expand the program to upwards of 400 to 500 accounts within six months of the start enrollment in the first phase, and up to 5,000 accounts within three years. Additional funding will be sought from foundations in the Twin Cites area.

Promise and Challenge: Since the program is very new, there are, of course, no outcomes to describe. However, it is promising from several vantage points. Because it is workplace-based, it is novel among IDA programs; if successful, it may be a model for a larger and more broadly based IDA policy linked to the workplace. Such an extension would depend upon sufficient funding. The willingness of employers in this program to contribute matching funds is auspicious in that regard. Given obstacles to participation in the WISP program from the demands of work schedules and lack of time outside of work (see **Worker Income Security Project**), the cooperation of employers in allowing participants in this program paid time to participate in education and training, perhaps on-site, is also encouraging. Moreover, the fact that success in gaining the interest of participating enterprises may be derived from prior relationships established by funders with those enterprises and geared to supporting their growth and expansion, suggests that similar links for other IDA programs might be explored.

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Child Care Workers IDA Program
Childspace Cooperative Development, Inc. (Pennsylvania)

Asset Development Strategy: To provide to family- and center-based child care workers (a) access to savings accounts with matched contributions from private sources and the state, enabling them to accumulate financial assets which can be used for a range of asset-building purposes (including but not limited to economic mobility in the child care field) and (b) by financial literacy and other training generally to promote saving and effective use of the assets acquired.

Description and Participants: The Childcare Workers Individual Development Accounts (CCW-IDA) Program, launched in June 1998, may be unique in that it targets a specific segment of the population, operators of registered home-based child care facilities and workers at licensed child care centers. To be eligible for the program, participants must have total household income no more than 200% of the federally defined poverty level, adjusted for family size. (Part-time child care workers may participate; so some may be enrolled in school or hold another job.) Recruitment was first from northwest and later extended to western Philadelphia and then citywide. Applicants are ranked according to a system which assigns points weighted to those who have worked in child care for 5 years or more, returned a completed 4-page application before the deadline, have a household income below the poverty level, and were an employee of the Childspace Child Care Center. They are also be interviewed for 45 minutes to determine their suitability and potential for success in the program and attend an orientation session.

***Individual Development Accounts*:** CCDI operates two otherwise identical IDA account systems. One is funded with private monies. The other receives additional monies from Pennsylvania's Family Savings Account (FSA) program. Except for the extent of match amounts that are permitted, the systems are otherwise identical. Originally, the savings match ranged from 2:1, 3:1, or 4:1 depending according to whether participants' income was below 100%, 150%, or 200% of the federal poverty level, respectively. However, the amount that people saved appeared to vary more with personal circumstances than by income. Also, tracking money in relation to the different matches was difficult. Hence, the solely, privately funded CCDI-only program now offers a uniform 3: 1 match. Participants must save $22 a month to receive the full match of $800 over a year. To qualify for an additional match under the FSA program, participants must save $40 per month *every month for a year*. (The $40 per month *includes* the $22 per month saved under the CCDI program). The FSA program allows for a match at a 50% rate not to exceed $300 per year or $600 over a full two-year participation unless a lower minimum is approved by the Department [of Community and Economic Development" (DCED), which administers the program.

Under the CCDI program, participants are afforded a "grace period" of two months during the year when they can miss deposits in their account without penalty, so long as their average deposits over the year meet the monthly minimum. Originally, participants could sign up for just one year. However, now they must sign up for a minimum of two years and may sign up for three. (Individuals who participated under the original program design and completed the one-year program are allowed either to start anew for two years or sign up for an additional year. The extended time period enabled participants to accumulate more savings and match money and achieve larger goals.) Savings may be used to purchase or renovate a home, for education or job training, or to capitalize a small business.

Financial Training and Topical Workshops**:** Financial training is a key component of the program. It includes a mandatory 10-month curriculum covering such topics as assets (monetary and non-monetary), tracking household expenditures, personal credit and credit repair, record keeping, taxes, budget, and the social-political dimensions of wealth, income and poverty in the U.S. Actual class time is split between covering the planned topics and more informal, participant-driven discussions during which providers share strategies for balancing household finances and offer moral support to each other. After completion of that training, participants are required to attend at least four workshops, at least one in each quarter to spread out attendance throughout the year. Topics have included "Developing an Action Plan," "Calculating your True Cost of Care," "Educational Resources," "Taxes and Record Keeping," and "Investment," and will include ones on "Children and Money" and "Caring for Elderly Relatives".

Peer Support Groups**:** Recently, quarterly gatherings were initiated at which participants can share their experiences, help one another overcome obstacles, and develop strategies for continuing to save and move forward with their plans.

Management and Funding: The program relies primarily on private funds from area foundations. In addition, match money for savings is available under FSA program. The Commonwealth appropriated $1.25 million for the FSA Program in 1997, an amount that was estimated to be sufficient to cover the 50 percent match and to offset administrative costs of FSA service providers over the two-year cycle. The 1998-99 budget proposed by the governor sought an additional $1.25 million. The DCDE is also a grantee under the federal Assets for Independence Act (AFI) and uses available funds to increase the FSA match for approved eligible activities. The Women's Opportunity Resource Center (WORC) is under contract with the state to coordinate the program and disburse FSA monies to organizations in southeastern Pennsylvania. CCDI does not receive reimbursement for administrative and counseling costs under the FSA program. (Funds available under AFI for administrative costs are allocated to the WORC.) Although CCDI has offered the financial training course, partnerships with other organizations facilitate its work, such as a consortium of neighborhood-based resources centers for early childhood education, which has assisted with marketing and recruitment efforts and an area federal credit union which serves as the financial institution. During its first year, the CCW-IDA project was staffed by three part time positions, equivalent to 1.5 full-time positions.

Outcomes and Effectiveness: Recruitment was originally slow, but now is a waiting list. (However, would-be enrollees seem to lose interest if they have to wait more than a month to be considered for participation.) The aim is to establish 100 IDA accounts for such workers by the end of 2002. Since its inception in June 1998, the CCW-IDA Program has successfully recruited, screened and enrolled 53 qualified participants who began attending financial training classes; 44 participants opened IDA savings accounts and began to accumulate savings. The CCW-IDA participants are all women. Of the 44 account holders, 41 are African American. Only 11 participants were college graduates. Nearly half of the participants were married, 17% were college graduates and over 60% had at least some college education. Less than a quarter were receiving public assistance and 44% owned their own home. However, 60% had less than $1500, 25% had less than $950 per month in income, and slightly more than half were living at or below the federal poverty level. About 80% had health insurance. The average amount saved by individuals each month is $36.

It is anticipated that by the end of 2001, CCDI will maintain at least 50 IDA accounts. At the end of December 2000, 37% of the participants were enrolled in the State IDA program, although others are close to qualifying for state matches as well. During the period between January and October 2000, the average amount saved by individuals most months was $35-45. Some were

able to save $22 per month and others with larger goals saved much more. To date, fourteen participants have graduated and drawn on their accounts; six applied the savings toward the purchase of a home while the others improved their child care businesses, through equipment purchases or home improvements allowing them to serve their clients better or expand or improve their business. Current savers' plans are similar. Participants have not used their savings for education and training, because CCDI assists participants in identifying free or inexpensive educational opportunities. For example, they have been referred to a state program called TEACH, which enables child care providers to pursue a certificate or associates degree in early childhood education and receive a pay raise or bonus when their training is complete.

<u>Promise and Challenge</u>: During the earlier phase of the program individuals did not enroll for a variety of reasons: their finances did not allow them to meet the $5 per week savings requirement; attending required monthly classes on weekday evenings conflicted with existing job, family or other commitments; they were uncomfortable with traveling to and from the locus of those meetings; there was unease about using financial institution such as a bank or credit union; and some of their desired savings goals, such as paying off debts or saving for their children's education or retirement, were not permitted.

Center-based providers fared less well than family-based providers. This has been attributed to the fact that "center-based childcare providers appear in important respects to be less prepared than family providers to meet the program demands, in terms of managing their limited financial resources, ability to meet their savings goals, and prior experience with banks and savings or checking accounts." By contrast, family day care providers are already "system savvy" and more committed than center-based workers to asset-building. They can already "see the light at the end of the tunnel." Many already had the goal of new (or improved) home ownership and appear to have already thought about the credit and other issues that relate to home ownership. Center-based workers seem to be more uncomfortable with using a financial institution such as a bank or credit union.

Focus group feedback was obtained during the first phase of the program. Participants indicated that they were able to save, even without an increase in income, by means of strategies such as going out less often, avoiding impulse shopping, and price shopping more. Some focus group participants were even able to maintain additional (non-matched) savings accounts, including ones for business and household emergency funds. They also made fresh efforts at retiring old debts. An evaluation of the program in its first year stated that in comparison to non-participants, CCW-IDA participants "report[ed] increased self-esteem, sense of control over their lives and likelihood of carrying out their plans" and were also "more likely to have been sharing what they have learned from the IDA program with their families, by encouraging their children to save and budget their own money."

CCDI's initial success is attributed in part to its sectoral strategy facilitated by its own high organizational profile. Contributing factors also included its ability to leverage contacts through its partner organizations, a rigorous screening process, a commitment of sufficient staff resources, a strong and rigorous training program that gave intellectual and emotional support to participants, and a sufficiently skilled and committed staff. In the face of an increasing, but unmet demand for program slots among CCDI's network of organizations, one important challenge is the need to provide and manage sufficient staff resources for the greater case management services that would attend any expansion of the program. Despite this success, initially, recruitment was not easy. Outreach letters to child care centers by both CCDI and it collaborators elicited a skeptical response. To recipient child care workers, "the program seem too good to be true so they did not explore further." The best outreach was personal, i.e., in the form of

presentations at child care centers. On occasion, child care staff would spur the process by starting the enrollment process on the spot. Perhaps more important, recruitment by word of mouth is growing. For example, some home-based providers who act as mentors encourage their peers to join the program. However, even where there is active interest in the program, unless the waiting period to actually enter the program is "very brief," interest drops rapidly. Moreover, CCDI recently started to provide speakers' training "to successful participants, helping them learn to present their stories so that others can learn from their experiences." Such skills are used in speaking at their graduation ceremony or in teaching parts of classes, but it is anticipated they will be employed as well in recruiting new program participants and participating in child care advocacy efforts. Indeed, aiding the development of advocacy and organizing skills "is an important thread in the CCW-IDA program." This has included participants being engaged in a letter writing campaign to state representatives, asking them to support federal funding for IDA programs.

As appears to be the case with other IDA programs, case management has been critical to the success of the CCDI program. This has entailed frequent contact with participants by the Project Coordinator "from the time of intake until their goals are achieved." Her efforts have ranged from helping one women gain a grant to improve her health care facility, finding a housing counselor to help with the home purchase, assisting a participant overcome a financial crisis engendered when payment from the state Department of Public Welfare from for her state-subsidized child care service was late, to aiding home providers who provide evening care to secure substitutes and transportation to enable them to attend weekday evening CCW-IDA training. Also, consistent with the experience of other IDA programs, strong partnerships with financial institutions and organizations providing training, which bring relevant expertise, skills, and services to the endeavor (especially those willing do dedicate resources and staff time to it) are important to program success.

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Individual Learning Accounts (Pennsylvania)

<u>Asset Development Strategy</u>: To enable workers, some of whom earn low wages, to pay for the cost of gaining knowledge and skills they need for upward job mobility by creating workplace-based accounts into which they make deposits that are matched by employer and public contributions, the accumulated funds being used for that purpose.

<u>Description and Participants</u>: Two kinds of enterprises were targeted: (1) fast-growing technology companies that wanted to retain highly skills workers who needed more education and training in order to keep their skills and knowledge base current; and (2) manufacturing and service enterprises employing minimum wage entry-level workers who needed more education and training in order to achieve their career potential.

Individual Learning Accounts (ILAs) were established by joint contributions from the employee and the employer. State matching grants of $500 to $1000 per employee, but not to exceed one-third of the total amount contributed, were available. If an individual changed jobs or employers, the account's balance moved with the employee and could be used only for education and training. An employer was allowed to contribute more than those amounts and could require a lower contribution from its employees. However, each employee had to contribute at least some money of his or her own. There were both general program, as well as company specific, criteria for the use of the monies accumulated. Employees submitted information on desired training to their employers for review and approval. Funds could be applied to the cost of education provided by accredited educational institutions and for computer-based training related to the individual's own objectives. Also covered were other kinds of education-related expenses, such as registration fees, lab fees, and books. For high tech companies, the education or training had only to be broadly related to the field in which the enterprises operated; it was not limited to the kind that would immediately meet company needs. An employer subsidy for such an effort would, arguably, not have been allowed under a company's normal education and training support program.

<u>Management and Funding</u>: This $500,000 state-funded pilot program was initiated in late 1997. It was administered by the Pennsylvania Department of Community and Economic Development and funded from state revenues. The program had two parts, one managed by the private Eastern Technology Council (ETC) and the other by the York County Training Partnership (York) – comprised of 26 organizations, including the York County Industrial Development Corp. and Crispus Attucks, a non-profit community development outreach organization involved in welfare-to-work activities. There were also partnerships with two financial institutions. The Educational Development Corporation provided consultation.

<u>Outcomes and Effectiveness</u>: Information about outcomes, though from a variety of sources, including a survey of the 19 participating companies, is limited, but the results appear to have been generally positive. Five of the companies were in the service/health/financial industry; six in manufacturing, and another five in information technology. A total of ten companies apparently already had tuition reimbursement programs. A total of 71 employees participated in the program, 10 worked in service industries; 21 in manufacturing; and 32 in information technology. Altogether, employees contributed a total of $41,886 that was matched by equal amounts of state funds and monies from their employers. The average total amount accumulated per employee was about $1,800. Monies in the accounts were used for courses provided by four-year colleges or graduate schools or private training organizations. Overall, both employers and employees had a rather favorable impression of the program. Employers found that benefits to the company included training cost savings, greater employee participation in training, and more employee

investment in advancing his or her career. They saw workforce benefits in the form of increased productivity, morale, and retention; a better level of training; and a higher skill level.

The York County program was the smaller (about 25 individuals) of the two parts of the program. For it, the hurdles to participation included employer concern about taking public funds and being involved in a government program and low-income employees' fear of an IRS audit if they accumulated over $400. The program seems to have been more attractive where health care workers were involved because they have a well-defined career ladder which affords the chance to move up by virtue of taking course work, e.g., from CNA to LPN. The program was less attractive to participants in manufacturing industries because there was no well-defined career ladder, and promotion was based less on education, than a supervisor's assessment of how well the current job had been performed. There was also concern among some employers (perhaps ones in manufacturing) that if their workers were trained, they would leave the company. There was a proposal to incorporate in the contract an agreement that if the employee did not stay for two years he or she would have to pay back the money received from the employer.

Promise and Challenge: Even though many of the program outcomes appear to have been positive, the pilot program was not extended. The official, but schematic final report suggested that even though state taxes were not imposed on the firms' contributions, concern that they were federally taxable was an obstacle, indeed, arguably a dispositive one. It is not clear whether such concern was well-founded. There was also concern expressed about insufficient staff, time, or money to mount a concerted marketing effort. Marketing was more challenging for the York pilot which tended to contact individual prospects, while the ETC did more mass marketing and had a significantly larger membership upon which to draw. The difference in up-take of enrollees reflected differences in the employers being served. ETC targeted high-technology companies, which face a shortage of skilled workers. As a result, those companies needed to find ways to attract new workers and retain the skilled ones they already employed. By contrast, York targeted companies that tended to employ lesser-skilled and lower-wage workers, who were in greater supply, so employers were less motivated to participate. Neither of these problems would appear to be insuperable. The tax issue may prove less challenging upon further inquiry or may well warrant change. The encouraging experience of the WISP program (See **Worker Income Security Project**) in reaching out to employers of low-wage, low-skill, non-English speaking manufacturing workers suggests that a revised marketing strategy and program design might be feasible.

There was also a concern about "[t]ighten[ing] the guidelines – iron[ing] out structure of program." There appears to have been an interest in doing an evaluation that would compare outcomes from the ILA program with efforts made in connection with Individual Training Accounts (ITAs) under the Workforce Investment Act (WIA). However, Pennsylvania chose not to renew/continue the ILA program, but rather to rely solely on ITAs for its workforce strategy in this area, so no such comparison appears to have been done. Nonetheless, because there is room for experimentation with ITAs within the WIA framework – in some cases, with support from federal Department of Labor grants - there is an opportunity for other states to take the initiative in testing the feasibility of ILAs in that context.

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Individual Learning Accounts (United Kingdom)

<u>Asset Development Strategy</u>: To encourage and enable individuals to build their human capital by making substantial matching financial contributions to their initial, modest investment in education and training of their own choosing and providing additional, but limited matches for subsequent investments by the individual.

<u>Description and Participants</u>: Starting on June 12, 2000, qualified individuals were allowed to open up Individual Learning Accounts (ILAs) in the United Kingdom. Prior to that time, local Training and Enterprise Councils (TECs) had been involved in developing and testing the learning account initiative.

Those who are 19 or over may open an ILA account. People on state benefits currently get free courses (as do those who lack basic skills) so the policy is not aimed at them directly. It is currently focused on women returning to work and other key groups in the labor market who need to upgrade their skills. Those among the first million to open up an ILA receive up to a $225 (150 British pounds) government contribution toward the cost of their learning, when they put in $37.50 (25 British pounds) of their own money. After the $225 has been spent, ILA account holders can claim a 20% discount on the cost of a wide range of courses (up to a maximum of $150 (100 British pounds) of reimbursable additional costs) and 80% off the costs of some specially designated, "key" courses, such as ones to help learn important new skills like using computers. The money may by used for course registration, teaching and exam fees, or books and materials, but only if they are included in the course fees. Excluded from coverage are courses in secondary education or full-time higher education; for learning for which certain individuals already get government help; or certain kinds of leisure or sports courses. Also, ILA funding cannot be used to subsidize the cost of training for which an employer would normally pay. The money does not cover childcare or travel costs incurred in connection with the education program.

Employer contributions to ILAs, like other training costs, are tax deductible, provided that they are made to the lowest paid employees on similar terms and if they are for eligible learning. Such contributions received by employees are not subject to tax or National Insurance contributions.

ILA account holders receive an ILA Account card that, it is anticipated, may provide members with access to additional discounts on other learning-related products such as books and stationery. An annual statement of "learning record" will summarize the training or education that an individual has undertaken.

<u>Management and Funding</u>: The public matching support for the ILAs is from general government revenues. Although the regulations promulgated by the Secretary of State for Education and Employment are uniform, each country within the UK is responsible for administering the ILA scheme there and there may be variations in eligibility criteria, how the incentives apply, and the types of learning account holders can use the incentives towards. An Individual Learning Account Centre (ILAC) manages the administration including account opening, inquires and provision of information on account records and statements. Incentives offered through ILAs are paid by the ILAC to the organizations providing the training or education if they have previously registered with it

<u>Outcomes and Effectiveness</u>: As of March 2001 over 250,000 new accounts had been opened in addition to approximately 200,000 similar accounts that had been previously been opened in

conjunction with TECs during the development stage, a take-up rate in accord with planning for the program. The long-term aim is to have 1,000,000 such accounts by 2002.

Promise and Challenge: The decision to launch national level program was informed by the positive outcomes from a development project involving a dozen TEC-based pilot programs (and three other TEC-based ILA pilots operated outside of that project.) An evaluation of what is now a full scale, national level program was scheduled to begin in March 2001. This program embodies what is envisioned as an adult lifelong learning policy – especially geared to "non-learners" - set with the context of a broader, integrated workforce policy, rather than a financial savings and accumulation policy in the sense of IDAs. (There is, however, a plan for community-based learning development by pilot projects in which ILA resources will be channeled through community groups, credit unions, and others.) ILAs in the form described above might serve as a model for policies here, both at the state or federal level. But, in any event, the experience gained from the pilots and their large-scale implementation would be valuable.

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Full Employment Program (Massachusetts)

<u>Asset Development Strategy</u>: To enable an individual (a) to make the transition from cash assistance to employment by giving a tax credit to the employer who employs him or her and a subsidy of the hourly wage paid by the employer and (b) to accumulate financial assets by making contributions based on the number of hours worked, into an escrow account which, after completion of a specified period of employment, is available to the individual for use without limitation.

<u>Description and Participants</u>: Current and former TAFDC recipients who are in the job search phase of a Department of Transitional Assistance (DTA)-approved job readiness or employment activity are eligible for the Massachusetts Full Employment Program (FEP). No more than 10% of the staff of an employer can be program participants. The jobs offered must be new ones. Although program participants no longer receive TAFDC or Food Stamps, they still qualify for the same child care, transportation, and other benefits as are received by other TAFDC recipients. There is no formal policy that assures that the participants' pay will equal or exceed the amount of combined TAFDC and Food Stamp benefits they received, but case managers work with participants to identify jobs that will pay enough to make sure that occurs. (Participants are also eligible for the federal and state Earned Income Tax Credits that are available generally to all-low wage earners.) Participants are eligible for transitional child care services and medical assistance for 12 months after their TAFDC case is terminated due to earnings. While working, participants are covered by normal state mandated employee programs, such as unemployment and workers' compensation.

Participants in the program must complete an Employment Development Plan (EDP) that details the individual's employment goals and the activities and support needed to meet them. The employer is required to provide on-the-job training necessary for the participant to perform his or her duties and to recruit volunteer mentors from among its regular employees to help orient them to work and the workplace.

***Wage Subsidy and Hiring Tax Credit to Employers*:** Employers are reimbursed by a state subsidy for each hour of the participants' employment during a twelve-month period: $3.50 per hour for the first nine months and a $2.50 per hour subsidy for an additional three months. One dollar per hour of the reimbursement is diverted to contributions to Individual Asset Accounts (IAAs) (See below.) The employer can also enjoy a maximum $1,200 FEP Tax Credit equal to $100 per every full month of continued employment after the expiration of that year. (This is a *state* tax credit different, therefore, from the federal Welfare-to-Work (WTWTC) and Work Opportunity Tax Credit (WOTC) for which the employer might also qualify.) The employer must pay at least the state minimum wage, currently $6.75 per hour. The pay rate can be no less than that for any other employee in the equivalent position.

***Individual Asset Account*:** As noted, the state diverts $1.00 of its hourly pay subsidy to every employer to an IAA for the benefit of the participant. The maximum contribution is $2,000, received as a lump-sum payment after completion of a year of "full-time" work. (The term "full-time" work is defined in accordance with the relevant industry standard.) The IAA is a "noncountable asset" for the purposes of eligibility for TAFDC benefits up until the time the participant receives the lump-sum payment. There is no limit on how the participant can spend the money.

Management and Funding: The Employment Services Program of the Massachusetts Department of Transitional Assistance manages the Full Employment Program. The wage subsidy paid is in lieu of TAFDC and Food Stamp benefits.

Outcomes and Effectiveness: There is no systematic tracking of program outcomes so the results are anecdotal in character. Most frequently, would-be participants secure jobs through the program at the local employment services unit of the DTA, although in some cases, employers affirmatively contact the unit, seeking workers. Since 1996 a total of about 1,480 people have participated in the program and roughly 940 continue to work for the employers in the program who originally hired them. Many of the latter group have worked for several years for their original employers. The remaining 500 or so participants left their original employers, but have moved on to employment elsewhere or activity other than employment. Participants' estimated hourly pay is $7.68 per hour. Many start in jobs with pay ranging from $8.00 to $9.00 per hour.

The wage subsidy and tax credit appear to be less important to employers than their ability to hire individuals who are work ready, willing to work, and interested in learning. In many instances, the employer is ready to provide the new participant hired with the training required to perform the particular job that they were hired to do. The kinds of participating employers range widely: a variety of small businesses, some of which are in the food industry and real estate, as well as large ones, such as a major bank. The agreement with the employer requires that the employer provide mentoring to the employee. The state provides no job-related support services (although the participant may consult his or her case manager if there are difficulties on the job). Although, as noted, the employer need not employ the participant beyond a year, employment frequently does continue.

Promise and Challenge: The $1 hour contribution appears to be an important incentive for individuals to be involved with the program. Nonetheless, not all program slots are filled. In part, this may result from several disincentives to participation. Participants must give up TAFDC and Food Stamp monies (although they continue to be eligible to receive Medicaid). Moreover, in Massachusetts (unlike Oregon, see **AFS JOBS Plus Program**) the clock for the time limit on TAFDC assistance (2 years) continues to "tick" while participants are in the program. (For this reason, individuals who are within 6 months of their time limit are not referred into the program.) Also, other programs may be more attractive to participants.

Anecdotal evidence as to participants' use of the lump sum payment suggests that they think carefully about what do with it and, in fact, use it for "non-frivolous" purposes, such as purchase of a car. No financial literacy training or advice in connection with how the money accumulated might be used or invested is provided in connection with the program. But such training and advice has proved valuable to participants in Individual Development Account programs (see **Supported Savings Programs – Individual Development Accounts (Overview)**) and serve those in the FEP program as well.

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AFS JOBS Plus Program (Oregon)

<u>Asset Development Strategy</u>: To enable an individual (a) to make the transition from cash assistance under TANF to employment by a public subsidy of the hourly wage paid to the individual by his or her employer and (b) to accumulate financial assets by making contributions, based on the number of hours worked, into an escrow account which, after completion of a specified period of employment, is available to the individual to further his or her education.

<u>Description and Participants</u>: The Jobs Plus program was started as a six-county pilot in 1994 and was extended statewide in 1996. It places people who are Food Stamp (FS) recipients, Unemployment Insurance (UI) claimants, and Temporary Assistance for Needy Families (TANF) recipients as well as unemployed non-caretaker parents of children receiving TANF payments into newly created positions in public and private businesses. Oregon's Adult & Family Services Division and Employment Department (AFS), which administers the program, screens TANF, but not UI recipients. Interviewing and hiring are up to the employer. It appears that because of the cost of the program, welfare case managers, who are afforded great discretion in the support that is provided to recipients, lean toward referring clients to other than JOBS Plus jobs. Welfare recipients who are harder to place in jobs are more likely to become beneficiaries of the JOBS Plus program. They may lack job experience, have been out of the labor market for some time, had bad prior work experience, or been unsuccessful in job interviews. The Jobs Plus subsidy to employers is an incentive for them to hire such individuals.

AFS provides case managers who both work with participants to help them be successful and with employers, first to review and sign a Worksite Agreement and later, to address any problems that arise. The Agreement includes the job requirements and the training needed for the participant. The employer is committed to providing work and quality, on-the-job training suitable with the participants' abilities and necessary for their job duties and a mentor to meet with the worker regularly and help him or her to be successful. According to the JOBS Plus Program Analyst, "[i]n practice, [t]raining varies greatly from employer to employer. Some employers have been very good about working extensively with our clients to develop a good work ethic, providing specific skills training and moving them up in the company. Others have been guilty of assuming too much from the client and leaving them in situations without training or supervision. Most employers probably fall in the middle somewhere. [M]ost employers do expect JOBS Plus workers to come in with less experience and training (hence the subsidy) and hope that they can improve in those areas to enable them to remain with the company."

Subsidy to Employers for Wages and Other Costs: Employers issue the worker a paycheck and are reimbursed by the state for wages (at the Oregon minimum wage) and payroll taxes such as federal and state unemployment insurance, Old Age. Survivors, and Disability Insurance (OASDI) taxes, Medicare, and workers' compensation premiums (which totals 11.7% of total wages.) The subsidy lasts for six months. JOBS Plus employers qualify for the federal Work Opportunity Tax and Welfare To Work tax credits which may offer an additional incentive to employ participants in the JOBS Plus Program. (However, the employer must take the tax credit after the JOBS Plus participation period.) Another, recently added, but not specifically JOBS Plus-related, tax incentive is Oregon's "1st Break" tax credit to employers who hire disadvantaged youth, ages 18-25.

Participants are usually required to engage in eight hours per week of job search if, at the end of four months, the employer has no plans to hire the participant at the end of the program. The eight hours are paid and part of (not in addition to) the normal workweek. The subsidized jobs must pay at least the Oregon minimum wage (as of this writing, $6.50 per hour) and must be equal to

pay for similar work in the local economy, with adjustment for experience and training. Although participants may voluntarily work more than 40 hours a week, there is no subsidy or IEA contribution (see below) with respect to wages earned during that time. Participants are considered as temporary workers and are entitled to the benefits required by state or federal law. The jobs must be new ones, i.e., participants cannot replace existing employees or fill previously established positions, and cannot constitute more than 10 percent of an employer's workforce.

The employer is not required to hire the participant as a permanent employee. If, at any time during the 6-month work period, the employer is dissatisfied with the participant's work, the employer is essentially free to terminate its involvement in the program. Oregon's welfare scheme has a waiver from federal 60-month time limits, so the clock does not run while the recipient participates in the program.

Cash and Benefits Supplements to Employee Wages: Regardless of the pay, TANF recipients are guaranteed by the state to receive no less than the dollar amount of their TANF and Food Stamp benefits. Moreover, during the first 30 days, participants receive not only their wages but also any welfare cash assistance and Food Stamps to which they had been entitled. They also receive day care and other support services, (for example, transportation) from the state, the same as those to which other TANF recipients are entitled. (They are also eligible for the federal and state Earned Income Tax Credits that are available generally to all low-wage earners.)

Individual Education Accounts: After the first 30 days, $1 per hour is deducted from the employer's reimbursement and paid into an Individual Education Account (IEA) which the worker can use toward later employment training for him or her self or anyone in the individual's immediate family. Altogether, the participant can accumulate up to about $850 during the five month period of contribution to his or her account. After completing the JOBS Plus experience and working in unsubsidized employment for 30 days, a participant can access the IEA during the period of the next 5 years.

Management and Funding: AFE and Oregon's Employment Department manage the program. Funding for employer subsidy and deposits on behalf of participants comes from (a) the TANF and/or Food benefits that the individual would otherwise have received; (b) money that would otherwise have been expended under the JOBS Plus program; and (c) money from the unemployment compensation trust. AFS has not assigned costs to its role in administering the program. The Employment Department assigns the cost of 21 positions to its role in the administration of the program.

Outcomes and Effectiveness: During FY `00, 2,633 employers and 4,035 employees participated in the JOBS Plus program. There were 2,297 UI, 1,247 TANF, and 379 combination (TANF/Food Stamp/UI), and 122 Food Stamp only participants. The employers are typically small businesses and the range of jobs is quite broad. To date, approximately 13,700 individuals have participated in – though they did not necessarily complete – the program.

Limited statistical data on outcomes has been collected. The average participant time spent in the program is an estimated four months. Of the cohort of those who left the JOBS Plus program during FY `99, about 91% of that cohort were "employed," i.e., had some employment in an unsubsidized job, during the period from the beginning of July 1999 through March 2000. (The percentages were 88%, 90%, and 93% for TANF, Food Stamp, and UI recipients, respectively.) Of the cohort of participants who ended their JOBS Plus placement during FY `99, 67% were actually employed for some time during the third quarter of 1999. During the period from October 1998 through March 1999, among the members of that cohort, TANF, Food Stamp, and

AFS participants worked an average of 20 hours per week; UI participants worked 26 hours. (The average number of hours worked may reflect extended part-time employment or stints of full-time employment.). Overall, 36% of all participants worked an average of 30 or more hours per week during that period. The average last hourly wages received were $8.00, $8.52, and $9.53 for TANF, Food Stamp, and UI recipients, respectively.

Promise and Challenge: In practice, mentoring provided by employers varies quite widely and focuses essentially on workplace-related issues. It appears that for employers, the state subsidy has been a significant incentive and there seem to have been few, if any, complaints. It is not clear how important the receipt of monies for IEAs has been to program participants, although information obtain from focus groups of participants suggested that it was. For example, even though, overall, for the duration of the program to date, about $5.5 million was deposited by employers for use in IEAs, employees have established their claims to only $1.3 million of that sum. (Typically, the claim is made in response to a letter of inquiry by the AFS to the participate asking if the individual has completed the required thirty days of unsubsidized employment.) However, it is not clear how much of the larger sum represents monies for which current participants are not entitled or what part of it corresponds to sums derived from deposits to participants who did not complete the program.

Moreover, to date, participants have actually drawn only $186,000 for the permitted educational uses. At first blush, this outcome appears to be inconsistent with that of focus groups held with participants who appear to have been rather enthusiastic about the opportunity to accumulate these sums and, perhaps, pass them on to their children. However, because many of the welfare participants are single working mothers with relatively young children, it has been suggested that they may not have been in a position to use the money for education and training. Currently, no dramatic changes are planned for the program. Proposals are anticipated that would allow participants to draw on the money over a 10-year, rather than 5-year period; not to require have 30 days of unsubsidized employment after participants' completion of the program as a condition of receipt of the monies; allow somewhat broader uses of the money, e.g., for purchase of books and supplies; and have interest accumulate on the money in the IEA accounts.

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Rent Escrow Program (Massachusetts)

Asset Development Strategy: To (a) encourage individuals to increase their employment income and (b) enable them to accumulate financial assets that might allow them to move to non-subsidized housing, whether through home ownership or rental, by diversion of a portion of their earned income and addition of a state match into an interest-bearing escrow account.

Description and Participants: The program started in 1999 as a pilot with five state-subsidized "Chapter 200" and "Chapter 705" local housing authorities (LHAs), but has since been extended to all such LHAs throughout the state. All LHA residents are eligible to participate. To qualify, households must be current in their payment of rent, charges, and fees. Household members can have committed a material violation of the lease during the previous two years. They must enter into an agreement with the LHA specifying "realistic and reasonable goals for a transition to unsubsidized private housing and realistic and reasonable steps to be taken in achieving such goals."

Ordinarily, LHA residents must pay a specified portion of their income as rent. However, under the program, a portion of that rent is diverted to an interest-bearing escrow account. The amount of rent diverted to the escrow account is 25% or 30% (depending upon whether the household pays utilities or not) of a prescribed sum. That sum is largely equal to adjusted state and federal income taxes, social security taxes, and Medicare taxes actually withheld from the salaries and wages of participating households during periods in which they were enrolled in the program during the prior calendar year. A limit on the size of the account balance, up to a maximum of $10,000, is specified in the agreement between the participant and the LHA. In addition, the state Department of Housing & Community Development (DHCD) makes a matching contribution of 50 cents for every dollar of rent diverted into the escrow account.

The monies in the account may be used to make a "transition from subsidized housing to unsubsidized private housing affordable by paying costs such as down payments, closing costs, first and last month's rent, security deposit, and moving costs." The funds must be used or obligated within six months of the participant vacating his or her unit or becoming ineligible for housing assistance due to increased income. If they are not, the monies are forfeited to the local housing authority.

The release of the escrow payments, the matching contributions and the interest for permitted purposes does not create any tax liability under state law. Moreover, it appears that sums held in escrow are not counted as an asset for the purpose of other programs because they are held in the name of the LHA and are disbursed in connection with the transition.

Management and Funding: The program, initially authorized by Chapter 194 of the Acts of 1988, applied to residents at five designated LHAs. Chapter 159 of the Acts of 2000 extended the program to enable all of the approximately 16,000 state-subsidized public housing authority units to be eligible for the program, but kept the cap of 5,000 on the total number of units which can participate. DHCD matching money is subject to legislative appropriation and is currently limited to $500,000 per year. Participation by units is on a first-come, first-served basis.

Outcomes and Effectiveness: As of early November 2000 – after approximately 20 months of operation - there were 176 participants in the Pilot Escrow Program out of a total 1472 units of the five participating LHAs. The average payment into the escrow from diversion of participants' rent was $84 per month. With the match, the average total amount put into the account was $126 per month. Escrow balances ranged as high as $2,500 to $3,000, although some were very much

lower. Ten participants have already made a transition from public housing, nine of them having bought a home. (The houses bought were purchased outside of the area where the participants were living in public housing, probably because the cost of non-subsidized housing where they lived is very high.) The average income of families in all the units of the five LHAs was $14,581. For participating families the figure was $22,096. Many appear to be two earner families, although one might be full-time and the other part-time.

The program had a slow start, in part, because tenants were suspicious that it was an effort by the LHAs to "get them out" of their units under the guise of financial incentives. As a result, great efforts had to be made to engage the interest of tenants. (To cover some of the cost of those efforts and other program-related administrative expenses, the LHA is authorized to retain 20% of the annual income earned on the escrow accounts.) As of this writing, participation at two of the five original sites has risen substantially.

Data on program outcomes is fragmentary. Clearly, some participants have used the escrow monies to move out of public housing and into their own home. Others have already accumulated not insubstantial amounts that might enable them to transition from public housing. There is little or no immediate detriment to tenants participating in the program since they do not make any contributions to the escrow account and have few additional obligations. The longer-range deterrent to participation and use of the monies is the transition from subsidized housing. Even if an LHA resident gains a $10,000 stake, the high cost of housing in Massachusetts makes a home purchase difficult and even problematic a move to a dramatically higher private sector rent. Moreover, because waiting lists for public housing are long, a participant who moves out of a unit but whose income then sharply drops, has little prospect of returning to affordable public housing.

The program's impact on participants' job mobility and employment income is unclear. On one hand, a participant has no obligation to increase his or her earned income. On the other, both rent levels and the escrow and matched payments increase with earned income. However, the sheer fact that participants acquire a financial stake that is highlighted by episodic statements of account seems to have a positive effect on their self-perception. And the fact that the statement shows that the stake is linked to earned income may serve as an incentive to increase that income.

Promise and Challenge: The program's promise might be enhanced in several ways. First, as noted, elements and incentives of the program are essentially financial in character. There are no supports for participants of a kind offered by the federal Family Self-Sufficiency program. (See **Family Self-Sufficiency (FSS) Program**) For well-motivated and relatively well-prepared families, financial incentives might be enough. For others, such supports, along with the financial incentive might be important. Second, because of the risks associated with moving out of subsidized housing, it may be useful to allow participants to use the escrow money for non-housing purposes. For example, if the money could be used to enable participants to advance their education, which, in turn, might help them to secure better, higher paying employment, a more viable exit strategy from subsidized housing might be available. In any event, both the participant and the LHA (by virtue of the increased rent payments) would benefit from the participants' job mobility. Even if the monies could be used only for housing, experience with the FSS and IDA programs suggests that requiring participation in financial literacy classes (perhaps, in connection with credit counseling) and perhaps one relating to home ownership would be valuable. Finally, linking an IDA program with the escrow program – as has been done in connection with FSS programs – may afford participants additional matching monies (and financial incentives) and other supports of value to them.

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Family Self-Sufficiency Program for Montgomery County, Maryland

Asset Development Strategy: To aid public housing residents and Section 8 voucher recipients increase their employment income and financial assets by (a) providing them with education, job training, and other services that will enable them to increase their earnings, and (b) diverting that portion of their increased earnings which they would otherwise have to pay as increased rent into an interest-bearing escrow account which they are free to use upon their successful completion of the program.

Description and Participants: In Montgomery County, as with all Family Self-Sufficiency (FSS) programs, the intent is for residents of public and assisted housing to reach their employment goal of having sufficient income and assets to significantly reduce reliance on welfare assistance. But participants in this FSS program benefit from more extensive case management services and training opportunities than many other FSS programs can provide.

The FSS Program in Montgomery County currently has 366 Section 8 voucher recipients and 75 public housing residents as participants; over 90% of whom are female. They enter into a five-year contract (with a possible two-year extension) that specifies their responsibilities and individual goals, and the resources and support services that will be provided. The FSS contract requires that a family comply with its lease, become independent of "welfare assistance" as defined by HUD, and that the head of the household seek to maintain suitable employment. Increased earnings can be used to create an escrow account as stated above. Once FSS participants reach their interim goal for employment, they can use their escrow funds for diverse work-related expenses, such as purchase of a computer or car repairs or purchase if it will aid in obtaining better employment.

Montgomery County's FSS Coordinator is assisted by five paid case managers and 45 volunteer case managers recruited from the community. FSS participants are assigned a case manager who provides guidance in career planning, assistance in the resolution of personal and family problems, and help accessing resources. The Maryland Department of Health and Human Services also assists with case management services for families in their system. The program has successfully recruited local businesses, community schools, and colleges to provide access to computer training rooms, training manuals, and employment opportunities. Volunteers teach classes in basic to advanced computer skills at neighborhood sites. Day and evening classes also offer GED and ESL courses, writing and business communication skills, and one-to-one tutoring when needed. Donations of office clothing, computers, printers, and software are received from businesses and individuals. The Employment Initiative Program is available for those needing to enhance job readiness skills. Its main feature is a weekly employment support group, which uses a team approach to help each individual reach his/her career goals. Job developers find volunteer work placements for those needing more skills development and paid employment for those who are job-ready.

Management and Funding: Montgomery County's FSS program is administrated by the Housing Opportunity Commission (HOC), the local public housing authority (PHA). In FY' 99, HUD paid out approximately $200,000 to participants' escrow accounts. In addition, HUD funds paid a portion of the salary for the FSS Coordinator with HOC covering the rest and other administrative costs. All together, volunteers donate more than 2500 hours each year. Local businesses not only donated space and equipment, including 100 computers, but also approximately $1,000 for professional clothing each year. Montgomery County also expends $40,000 in general revenues each year to supplement other aid to cover the cost of transportation, child care, or books/tuition participants need to acquire the education and training essential for

adequate employment. (Previously, federal Community Development Block Grant funds were used for these purposes.) Thus, the expense of operating FSS in Montgomery County is shared among HUD, HOC, county government, in-kind and financial contributions by community institutions, and donation of time by volunteers.

Outcomes and Effectiveness: At the time of their enrollment in the Montgomery County's FSS program, half of the families were either receiving welfare cash assistance or unemployed. By contrast, 80% of all FSS families still enrolled as of May 2000 were employed, including two-thirds of the families who had been receiving welfare. At that time, the average earned income of employed FSS participants was $9.34 an hour. To date, 218 families (88% of those who reached the end of their contract period) successfully met their goals for FSS and graduated from the program. Over 80% of those who fulfilled the requirements for FSS took a college course or some job training while in the program; one-third completed college, technical training, or GED programs. The average earned income of the 1999 graduates was $12.20 an hour, or $25,365 annually. Savings in their escrow accounts averaged $9,000, with a high of $35,000. Although use of the funds is not restricted upon program completion, 64 (30%) of the program's graduates used the funds to purchase a home. One-third of the homebuyers were receiving welfare cash assistance when they enrolled in FSS.

By August 2000, 335 families out of a total of 964 who had entered the program since its inception had withdrawn or were closed out. The primary reason for non-completion was non-compliance with program goals (45% of the families). The next most common reason was requested withdrawal from the program (27% of the families). Other reasons (for 10% or fewer of the families) include: failure to meet the goals within the 5-year program term; departure from subsidized housing prior to completion of FSS goals; eviction and loss of housing and eligibility; and inability to complete FSS because of illness or disability.

Montgomery County participants ranked caring and supportive case management, followed by training and support services, as contributing most to their success. The incentive created by savings in the escrow account ranked below those factors in importance. Participants credit the dedication of case managers with helping families gain the self-confidence to solve multiple problems that might otherwise have resulted in loss of employment or failure to complete education/training programs. Lasting ties to the volunteer case managers may also serve as an informal support network to rely on at times of crisis or decision making after graduation.

Promise and Challenge: The FSS program in Montgomery County demonstrates how community resources can be effectively utilized to reach large numbers of families without substantial public funding for training and support programs. The program benefits from the fact that Montgomery County is a fairly wealthy suburb area with both sufficient business and personal resources to make donations of time and material. PHAs in other areas may not have access to as extensive an array of training and support services as are offered by public and non-profit agencies in Montgomery County.

After several years of maintaining a waiting list for the program's 441 HUD mandated slots, Montgomery County's FSS program currently has only about 400 enrollees. The number of new enrollees has not made up for the loss of participants through graduation and termination of families from the program. The decline is attributed to a period of staffing constraints and the tight housing market decreasing opportunities to use Section 8 vouchers. Escalating housing costs associated with a 1% vacancy rate in the area have made it more difficult for families to "lease-up", that is, to find landlords who will accept the subsidy amount for rent. If the family cannot lease-up within 120 days, they lose their subsidy and their eligibility for FSS.

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Increasing the Asset Building Capacity of the FSS Escrow Account

FSS Combined with an IDA: The North Carolina Northwestern Regional Housing Authority was selected as an IDA demonstration site by the NC Department of Labor. Beginning in December 1998, up to 25 of its FSS participants could establish an IDA that is matched 2:1 to generate savings in addition to that in their escrow accounts. The balance that can accrue in the IDA, including savings, match, and interest, is capped at $3,000. Deposits into the IDA must come from earned income or a federal or state refund not to exceed $300. Financial education is provided and completion of Homebuyer Education Training is mandatory if the participant is saving for a down payment. Several participants have already withdrawn their $3,000 and taken it, along with as much as $8,000 in their escrow account, to use for homeownership or post-secondary education, with most purchasing a home.

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FSS and the Home$tart Plus Program: In 1997, the Federal Home Loan Bank of Seattle, serving the northwestern U.S., started the Home$tart Plus Program which matched the savings of certain low income families who could use the monies accumulated for the down payment on a home and closing costs. Recently, FSS participants were allowed to take part in a modified version of that program. After completing their FSS contract and qualifying for a mortgage, FSS participants can apply to the program to have their escrow savings matched 2:1 for a maximum match of $10,000. In the first round of matched savings for the Home$tart Plus Program, 37 qualified FSS families in the Seattle area received an average of $7,000 of match money. In 2000, the program became available to all PHAs in the eight-state district served by the Seattle Federal Home Loan Bank.

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Rainier Vista Garden Community, Seattle Housing Authority Jobs-Plus Rent Incentive and Escrow Program (Washington State)

Asset Development Strategy: As part of a multi-pronged strategy broadly directed at all residents of a public housing community, (a) provide job-training and pre- and post-job supports and social supports with the overall aim of enabling residents to gain employment and increased income and (b) freeze rents for two-year periods notwithstanding increased earnings and diverting part of scheduled rent increases that would result from increased income to resident-owned escrow accounts, enabling residents to accumulate financial assets.

Description and Participants: The Seattle Housing Authority's (SHA) Rainier Vista Garden Community (Rainier Vista) includes large numbers of immigrants, especially from East Africa and Southeast Asia, as well as a substantial population of African-American and a smaller one of American-born white residents. As of December 1999, about 75 percent of its households were female-headed, and more than 65 percent of them included one or more children. TANF accounted for the primary source of income for 220 households (47 percent), with wages from employment supporting another 20 percent. About 30 percent of the household heads were classified as disabled. Enrollment in the program is optional. Recently, the SHA received a $35 million Hope VI grant from federal Department of Housing and Urban Development (HUD) that will enable it to rebuild Rainier Vista. This will involve demolishing the units and constructing new ones, but it will be done so as to allow a substantial number of current residents to continue to live on-site. Those who cannot be so accommodated will be placed in other public housing or receive section 8 certificates, but will still be allowed to continue in the program. As a result, no additional enrollees were to be accepted after March 15, 2001. The expectation was that about 150 would participate by that time.

The pilot program at Rainer Vista is part of the five-year Jobs-Plus Community Revitalization Initiative for Public Housing Families research demonstration involving six other similar programs at public housing authorities across the country. All are operated locally, but share a common overall management and are guided by common premises and strategies. The rent incentive and escrow policy manifests a strategy to enable residents to accumulate financial assets. But it is linked to two other key strategies. The second, by means of job-training and pre- and post- job-support activities, is geared to helping residents develop human capital and gain and increase employment income assets, i.e., to enable individuals to get and retain jobs and enjoy wage progression in that or a series of jobs. The third is aimed at both affording residents access to social capital and fostering its development, especially within the community. Whatever the desired impact of each component strategy, it is anticipated that the synergy generated by pursuing all three simultaneously will be most effective. Moreover, the program embodies a "saturation" strategy," seeking to reach *all* employment-age residents, on the premise that it will produce an upward spiral across the community, the reverse of which may happen in communities where poverty is concentrated. Program planning began in March 1997; services in November 1998; and enrollment in the rent policy/escrow program in September,1999.

Education, Training, and Job Support Services: The employment and training portion includes language skills, employment training, and job placement. Individually assigned job coaches work with participants through all stages of the program and advocate for them. They help match participants with appropriate job openings and facilitate placements. Coaches assist with job retention and advancement as well as arrange childcare, transportation, and other support services. Collaborative organizations provide employment, training, and support services. The program itself affords some employment opportunities as well as support for self-employment.

Community Building: The community building component includes support for work, strengthening social networks, and leadership training.

Rental Policy (Stepped Rent Freeze)**:** Typical public housing authority policy determines residents' rent as a fraction, usually 30%, of their income (adjusted in light of various considerations). However, Jobs-Plus program entrants' rent is frozen at the then current level for two years. Thus, residents can take jobs without their rents rising and keep more of their income for other expenses. Thereafter, their rent increases every two years (but is frozen for two years at each stage) until it equals 100 percent of the market rate. The interim steps equal 40 and 75 percent of market rate. At the second step, 40% rent level, the escrow provisions come into effect (see below). After their rents reach the market rate, residents may continue to stay at Rainier Vista, but they are no longer eligible for the escrow payments. Because the escrow contributions begin when the rent reaches 40% of market rent rate, in some circumstances it is advantageous for a residents to and some actually do a pay bit more rent to become eligible for the contributions.

A "Jobs-Plus Safety Net" is available if residents suffer a loss of income and cannot pay their rent. Job Coaches help them search for alternative income sources, such as unemployment insurance – if they are eligible – TANF diversion assistance, or a withdrawal of up to $1,000 from their escrow savings. They can also appeal to the Jobs-Plus Rent Review Committee which can approve a temporary rent reduction up to $25 per month for a maximum of three months out of twelve. Alternatively, it can establish a long-term rent plan designed to ensure that residents can meet their program goals. As a last resort, participants may be given the choice to drop out of the program, but that is discouraged.

The Jobs-Plus rent policy does not apply to fixed-income residents, e.g., those who are elderly or disabled. But they can take advantage of the Community Shares Incentive program that is based on a model promoted by the Time Dollar Institute. Originally, participants were allowed to receive credit for contributing services to others, such as childcare, home repair, transportation, tutoring in exchange for services from others. In exchange for credits accumulated, participants could request services from others, along with a rent reduction. Now, for ease of tracking, participants who accumulate Community Shares (1 hour of volunteer time = 1 Community Share) may simply apply them towards a rent credit not to exceed $50.00 per month. They can also exchange the Shares for material resources. For example, several surplus housing authority personal computers have been awarded to residents who volunteered a minimum of 70 hours of service.

Resident Escrow Accounts**:** As noted above, as a first step, participants' rent is frozen at its then current level for two years. At the end of those two years, the rent is raised to the second step level (equal to 40% of the market rate, an amount which, at present, ranges from $192 to $301 per month for one to three bedroom apartments, respectively) and the escrow provision kicks in. An amount equal to half of the difference between the new, second step rent level and the first step rent level is diverted to the escrow account. After another two years, the rent is raised to the third step level (equal to 75% of the market rate). The amount added to the escrow account is increased to half the difference between the third step rent level and the first step rent level. Finally, after an additional two years, the rent is raised to 100% of the market rate. The amount added to the escrow account is increased to half the difference between the fourth step (market rate) rent and the first step rent level.

Accumulations in the escrow account are capped at $8,000 to $10,000 (depending upon the size of the unit.) Up until their account balances reach the limit, partic ipants they can use the funds for specified purposes only: to purchase a home, pursue educational goals, or start a business or for an emergency. With respect to the latter, for example, if a participant loses a job, his or her case manager and a job coach aid the individual in regaining employment. If that fails, up to $1,000 is drawn from the escrow account to pay for the rent at its current rate. If, after that point, the individual is still unemployed, procedures are set in motion that can allow for a reduction in the rent.

Once the escrow limit is reached, the escrow may be used for any purpose. If they leave Rainier Vista, residents can no longer accumulate savings, but they can take with them what they have accumulated. If they move elsewhere in the public housing system, they must use the funds for the three purposes allowed to Rainier Vista residents. If they move out of subsidized housing (Section 8 or public housing) entirely, they may use the escrow for whatever purpose they choose, even without having reached the maximum amount.

Management and Funding: The program is guided by the Rainier Vista Leadership Team. It and the other six similar programs (in Baltimore, Chattanooga, Cleveland, Dayton, Los Angeles, and St. Paul), in turn, operate under the aegis of a partnership of HUD and the Rockefeller Foundation, along with the Manpower Demonstration Research Corporation, which is the overall Demonstration Manager and Evaluator. The plan has been to have at each site a full-time project director (with support from case managers, job developers, and outreach workers and community organizers who may be on staff or draw from relevant agencies). At all sites, the goal has been to establish a cooperative working relationship among residents and private and public players. For the latter, the key players are the public housing authority, the workforce development system (until recently the Job Training Partnership Act (JTPA)), and the welfare department. Generally, the expectation has been that the bulk of resources to pay for Jobs-Plus services were to come from those core public systems, although in the early phase "most of these locally controlled resources are being offered on an `in-kind' rather than a cash basis." However, sites have obtained funds from a broad range of publicly awarded grants. Among the organizations and agencies aiding the effort at Rainier Vista are the Seattle Office of Economic Development, the Seattle/King County Private Industry Council, the Seattle Department of Neighborhoods, Neighborhood House, the Refugee Federation, the Refugee Women's Alliance, the Rainier Park Medical Clinic, the Washington State Employment Security Department, the Washington State Department of Social and Health Services, and Washington Works.

The estimated nominal revenue loss resulting from the participation of 125 families over a five-year period is estimated at about $1 million. HUD has agreed to reimburse the SHA for approximately $900,000 of that amount, drawing on Jobs-Plus and other program monies. A broad range of sources, including funds from the federal and state government and the Rockefeller Foundation, has financially supported the various service components in the program.

Outcomes and Effectiveness: As of December 1999, 68 of the development's families had signed up for the program; a year later, approximately 130 families were enrolled. About 40-45 of those enrolled at the stage were actually accumulating monies in their escrow accounts. Good data on the program will not be available until early 2001. However, it appears that participating residents at Rainier Vista have a higher employment rate and receive higher wages compared to other residents of SHA housing. For example, the fraction of resident income that was earned rose from about 14.5% in 1997 (prior to the program's start) to approximately 45% by November 1998. In a number of instances, wage progression has been achieved by means of participants moving from initial, lower-paying jobs, to second or even third jobs paying higher wages. Since

November 1998, the program has been able to secure over 200 job placements at an average wage of $9.00 per hour. Also, some participants who left Rainier Vista were able to use the money they have accumulated to secure an additional two for one match (of up to $5,000) under the Federal Home Loan Bank's Home$tart program to enable home ownership. (See **Increasing the Asset Building Capacity of the FSS Escrow Account**) Recently, money has been made available from a state grant enabling individuals to receive a two to one match of their savings as part of their participation in an Individual Development Account program that is funded by Washington State's TANF monies. Such savings must be in addition to monies they accumulate in their escrow accounts.

<u>Promise and Challenge</u>: Even at this early stage, the program has realized some of its promise in helping residents to build human capital, increase employment income, and gain financial assets. However, there are risks for residents. They face rent levels no longer directly tied to their level of income and may not be able to pay their rent if their earnings fall short of expectations. How serious the impact might be will depend on how the Jobs-Plus Safety Net aspects of the program operate. Those who are successful in the program and are spurred to leave Rainier Vista may be able to gain private housing – through rental or homeownership. But resources may be inadequate to pay for private market rents for those whose situations are or become unstable when they depart., As noted above, the diversion of rental payments into escrow accounts may yield a loss of rental income to the SHA. Compelling market-rate tenants to leave represents an additional loss to the SHA since those tenants are replaced with lower income, lower rent paying individuals. Whether the financial effect for the SHA of the rent freezes and escrow program will be positive or negative and small or large is uncertain. The outcome will depend upon how much more resident employment and earnings increase above the level that might have been attained under the prior system, which tied rent directly to income and offered no escrow account.

Overall, the Community Shares Incentive Program appears to be underutilized. Only two or three people a month take advantage of it. Overall, about 50 residents participate in that program. Many may be fixed-income residents. It appears that participants do not use the volunteer hours for rent reduction, perhaps because they think their time is worth more than $1 per hour. They may prefer to save for other things, such "buying" refurbished computers. However, because there is a community service requirement as part of new federal housing legislation, this program may be a good vehicle for meeting it.

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Section 8 Homeownership Program
Community Development Corporation of Long Island (New York)

Asset Development Strategy: To enable low-income families who are recipients of housing rental assistance to purchase a home by (a) allowing them to use the rental assistance payments to pay the mortgage; (b) aiding them in securing the necessary other financial supports to secure a second mortgage, where one is necessary; and (c) providing them with financial literacy, money management, and home ownership-related skills needed to purchase and maintain the house.

Description and Participants: The Community Development Corporation of Long Island (CDCLI) was one of eight federal Department Housing and Urban Development (HUD) demonstration projects, the success of which was the basis for HUD issuing this past fall, final regulations for its generally applicable Section 8 Homeownership Program. That program enables families that receive Section 8-tenant basis assistance to use it for purchase of their first home. The homeownership program may be implemented at a public housing agency's (PHA's) option. Participants must make a down payment of at least 3 percent of the purchase price, with at least 1 percent coming from their personal resources, and secure their own financing (subject to PHA requirements, e.g., ones to assure that the family can afford the payments). The PHA can add to statutory family eligibility requirements (such as the minimum level of income and a history of full-time employment) such as requiring participation in the Family Self-Sufficiency (FSS) Program. (See **Family Self-Sufficiency Program**.) The home ownership housing assistance payment is equal to the lower of (1) the payment standard minus the total tenant payment or (2) the monthly homeownership expenses minus the total tenant payment. For other than elderly and disabled families, the assistance can only be paid for a maximum period of 15 years if the initial mortgage incurred to finance the purchase of the home has a term that is 20 years or longer. The PHA is required to recapture a portion of homeownership assistance if the family receives net cash proceeds upon sale or refinancing (if they are not applied to the purchase of another house under the program). However, the amount that can be recovered is prorated according to the time the family has owned the house, decreasing to zero at the expiration of the term of home ownership assistance.

To qualify for the program, the family must have income at or above a level deemed sufficient for it to pay homeownership and other family expenses not covered by the Section 8 subsidy. The family income counted toward the minimum must come from sources other than welfare assistance. (By contrast, welfare assistance may be counted in determining initial eligibility for receipt of a Section 8 voucher.) One or more of the adult members who will own the home must be currently employed on a full-time basis, i.e., they must work no less than an average of 30 hours per week and have been continuously employed during the year prior to receiving home ownership assistance. The recipient family is required to participate in a homeownership and housing counseling program provided by the PHA.

The CDCLI demonstration program referred to above, which was launched in March 2000, has had the aim of assisting forty families obtain homeownership over three years. It is one among several other programs CDCLI operates to assist low and moderate income households achieve homeownership. Such families generally have a household income below 50% of the area's median income, have low (but not minimum) wage jobs, are largely minority and headed by a woman, and have children. Some participants have previously been homeless, and victims of domestic violence. They may have exhausted (what may have been modest) family resources upon which they could have relied. Their opportunities for home ownership are limited, among

other things, by their modest resources, high housing prices in the local market, and credit problems.

Successful participants in CDCLI's FSS program, which it has managed since the early 1990s, can enter its homeownership program. Such success implies that they have or are likely to have achieved employment stability, attained a sufficient level of earned income, and accumulated enough financial assets to make a small down payment on a home.

Housing counselors work with participants as early as two years before a home purchase and up to the closing. Early on, counselors provide assistance with household budgeting, savings planning, and credit clean-up and, more generally preparation for home ownership. Participants also attend training sessions at CDCLI's Home Ownership Center on subjects such as home maintenance, insurance needs, budgeting, money and credit management, pre-purchase procedures, mortgage financing, down payment and closing cost fund accumulation, and locating and negotiating the purchase of a house.

CDCLI calculates the maximum mortgage amount that each participant can afford, subject to the requirement that no more than 30% of the participant's monthly gross income can go toward payment of principal, interest, taxes and insurance payments. CDCLI also determines the first mortgage amount for which they will apply from a conventional or Federal Housing Administration insured lender. CDCLI provides a second mortgage equal in amount to the difference between the purchase price of home and the first mortgage and down payment, for a term of up to fifteen years and at a low interest rate. (Other assistance may be available to cover closing costs and down payment assistance.) The second mortgage is repaid with the Section 8 subsidy. CDCLI may offer to participants for purchase, affordable homes it has developed by means of subsidies from New York State and private sources. It may also refer them to homes offered by municipal and non-profit housing providers that utilize state and/or federal subsidies to reduce the purchase price.

CDCLI offers post-purchase services, including workshops on home repairs, fix-up, and maintenance, continued education and counseling, and assistance on budget and credit issues to help assure consistent mortgage payments. It is anticipated that CDCLI staff will also counsel participants for the duration of the fifteen year second mortgage.

Management and Funding: CDCLI works with four bank partners to underwrite the first mortgages in a way so that they qualify for purchase by Federal National Mortgage Association (FannieMae) (although some lenders do not sell these mortgages). Money for the second mortgage is obtained through the Home Buyer Fund of the CDCLI Funding Corporation (CDCLI's lending affiliate, a Community Development Financial Institution). The Fund is capitalized with grant funds from the Neighborhood Reinvestment Corporation and other sources, as well as lines of credit at below market interest rates, including a one million dollar loan from FannieMae. Families may also gain down payment through assistance programs such as the New York Federal Home Loan Bank's First Home Club. Program-related support for CDCLI includes funds for housing counseling through HUD, the FannieMae Foundation, and several banks and money for case management though two bank foundations.

Outcomes and Effectiveness: CDCLI's pilot program was launched in March 2000. Originally, 69 individuals registered for the program and 49 have attended the counseling/classes. To date, two participants have already purchased homes and a third is currently looking for a house to purchase. An additional seven participants are finishing their financial education courses as part of making themselves ready to begin the process leading to purchase of a home. Participants

must have an active involvement in the FSS program; many have, in fact, participated in that program for over 2 years. CDCLI anticipates having an additional 20 individuals start the program in the fall and expects to have 10 participants moving toward a home purchase this year, 12 in 2002, and 15 in 2003.

Promise and Challenge: Although HUD regulations do not require that individuals in homeownership program participate in an FSS program, those in CDCLI's program must. Indeed, CDCLI regards it as very important that those who wish to enroll have been "touched" by the FSS program. In part, this is because the skills, experience gained, and motivations fostered by success in that program are valuable for home ownership. In addition, because participants are still on Section 8, the case manager who worked with them in the FSS program can continue working with them. The kinds of supports described above are viewed as important as a matter of technical skills and knowledge relevant to home ownership, such as being financially literate and having budgeting skills. They are also significant in terms of a capacity to handle it in emotional terms, such as dealing with and resolving the crises that arise in connection with or which have an impact on owning a home. For that reason, CDCLI commences what is a long-term counseling relationship with a holistic needs assessment that ranges from the participant's debt and credit issues to the individual's fears about success, to the character of her family relationships and the degree (or lack) of family support.

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