A REPORT OF THE **ASSET BUILDING COALITION FOR MICHIGAN**

Helping **Working Families** Achieve **Financial Security**

ASSET BUILDING
POLICY PROJECT

JANUARY 2006

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Acknowledgments

Helping Working Families Achieve Financial Security was the collaborative work of many. The Asset Building Policy Project wishes to acknowledge and thank the key conveners of the Asset Building Coalition, the members of the coalition, and the funders of the effort. Two organizations have been critical partners to the Asset Building Policy Project; The Council of Michigan Foundations (CMF), since 2000, and the Community Economic Development Association of Michigan (CEDAM) are both fiduciary partners and provide strategic leadership. They served as the key conveners of the Asset Building Coalition along with the Michigan IDA Partnership.

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We want to thank all the members of the Asset Building Coalition (listed in appendix B) who participated in the development of this report. Their time, knowledge and contributions were invaluable and appreciated. Finally, the process and development of the final report was skillfully managed and led by staff at the Corporation for a Skilled Workforce (CSW). Their role as an external facilitator of the coalition was outstanding. Thank you.

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Table of Contents

Executive Summary

The **Asset Building Coalition (ABC) for Michigan** is a diverse and broadly representative group of some 45 offices and agencies including bi-partisan legislators, state agencies, for-profit, and non-profit organizations (see Appendix A). The ABC came together over the last six months with the express purpose of creating a report that outlines new and existing state policy options with the greatest potential to help working poor households build assets toward becoming more financially secure. **The Asset Building Policy Project (ABPP**) a project of the Community Economic Development Association of Michigan (CEDAM) was created over the same time period to pursue the ABC's policy recommendations. The ABC for Michigan will serve as the policy projects advisory board over the next five years and guide its work.

The ABC for Michigan expressed some shared beliefs that guided its work. **First**, the Coalition believes that all of Michigan's citizens should be able to envision a more secure financial future and have the opportunity to build the resources necessary to achieve it. **Second,** the Coalition believes that the knowledge-led economy is challenging some basic assumptions regarding the roles and expectations of individuals, the public sector, and private sector in fostering economic security. New ideas and new policy must be created to meet the challenges working families face achieving financial security in the new economy.

The creation of the Asset Building Coalition and the work of the ABPP is the culmination of several factors:

- The success of Individual Development Accounts and growth of Asset Building programs in Michigan
- Growing public debate on policies related to the President's vision of an "Ownership Society"
- A growing body of academic research that examines the critical importance financial assets play in a) social policy to addresses poverty and b) tax policy that enables middle and upper income households to build assets, but provides limited or no benefit to working families.
- The release of the 2005 Assets and Opportunities Scorecard by CFED which gave Michigan an average score of "C" (23rd among states) in outcomes related to family financial security and a below average rating in public policy that provides opportunities for its citizens to get ahead.

WORKING FACTS

- 24% of working households in Michigan make below 200% of poverty or $31,000 for a family of three.
- Asset Poverty (18.7%) – lacking resources to live at the poverty line for 3 months without income – is nearly twice that of income poverty (11.5%).
- Over 30% of households in Michigan don't have a savings account.
- 40% of adult workers in Michigan have no post-secondary education essential for working and advancing in the knowledge based economy.

Low-income workers, a quarter of the state's population, struggle to support their families in a new economy where the job market doesn't support our traditional understanding of job security. Characteristics of this job market include more frequent job transitions, part-time status, working two part-time jobs, income patching (supplementing work with self-employment opportunities), less secure benefits through employers, and the need to quickly learn and develop new skills to compete in a rapidly changing job market. This transition from the "brawn" to "brain" economy is particularly acute in Michigan where the automobile industry has been the driving force of the economy. Understanding and building assets at the individual household level becomes even more critical as a tool to manage change and plan for a brighter economic future.

Asset Building policy, as opposed to income maintenance policy that currently exist as supports for low-income families, will more closely align "welfare" policy with economic development policy. Opportunities and incentives for low-income households to save, plan for, and invest in their future provide them a "stake" and connection to the economy would contribute to, rather compete with, economic development policy.

All of these factors make this report a timely and important first step in a longer-term effort to pursue a set of state policies that enable working families to care for themselves and achieve greater financial security. The policy framework crafted by the Coalition in this report includes Asset Building policy goals and accompanying recommendations. In addition to these specific recommendations, it is our hope that the report will provide policymakers, the private sector, and government programs with non-profit partners with many new ideas to consider in supporting the needs of working but poor households. The framework is built on four Asset Building policy goals: saving & investment, ownership of assets, leveraging limited resources, and education and skill development.

Help Working Families Save and Invest for Their Future.

Be it for a home, a business, retirement, or education; savings is a key step in any plan to build financial security. Recommendations within this Asset Building policy goal focus on creating and increasing access to tools that help lower-income households save and build financial assets.

POLICY RECOMMENDATIONS:

- Support IDA Program with annualized funding in the MSHDA and DHS budgets.
- Create Universal Children's Savings Accounts.
- Establish a more active consumer interest role at the Office of Financial and Insurance Services (OFIS).
- Create a portable retirement plan that is available to all Michigan residents.

IMMEDIATE OPPORTUNTIES

Three *savings* strategies provide short-term opportunities and may be budget neutral:

- Redirect existing resources to support IDA Programs with annualized funding;
- Expand the match component of the MESP program for low-income children; and
- Establish a more active consumer interest role at the Office of Financial and Insurance Services (OFIS) to ensure low-income families have access to affordable non-abusive financial products.

Help Working Families Build Financial Security through Ownership of Assets.

Home and business ownership are staples of the American Dream. Recommendations within this asset building policy goal focus on home and business ownership, as it relates to lower-income families.

POLICY RECOMMENDATIONS:

- Increase access to, and supply of, affordable home ownership opportunities by securing a general fund commitment to fund a Michigan Housing and Community Development Trust Fund.
- Establish a strong defined role at the Michigan Economic Development Corporation (MEDC) in fostering microenterprise.
- Dedicate existing economic development resources to encourage microenterprise and entrepreneurship.

IMMEDIATE OPPORTUNTIES

Three *ownership* recommendations provide short-term opportunities and may be budget neutral:

- Establish a strong MEDC microenterprise focus;
- Use a portion of Venture Michigan Fund for investments in microenterprise; and
- Redirect a portion of other existing economic development funds for microenterprise efforts.

Help Working Families Leverage Their Limited Resources.

Limited income does not necessarily mean limited opportunity to build assets. At least it shouldn't. Recommendations in this policy goal provide guidance on 1) policy and tools that protect low-income consumers from financial abuses by preserving limited resources and 2) providing family supports that will increase their ability to save and plan for their economic future.

POLICY RECOMMENDATIONS:

- Encourage savings for long-term goals, such as retirement, education, and emergencies through the elimination of asset limit rules.
- Turn every tax season into an opportunity for savings and education.
- Enact a state-Earned Income Tax Credit.

IMMEDIATE OPPORTUNTIES

Three *leveraging income* strategies provide short-term opportunities and may be budget neutral:

- Remove asset limits for family Medicaid eligibility and exempt all types of retirement accounts from asset tests to encourage retirement savings;
- Lead an annual tax-season campaign trough the Governor's office to promote the EITC and encourage its use in long-term asset building investments; and
- Allow taxpayers in 2007 to split their refund into more than one account.

Help Working Families Value, Participate in, and Complete Higher Education & Skill Training.

Education and skill training is most often overlooked as a *financial* asset. Recommendations within this asset building policy goal focus on: 1) ways that families can and should, with incentives, invest in themselves, 2) policy related to workforce development, and 3) the provision and accessibility of financial management education to all Michigan citizens.

POLICY RECOMMENDATIONS:

- Reform the Michigan Education Savings Program (MESP) to be more progressive and inclusive.
- Connect all Michigan citizens to quality financial education, in particular low-income households.

IMMEDIATE OPPORTUNTIES

Five *education and skills training* strategies provide short-term opportunities and may be budget neutral:

- Create a link to MESP through IDAs, allowing IDA participants to roll over savings and matched funds into a MESP account;
- Include financial education as an essential learning component of the K-12 school systems;
- Allow financial education to count as qualifying work activity for TANF recipients;
- Integrate financial education component into existing programs offered by Michigan's DLEG; and
- Include financial education in pre-purchase housing counseling and foreclosure prevention education offered by MSHDA.

The Asset Building Policy Project brings a unique and distinct focus to public policy in Michigan. These policies and tools help low-income families help themselves by building financial assets. Asset Building provides a new direction, new language, and with that a new opportunity to develop common interests and goals across traditional party lines as we focus on better outcomes for working, but low-income households. This report provides a set of policy recommendations, some immediate opportunities, and policy ideas in Appendix C that we hope will generate thought, support and action.

The Asset Building Policy Project welcomes new partners to consider and create policy ideas that reflect this direction. Over the next five years the Asset Building Policy Project will: (a) build common goal alliances for policy outlined in the report across traditional divisions of human service, workforce development, community development, economic development, and single-issue coalitions; (b) engage current and future generations of legislators in exploring Asset Building legislation and its political and policy implications; and (c) work with state government and departments as it considers the programming implications that Asset Building policy has for resource investment and outcomes.

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1. The Asset Policy Context

The **Asset Building Coalition (ABC) for Michigan** is a diverse and broadly representative group of some 45 offices and agencies including bi-partisan legislators, state agencies, for-profit, and non-profit organizations. The ABC came together over the last six months with the express purpose of creating a report that outlines new and existing state policy options with the greatest potential to help working poor households build assets toward becoming more financially secure.[1] **The Asset Building Policy Project (ABPP**) a project of the Community Economic Development Association of Michigan (CEDAM) was created over the same time period to pursue the ABCs policy recommendations. The ABC for Michigan will serve as the projects advisory board over the next five years and guide its work.

The creation of the Asset Building Coalition and the work of the ABPP is the culmination of several factors:

- IDAs and Asset Building in Michigan - The experience and success of the Michigan IDA Partnership (MIDAP), a statewide project that created Individual Development Account (IDA) programs that match the savings of low-income families (below 200% of poverty) to attain high return assets like purchasing a home, starting a small business, or pursuing higher education (Appendix B; MIDAP fact sheet).
- At the federal level, President George W. Bush's vision of an "Ownership Society" has been receiving increased attention from both sides of the isle. The debate has centered around the fact that although research has shown assets and ownership to play a positive role in helping families break the cycle of generational poverty, analysis of existing social and tax policy demonstrate they have provided limited benefits to working families.
- A growing body of academic research that examines the critical importance financial assets play in a) social policy to addresses poverty and b) tax policy that enables middle and upper income households to build assets, but provides limited or no benefit to working families.
- The release of the 2005 Assets and Opportunities Scorecard by CFED which gave Michigan a very average "C" (23rd among states) in outcomes related to family financial security. The public policy analysis noted several exciting developments occurring in Michigan but rated the state below average in providing opportunities for its citizens to get ahead (see full report at www.cfed.org/go/scorecard).

All of these factors make this report timely and an important first step in a longer-term effort to pursue a set of state policies that enable working families to care for themselves and achieve greater financial security. This report includes Asset Building policy goals and accompanying recommendations crafted by the Coalition. In addition, it is our hope that the report will provide policymakers, the private sector, and government programs with non-profit partners with many new ideas to consider in supporting the needs of working but poor households.

KEY TERMS

LOW-INCOME: Families earning less than 200% of poverty per year.

POVERTY LEVEL: Federally defined minimum income needed to support an individual or family at a minimum standard of living. For 2005, $19,820 is the federal poverty line for a family of four.

SELF-SUFFICIENCY: The ability of a household to meet and sustain its basic needs without receiving public benefits. The real self-sufficiency level is considerably more than twice the federal poverty line.

ASSET: Refers to everything a person owns (cash, retirement savings, home, business etc) that has exchange value. Human capital in the form of education and training is also considered an asset that allows people to achieve economic security and mobility.

Source: US Census Bureau; Center for an Urban Future (November 2004). *Between Hope and Hard Times.*

2. The Significance of Assets

Asset-building policies – policies that support families to build wealth for current and future generations – have long been an integral feature of the American political and economic landscape. In 1862, the Homestead Act provided 1.5 million families with land and the opportunity to start farms and build homes, enabling them to accumulate and transfer assets for future generations. In the mid-1900s, the G.I. bill helped millions of World War II and Korean War veterans to invest in homes and education. Today, similar policies provide incentives for American taxpayers to save and invest in their families and in their communities.

However, these policies have not benefited *all* Americans. For example, households that earn over $50,000 a year receive more than 90% of the benefits of the mortgage interest tax deduction.[2] Most of our policies that serve low-income families have focused on income maintenance rather than asset accumulation. These policies were typically created as temporary relief from job loss until a new job was found and full-time benefits through an employer provided greater long-term security. As a result, in the last two decades, even as income poverty has fallen, asset poverty has become more widespread. Asset poverty is defined as the inability to live at the poverty level for more than 3 months without income. In Michigan 11.5% of the population is classified as income-poor, but 18.7% meet the criteria for asset poverty.

A growing body of research suggests that assets are critical to building social and economic security. In fact, many academics argue that families that understand and use savings and investment strategies will be the most successful in leaving poverty and connecting to the economic mainstream of America. According to recent research, assets:[3]

- Are associated with economic household stability;
- Decrease economic strain on households;
- Are associated with educational attainment;
- Decrease marital dissolution;
- Decrease the risk of intergenerational poverty transmission;
- Increase health and satisfaction among adults;
- Increase property values;
- Decrease residential mobility;
- Increase property maintenance; and
- Increase local civic involvement.

Asset Inequity

- Asset poverty is defined as the inability to live at the poverty level for more than 3 months without income. In Michigan 11.5% of the population is classified as income-poor, but 18.7% meet the criteria for asset poverty.
- Income poverty in the U.S. fell by 16% between 1983 and 1998, but asset poverty rose by 14%.
- By 1998, the wealthiest 20% of U.S. households held over 90% of total household financial wealth.
- The average wealth of the poorest 40% fell by 76% between 1983 and 1998.
- 53% of the total growth in net worth between 1983 and 1998 accrued to the top 1%, and 91% of that growth accrued to the top 20% of U.S. households."
- Minority families have only one-sixteenth the net assets of white families.

Sources: Scanlon, E., & Adams, P. (2001). Asset-building policy and programs for the poor. In *Assets for the poor: The benefits of spreading asset ownership* (p. 302). New York: Russell Sage Foundation; Sherranden, M. (2001). *Assets and the poor: A new American welfare policy* (p. 288). M.E. Sharpe, Inc. Armonk, NY; Michigan League for Human Services (May 2003). *Working for a living in Michigan;* Corporation for Enterprise Development (2005). *Assets and Opportunity Scorecard.*

Low-income workers struggling to support their families in the new economy face a job market that doesn't support our traditional understanding of job security. Characteristics of this job market include more frequent job transitions, part-time status, working two part-time jobs, income patching (supplementing work with self-employment opportunities), less secure benefits through employers, and the need to quickly learn and develop new skills to compete in a rapidly changing job market. This transition from the "brawn" to "brain" economy is particularly acute in Michigan where the automobile industry has been the driving force of the economy. Understanding and building assets at the individual household level will become critical to help families manage change and plan for a brighter economic future.

Asset based policy, as opposed to income based policies that currently exist as supports for low-income families, will also more closely align "welfare" policy with economic development policy. Opportunities and incentives for low-income households to save, plan for, and invest in their future provide them a "stake" and connection to the economy that "would not compete with – but rather would contribute to – capitol accumulation and economic growth."[4]

For generations, American families have relied on employers and government to provide financial security. Simply through employment, families were afforded the income, health, retirement and other benefits to ensure their financial well-being. Michigan in particular, as home to the automotive industry, provided its workers with a higher quality of life and greater security than most other states in the nation. However, this picture has changed drastically over the last three decades. Today, 24% of *working* families in Michigan have income below 200% of poverty (about $31,000 for a family of three).[5] These families are living from paycheck-to-paycheck, and struggling to meet basic needs such as housing, food, clothing, transportation, health care, and child care.[6] Living on the economic edge means that crisis often result from matters that are small setbacks for those in the mainstream, such as missing work due to a child's illness or having a car break down. Many of these families feel isolated, left out of the economic mainstream, and are losing hope in their ability to attain basic financial security.

Working but Poor – holding a job isn't enough to keep a family out of economic hardship.

- 24% of working households in Michigan make below 200% of poverty or $31,000 for a family of three.
- 23% of jobs pay below a poverty wage.
- 12.6% of Michigan Households have zero or negative net worth.
- Over 30% of households in Michigan don't have a savings account.
- Less than one-half of working families have assets targeted for retirement.
- 40% of adult workers in Michigan have no post-secondary education essential for working and advancing in the knowledge based economy.

Sources: Michigan League for Human Services (June 2005). Michigan's Growing Low-wage workforce and Working for a living in Michigan; CFED Assets and Opportunity Scorecard; and Beeferrman, L. (September 2002). The asset index; Assessing the progress of states in promoting economic security and opportunity.

Working and Pursuing Happiness

Wanda Warren sees a different future. Wanda gets up every morning, feeds her two boys, and rushes to drop them off at school by 7:45 am (although they are often late because Ben, 8, can never seem to find his shoes).[7] She works two part-time jobs as a waitress and cashier but still only earns about $22,000 a year (making her one of 285,000 families in Michigan – 24% of the population – that work but make less than 200% of poverty). At times, Wanda has had to use her credit cards to keep up on her utility payments and rent and had accumulated a $4,000 balance due (giving her a negative net worth like nearly 13% of households in Michigan.)[8] But Wanda has something else in mind for herself and her children. A teacher at school told her about an "IDA" (Individual Development Account) Program run out of the local Community Action Agency. If she could save $1,000 the program would match her savings with $3,000 dollars, enough for a down payment on a home. She made time to take the 6 financial management classes where she learned how to make and use a monthly budget, reviewed her credit report and developed a plan to pay off her debt. Wanda began saving $25 a month from one of her paychecks into her IDA account. She took on one more weekend shift at the restaurant, thanks to her mom looking after Ben every Saturday morning. She and her kids also cut back on fast food and rented videos instead of going to the movie theater. Ben and Sean contributed to the savings with a paper route and baby-sitting proceeds. Wanda received a tax refund of $1,732, thanks to the Federal Earned Income Tax Credit, which paid off much of the credit card bill she had been slowly working down. Last January Wanda was pre-approved for an $85,000 mortgage and learned she had improved her credit score by 78 points to 699 by following her credit repair plan. In April Wanda, Ben, and Sean moved into a 3-bedroom home with a garage on a one-acre lot. It took the family 18 months to complete the program, only 13 to save $1,000. "Having a goal and the opportunity to get the match

was key," Wanda explains, "I didn't believe I could do in the beginning but my kids got so excited, I just thought 'I've always wanted this, I'll make it happen.'" Moving into their home had some unexpected benefit. At a parent-teacher conference Ben's teacher told Wanda that her son was more organized, doing better in school, and seemed more settled. "We moved into our own house this year." Wanda blurted out. Wanda is still saving a little bit every month. She has to decide if she will use her savings for the kid's education fund, which she discusses with them more often now, or perhaps her own retirement account would be a better idea.

In 2001 the State of Michigan partnered with the Council of Michigan Foundations (CMF) to create a small statewide Individual Development Account (IDA) Demonstration Program. IDAs are matched savings accounts targeted at low-income households to save and develop resources to invest in high return assets like a home, post-secondary education, or business creation. IDAs are the most visible and demonstrative example of the concept of Asset Building policy as articulated in *Assets and the Poor; A New American Welfare Policy*. This was the seminal work that ignited the now 15-year dialogue on the critical importance "Assets" should play in the lives of low-income people achieving economic security. National research and Michigan's experience with IDA programs has shown that families at or below 200% of poverty can and do save provided the right incentives and opportunity. Since 2001 nearly 700 of the 1600 participants that entered the matched saving program have completed an asset investment in a home (453), business (90) or education (130). Over 600 participants remain active in the program as they save for their family's goal of gaining greater financial security. The 300 or so participants that entered and left the program received financial education and counseling, are wiser consumers, and may well return at a point in time where asset building is a possibility if the policy and opportunity exists.[9]

Assets and the Poor; A New American Welfare Policy

By Michael Sherraden (1991).

"The theme of this book can be summarized very simply: Asset accumulation and investment, rather than income and consumption, are the keys to leaving poverty. Therefore, welfare policy should promote asset accumulation – stakeholding – by the poor. An Asset Based welfare policy would seek to combine welfare assistance with economic development."

3. Helping Working Families Achieve Financial Security

Michigan has an opportunity to move ahead of the rest of the nation in establishing new policy and tools that work within the reality of the a knowledge-based economy, and provide working families the opportunity to secure greater economic control of their lives and a build a foundation for their future. The Asset Building Coalition, after reviewing a variety of policy ideas and policy frameworks believes there are four long-term Asset Building policy goals areas to pursue:

- **Help Working Families Save and Invest for their Future**
- **Help Working Families Build Financial Security Through Ownership of Assets**
- **Help Working Families Leverage their Limited Resources**
- **Help Working Families Value, Participate and Complete Higher Education & Skill Training.**

In crafting these goals and recommendations for the asset policy framework, the ABC for Michigan expressed some shared beliefs that guided its work:

First, the Coalition believes that all of Michigan's citizens should be able to envision a more secure financial future and have the opportunity to build the resources necessary to achieve it. Asset Building is a lifelong path we travel from birth to retirement and beyond, as wealth is transferred to the next generation. Working families may experience opportunities to travel this path at different points in time, but having a full array of policy and tools to encourage, reward and facilitate these long-term investments by households in themselves will help lower public sector dependence and will improve Michigan's economic outlook.

Second, the Coalition believes that the knowledge-led economy is challenging some basic assumptions we hold regarding the roles and expectations of individuals, the public sector, and private sector in fostering economic security. New ideas and new policy must be created to meet the challenges working families face achieving financial security in the new economy.

This report provides a starting point on the path toward new policy and ideas. The Asset Building Policy Project welcomes new partners to consider and create ideas that align with this direction. In the pages that follow, the Asset Building Coalition provides many specific policy recommendations that fulfill both the criteria used in developing the recommendations[10] and the long-term Asset Building policy goals outlined here. Each section includes some "immediate opportunities" –recommendations that may be budget neutral or a shift in priority for existing resources. Finally, the coalition also includes some directional recommendations (in Appendix C) where a specific policy was not as clear, but where there was consensus on the need for future policy.

Four Goal Areas of Asset Building Policy

- **Saving & Investment**
- **Ownership of Assets**
- **Preserving & Leveraging Limited Resources**
- **Education & Skill Development**

4. Goals and Recommendations for Asset Building Policy

SAVING & INVESTMENT

A. LONG-TERM GOAL: Help Michigan working families save and invest for their future.

The Coalition offers four recommendations related to savings and investment: 1) annualize IDA funding, 2) create Universal Children's Accounts, 3) establish a more active consumer interest role at the Office of Financial and Insurance Services, and 4) create a portable retirement plan.

Be it for a home, a business, retirement, or education, savings is a key step in any plan to build financial security. Saving rates in the United States are dismal. "Between 1989 and 2001 credit card debt almost tripled from $238 to $692 billion (the average debt for a family is in 2001 was $4,126). The savings rate steadily declined, and the number of people filing bankruptcies increased by 125%."[11] In fact, consumer debt is now a driving force in household decision-making as households are forced to use and misuse debt as a replacement for emergency saving. This is troubling not only for individual households, but for the nation's economy. Federal Reserve chairman Alan Greenspan has often spoken about the need to increase saving by American households again and has been an advocate for policies that provide incentives for lower-income Americans to save.

The two biggest barriers to saving for lower-income families are the financial management skills required to manage a household budget in a way that supports saving and, more importantly, access to basic financial tools that allow saving and investment of those resources. Working families find themselves in circumstances where it may well be easier to use alternative financial services like check-cashing and payday lenders than traditional financial institutions. This helps explain the explosion of alternative financial services and sub-prime lending in Michigan.[12] Recommendations within this Asset Building policy goal focus on increasing access and establishing tools that help lower-income households save and build financial assets.

RECOMMENDATION: Support IDA Programs with annualized funding in the MSHDA and DHS budgets.

Individual Development Accounts are matched saving accounts designed to help low-income and low-asset families accumulate funds for home purchase, education or business. There are only IDA accounts available to serve one-half of one percent of eligible households in Michigan. MIDAP was started as a 5-year state demonstration, funded by various sources, including federal, state and private foundations. Since its inception, the MIDAP received over $4 million in state resources, $2 million in federal resources and about $3 million in private resources. All of the funding has time restrictions associated with it, making it difficult to plan and manage a program that supports asset building over longer periods of time. Annualized stable IDA funding would make it a more useful vehicle for savings and asset building.

IMMEDIATE OPPORTUNTIES

Three *savings* strategies provide short-term opportunities and may be budget neutral:

- Redirect existing resources to support IDA Programs with annualized funding;
- Expand the match component of the MESP program for low-income children
- Establish a more active consumer interest role at the Office of Financial and Insurance Services (OFIS) to ensure low-income families have access to affordable non-abusive financial products.

The Coalition recommends making current IDA funding from Michigan State Housing Development Authority (MSHDA) and Temporary Assistance to Needy Families (TANF) regular budget line items for those departments. In addition, MSHDA funds would leverage additional federal funding through the Assets for Independence Act. $750,000 from each source, for a total of $2.25 million, would sustain the IDA infrastructure in the state and establish an on-going system where in any given year 1,500 accounts are active and 500 families "graduate" and thereby invest in their own long-term financial security. Sustained funding would also create an on-going symbol of Asset Building policy and the critical importance saving plays in providing greater financial security. The way that asset building accounts are managed may change in the future to provide for greater economies of scale, but until that time IDAs are one tangible tool available that provides savings and investment opportunity to working households, giving them direction and hope of achieving a better life.

RECOMMENDATION: Create Universal Children's Savings Accounts within Treasury.

The Coalition recommends that Michigan should act as a leader in the asset building field by creating Universal Children's Savings Accounts within the Department of Treasury. One way to fashion such a policy would be to build on the existing system of the Michigan Education Savings Plan (MESP, see Education recommendations, beginning on page 15). Another way to create a Michigan children's savings account policy is to create a new program modeled from the design outlined in the federal ASPIRE Act (see next paragraph). Such a policy would create a culture of saving and long-term planning and lead to the first universal system of asset building accounts in the country. The dollars saved, and match provided, would fuel a brighter economic future for our children and the state of Michigan by providing all our youth with an economic stake in their education and other asset producing investments.

The Federal ASPIRE Act (America Saving for Personal Investment, Retirement, and Education Act) would provide a universal system of asset building accounts and has been proposed with bi-partisan support at the federal level. It would "encourage savings, promote financial literacy, and expand opportunities for young adults by establishing a KIDS Account for every newborn child." The federal proposal would create a KIDS account for every child when they are issued a Social Security number. Each account would be endowed with a one-time $500 contribution, and children in households earning below national median income would be eligible for a supplement contribution of up to $500. Additional savings incentives include tax-free earnings, matched savings for low-income families, and financial education. The KIDS Account Fund would be established within the Treasury, governed by a Board of Directors similar in structure to the Board overseeing the Thrift Savings Plan (TSP), the retirement program for federal employees.[13]

The design of the ASPIRE Act is well conceived. However, this is only a proposal. In time such a broad and inclusive federal policy may be possible, but in the short term states are a more appropriate vehicle to explore and test universal children's saving policy. Remember, Social Security was a program innovation in Wisconsin before it was established as arguably the most significant and popular Federal program of the 20th century.

RECOMMENDATION: Establish a more active consumer interest role at OFIS to ensure low-income families have access to affordable non-abusive financial products.

The Coalition recommends the Office of Financial and Insurance Services (OFIS) play a more active consumer interest role to ensure low-income families have access to affordable non-abusive financial products. Appendix C details three areas where OFIS could play a more significant role as a partner with the financial services industry; 1) encourage product innovation that better serves low-income consumers, 2) ensure its regulatory role keeps pace with changes in technology and alternative financial service providers, and 3) encourage employers to help low-income workers gain information and access to financial services.

22% of American families earning less than $25,000 a year do not have a checking or savings account.[14] They are considered "unbanked". A greater number of low- and moderate-income families are considered "underbanked" because of their reliance on high-cost alternative financial service providers, such as check cashers and payday lenders. In Michigan, as elsewhere in the country, banks and credit unions face increased competition from outside the traditional depository institutions. The exponential growth in the alternative financial services sector demonstrates the need for financial services for low- and moderate-income families. "These alternative financial institutions do not offer asset-building services such as savings accounts or credit products that can help people build a positive credit history."[15] In other states, banking departments comparable to OFIS, are taking on a much more active role as a consumer advocate with the financial services industry. In Michigan the Office of Financial and Insurance Services should do the same.

RECOMMENDATION: Create a portable retirement plan that is available to all Michigan residents.

The Coalition recommends Michigan offer a voluntary, portable retirement plan modeled after the Washington Voluntary Accounts proposal outlined below.

According to the Employee Benefit Research Institute, in 2003, 65.6% of all full-time workers in the United States worked for employers who sponsored a retirement plan. This percentage was just under 55% for private-sector employers. In other words, nearly half of all workers in private sector employment do not have a retirement plan through work.[16] Part-time, temporary, contract workers and employees in entry-level positions most often do not have access to an employer-sponsored plan. Because low-income individuals are much more likely to work in those positions, more work should be done in this area to make retirement savings easier for employers and employees alike.

To address the lack of retirement savings vehicles, the Economic Opportunities Institute developed a proposal for the Washington Voluntary Accounts, to expand "retirement security" for Washington workers not covered by a retirement plan at their workplace. Using payroll deductions and optional employer contributions, Washington Voluntary Accounts would provide an easy way for individuals to save for retirement. The program would also helps small businesses that often do not have the resources to provide their own retirement plan. As proposed, this program would:

a. Make voluntary, portable retirement savings available to all workers in the state.
b. Allow workers to make tax-deferred contributions to a 401 (k)-style retirement account, through a new plan administered by the Washington State Department of Retirement Systems.
c. Provide an easy and inexpensive mechanism for small business to offer the benefit of a retirement plan to workers."[17]

A retirement plan such as this is fully portable because it is individual based (similar to social security contributions) and not employer based. Payroll deductions make savings automatic. Centralized administration and oversight lowers costs and allows a wide range of investment options for the funds. It is a model worth considering by the Michigan legislature as it has the potential of increasing retirement savings by all working people in the state.

OWNERSHIP OF ASSETS

B. LONG-TERM GOAL: Help Michigan working families build financial security through ownership of assets.

The ownership goal of Asset Building policy is focused on providing greater opportunities for home and business ownership, as it relates to lower-income families. **The Coalition offers three recommendations** to this end: 1) create affordable home ownership opportunities by funding a Michigan State Housing and Community Development Trust Fund, 2) increase regional capacity and collaboration by giving the Michigan Economic Development Corporation (MEDC) a strong and defined role in fostering microenterprise, and 3) dedicate existing economic development resources to encourage microenterprise and entrepreneurship. Although these recommendations have been identified as policy priorities, please see Appendix C for a discussion of other policy ideas explored by the Coalition.

Financial institutions offer a financial product path to consumers. Most consumers begin with transaction and savings accounts, then move to credit building and debt, and finally achieving ownership through the use of mainstream financial products. The Asset Building ladder leads to ownership in a similar manner. Home and business ownership are staples of the American Dream. Home ownership, in particular, carries with it benefits that extend well beyond financial equity. According to a national poll by Homeownership Alliance, homeowners are perceived as happier, more financially secure, more involved in the community, and more likely to vote. The financial fact is that home equity represents 30% of the net worth of a typical American family, far outreaching any other single investment.[18] But for lower-income working families it is increasingly difficult to attain home ownership as housing prices continue to outpace income growth. According to the U.S. Census Bureau's most recent American Housing Survey, more than 70% of families with incomes in the lowest quintile spend 30% or more of their income on housing, with 46% spending more than half. Michigan compares well with other states in its overall rate of homeownership (ranked 5th at 75% according to CFED Assets & Opportunity Scorecard). However, there are areas of concern. First, Michigan's foreclosure rate is very high in relation to other states (6th worst in the nation). Second, the homeownership rate for minorities in Michigan is only 54%. These trends should cause concern for Michigan and re-energize efforts to focus on "affordable" housing as a strategy to ensure a strong middle class achieved through continued high rates of home ownership.

Business ownership in Michigan is a different story. The entrepreneurial business environment of the early 1900s spawned the automobile industry, which drove job creation, economic security, and wealth creation. Today, Michigan's business environment gets mixed reviews and ranks low in many national comparisons. Michigan received an "F" for overall entrepreneurial dynamism in a March 2005 economic analysis by the economist Dr. Graham Toft on behalf of the Small Business Administration Association of Michigan. In particular Michigan ranks low in business ownership comparisons and received a "D" on the CFED Assets & Opportunity Scorecard (ranked 48th and 46th respectively on ownership rates for small business and microenterprise).

RECOMMENDATION: Increase access to, and supply of, affordable home ownership opportunities with a general fund commitment to fund a Michigan Housing and Community Development Trust Fund.

The report *State of the Nation's Housing 2005* concludes that, despite a record-breaking year (2004) for housing prices, home sales and residential investment nationwide, affordability problems continue to persist.[19] Low-wage workers, a rapidly growing group in Michigan, are being shut out of opportunities to own their own homes.

Federal home ownership policies – driven by the 1990 National Affordable Housing Act – have focused mainly on the use of mortgage insurance, down payment assistance, and home buying vouchers through the Federal Housing Administration (FHA). In addition, tax incentives and tax-exempt bonds are used to spur investment in housing stock production or preservation. State policies have also utilized incentives for preservation and tax-exempt bonding strategies. The Michigan State Housing and Development Authority (MSHDA) and its various programs, for example, are largely self-funded through the sale of tax-exempt bonds and notes, which are lent to housing developers and homebuyers at below-market rates. Since the passage of the Federal Act, MSHDA has received $200 million in Home Funds for various ownership and rental programs.

However, despite the success achieved by MSHDA, and others around the country, most of these approaches have not been able to keep pace with the growing need and demand for affordable housing, particularly in urban areas with dense central cities.[20] Other approaches to home ownership policy have included the passing of fair housing legislation to prevent discrimination in real estate and lending practices (both national and state legislation), and the establishment of housing trust funds at the state and local levels. According to the Joint Center for Housing Studies, 34 states have trust funds and have realized some promising success with them, prompting current proposals for the creation of a national housing trust fund.[21] Michigan is not one of the 34 states with a state trust fund.

Various policy approaches have been taken in Michigan over the past 10-15 years that have contributed to increased affordable home ownership opportunities. Public Act 147 of 1992 created "enterprise zones" through which rehabilitated housing stock in economically distressed communities is taxed at lower rates to spur redevelopment. Public Act 376 of 1996 created "renaissance zones" which fostered tax-free housing and business zones. As a result of both Acts, affordable housing stock increased across the state. In 2000, $25 million in TANF funds were redirected to provide low-income/ welfare families with housing assistance, of which about $20 million was related to the purchase or refinancing of a house, as opposed to rental assistance. However, TANF is federal money and nearly all of it has been expended, leaving future funding prospects uncertain.[22]

The Coalition recommends funding the Michigan Housing and Community Development Trust Fund that is based on a dedicated set-aside from the General Fund. State legislation authorizing a Housing and Community Development Trust Fund was passed in 2004, but funds have not yet been appropriated to operationalize the trust fund. Typically, trust funds are capitalized through dedicated revenue from real estate transfer taxes (most common source of funds)[23], interest from real estate escrow accounts, or a portion of state income taxes. A study by the Delaware Housing Coalition that looked at the various revenue sources of state trust funds concluded that realty transfer taxes are an "ideal source". Michigan should consider all these potential revenue streams to expand affordable housing and ownership opportunities.

A fully appropriated Michigan Housing and Community Development Trust Fund would foster a new generation of strategies and tools to address the increasing difficultly low-income workers and minorities face in attaining home ownership.

RECOMMENDATION: The Michigan Economic Development Corporation (MEDC) should play a strong and defined role in fostering microenterprise.

The importance of microenterprise as both a small business development strategy and as an asset-building strategy is well proven. Microenterprises are businesses with five or fewer employees and usually require $35,000 or less in start-up capital. While not always the case, microenterprise owners do not typically have access to traditional commercial banking or lending mechanisms, nor to venture capital/angel networks. The Association for Enterprise Opportunity reports that nationwide, and in Michigan especially, structural unemployment as a result of chronic plant closings and corporate downsizing has led many individuals to create their own jobs through launching small businesses.[24] Microenterprise accounts for nearly 16% of all

employment in Michigan – with 656,304 enterprises – and has become a proven alternative to minimum wage labor and public assistance for moderate and low-income individuals.[25] National data indicate that microenterprise is also especially attractive to, and effective for, older workers as a way to supplement their retirement income. According to a 2004 AARP study, people over the age of 50 comprise 25% of the workforce, yet they make up 40% of the self-employed.[26] The study showed that not only are self-employment rates consistently higher among older workers, but that self-employment via an incorporated business (which is not even included in official statistics on self-employment from the Bureau of Labor Statistics) makes up a significant share of the self-employed population.[27]

Federal policy in support of microenterprise exists primarily through three programs of the U.S. Small Business Administration (SBA): the Microloan Program, which provides funding for lending capital and grants for technical assistance; Women's Business Centers, which offer grants for training and technical assistance to women starting or expanding their businesses; and the Program for Investment in Microentrepreneurs (PRIME), which provides grants for technical assistance to low- and very low-income microentrepreneurs. Of these, the Microloan Program is the single largest source of funding for microenterprises.

IMMEDIATE OPPORTUNTIES

Three *ownership* recommendations provide short-term opportunities and may be budget neutral:

- Establish a strong MEDC microenterprise focus;
- Use a portion of Venture Michigan Fund for investments in microenterprise; and
- Redirect a portion of other existing economic development funds for microenterprise efforts.

Other federal policies and programs that impact microenterprise and which are usually administered at the state level are Community Development Block Grants; Rural Enterprise Development Programs which are funded through the U.S. Department of Agriculture and focus on support for agricultural-related businesses; the Community Development Financial Institutions Fund which is funded through the U.S. Treasury and makes capital grants, equity investments and capacity building grants to community development financial institutions (CDFIs), as well as incentives for bank and thrift investments in distressed communities; and Individual Development Accounts, which can be used for the launch of a small business.[28]

Michigan is served by three PRIME grantees, three SBA women's business centers, six SBA Microloan intermediaries, and a statewide network of federally funded Small Business and Technology Development Centers (SBTDCs). But despite the success of the SBA programs and the clear impact of microenterprise on the state's economy, Michigan's state economic development strategy, led chiefly by the Michigan Economic Development Corporation (MEDC), has traditionally focused on two areas: 1) the *recruitment* of larger, out-of-state companies and *retention* of larger, in-state companies, and 2) investment and technical assistance to technology-oriented companies that, while often small in number of employees, have very high capitalization needs. Current efforts to implement the Venture Michigan Fund and to securitize Michigan's share of the tobacco settlements have been shaped by these two approaches.

In 2005, however, the Department of Labor and Economic Growth (DLEG) embarked on an effort to assess and improve the state's ability to support a broader spectrum of entrepreneurs, including microenterprises. This effort seeks to both improve the state's products and services to entrepreneurs, as well as to align and leverage resources to areas that will yield maximum impact. Given the significance of microenterprise on the state's economy and the strong public return on investment of microenterprise nationally – which is estimated to be between $2.06 and $2.72 for every dollar invested – microenterprise can, and should, be an integral part of Michigan's asset-building policy landscape. The Coalition recognizes the vast opportunities that entrepreneurship, and microenterprise in particular, represent for many individuals and families to build business-related assets, thereby strengthening their ability to create a source of livable, sustainable income. The Coalition will support policies that will increase capacity and collaboration to make microenterprise a key part of economic development efforts statewide.

The Coalition recommends MEDC establish a small, dedicated staffing unit to support microenterprises. While the MEDC cannot, with limited resources, be all things to all types of businesses, the economic impact of small stage 1 companies (1 - 9 employees) and their growth is irrefutable; these businesses must be viewed as vital customers in the same way that larger, anchor companies traditionally have been.

Working in partnership with non-governmental, microenterprise organizations in the state, such a unit would deliver a range of value-added informational and technical assistance services and products to the microenterprise community that focus on launching and growing successful small businesses. A key role of the unit would be to provide assistance and networking and mentoring opportunities that enhance the ability of microentrepreneurs to access business opportunities with larger firms within Michigan.

As well, an MEDC Microenterprise Unit should:

- Develop a toolbox for microenterprise intended for use by staff at public agencies, educational institutions, and community-based and economic development organizations that play a role in referring or serving potential entrepreneurs.
- Spearhead an incentive process for the creation of regional coordinating bodies that facilitate collaboration of SBTDCs, microenterprise associations, SCORE, and other service providers. Such an incentive fund should be modeled after others already implemented in Michigan (e.g., Cool Cities/Regional Skills Alliances) that are funded collaboratively with both public and philanthropic funds. The incentive fund should be part grant to support operations of the regional coordinating body, and part tax or loan incentive as a pass-through to microenterprise businesses themselves.

RECOMMENDATION: Dedicate existing economic development resources to encourage microenterprise and entrepreneurship.

The Coalition recommends a percentage of the Venture Michigan Fund to be separately managed as a microenterprise fund, and to be managed by a CDFI (such as a community development venture capital firm) or other qualified fund manager. There are a number of steps in order to accomplish this strategy, including determining the funding mechanism for the Fund, and ascertaining what steps are needed for legislative action.

In addition, a portion of other existing economic development funds should be redirected for microenterprise efforts. This includes (a) supporting reinstatement of a state Capital Access Program that makes microenterprises eligible for resources available through the CAP; (b) redistributing Community Development Block Grants through counties, not cities and securing unused CDBG funds for re-allocation; and (c) making a Michigan State Housing Development Authority Fund of $25K-$50K available for social/non-profit entrepreneurs.

LEVERAGING LIMITED RESOURCES

C. LONG-TERM GOAL*:* Help working families leverage their limited resources.

The Coalition offers three recommendations related to leveraging limited resources: 1) remove asset limits to encourage savings, 2) turn every tax season into an opportunity to save for long-term asset goals, and 3) enact a state-administered EITC. Although these recommendations have been identified as policy priorities, please see Appendix C for a discussion of other policy ideas explored by the Coalition including critical asset preservation supports like healthcare and childcare.

Twenty-four percent (285,000 families) of working households in Michigan currently earn less than 200% of poverty ($31,340 for a family of 3).[29] However, limited income does not necessarily mean limited opportunity to build assets. At least it shouldn't. Research from the American Dream Demonstration concluded that lower-income families can and will save given the appropriate mechanism and incentive. Recommendations in this policy goal provide guidance on 1) policy and tools that protect low-income consumers from financial abuses by preserving limited resources and 2) providing family supports that will increase their ability to save and plan for their economic future.

RECOMMENDATION*:* Encourage savings for long-term goals, such as retirement, education, and emergencies through the elimination of asset limit rules.

The Coalition recommends the Michigan Department of Human Service and the Department of Community Health remove its asset limit tests in determining eligibility for public benefits programs.

Asset limits are often part of the eligibility testing required for low-income individuals or families to access public assistance programs. These asset limits were originally established to assure that those on public assistance were not "hiding" large asset amounts while being given governmental assistance for daily living needs. These policies are largely outdated since policy changes (particularly welfare reform of 1996) often have stringent work requirements. Also, asset limit testing is somewhat irrelevant since data shows that the low-income populations in the U.S. hold very little, if anything in assets: one in four female-headed households and one in three minority-headed households has zero or negative net worth.[30] Yet, many public assistance programs for low-income individuals and families continue to rely on asset test to determine eligibility for assistance such as food stamps, cash welfare assistance, Medicaid and Supplemental Security Income.

These eligibility tests can include long-term asset accumulation mechanisms such as retirement accounts and education accounts. Including these assets in eligibility testing creates an implicit disincentive to save in low-income populations. Either individuals/families choose not to save in order to access public assistance or they first deplete these (highly desirable) assets in order to access public assistance in difficult times. The removal of asset limits has been found to increase savings among low-income families. One study that the Center on Budget and Policy Priorities conducted found that each additional $1 increase in a state's Aid to Families with Dependent Children asset limit led to 25 cents of additional savings among low-income families.[31] States have some maneuverability to better align incentives with saving because they have the flexibility to disregard asset accumulating types of accounts (such as retirement accounts) from the Medicaid, SCHIP (State Children's Health Insurance Program) and TANF programs.

Some progress has been made In Michigan in removing asset limit tests to qualify for assistance. For example, Michigan does not use an asset test in determining eligibility for food stamps. IDAs and 529 education accounts are already disregarded when testing for eligibility for Medicaid and the Family Independence Program (TANF). But Michigan can go further to remove asset limits and encourage families to save and invest in their future. In Michigan, there remains a $3,000 asset limit for family Medicaid eligibility (including retirement accounts).[32] However, twenty-one states and the District of Columbia have eliminated

Medicaid asset tests for families with children. Michigan also has a $3,000 asset limit for TANF program eligibility and retirement savings are not excluded in this eligibility testing.

Low-income families should not have to deplete retirement and savings accounts in order to access public assistance funds. For most, liquid accounts like savings and checking are already depleted prior to requesting assistance. The accumulation of assets actually reduces the chances of public assistance needs in the short-term and longer term through emergency funds and retirement accounts. Retirement accounts, in particular, should be sheltered from all asset tests.

Aside from the benefit of encouraging asset accumulation, the elimination of asset tests can produce significant administrative savings to state and federal governments. In 2001, a GAO study found that there are high administrative costs associated with determining program eligibility, including asset tests. As an example, the federal government spends over $1 billion a year to determine eligibility for the Food Stamp program, which included a complex asset test (although not in Michigan).[33] Hence, the administrative resources used to evaluate eligibility could likely be put to better use.[34] States that have dropped asset tests for families have reported significant administrative cost savings. Since eliminating asset limits for Medicaid, the State of Oklahoma has spent $1 million less on program administration.[35]

In that same vein, dropping asset test has not increased caseloads as feared by some critics of asset limit reform. In response to the 1996 welfare reform, the State of Ohio removed all asset limits for TANF (among other reforms) and did not experience an increase in TANF caseloads. Virginia reports a similar experience. Illinois recently took action to remove key asset limit tests in its TANF and general assistance programs. Michigan should be a leader in the elimination of asset limits in policy.

IMMEDIATE OPPORTUNTIES

Three *leveraging income* strategies provide short-term opportunities and may be budget neutral:

- Remove asset limits for family Medicaid eligibility and exempt all types of retirement accounts from asset tests to encourage retirement savings.
- Lead an annual tax-season campaign trough the Governor's office to promote the EITC and encourage its use in long-term asset building investments; and
- Allow taxpayers in 2007 to split their refund into more than one account.

RECOMMENDATION: Turn every tax season into an opportunity for savings and education.

The Coalition recommends the Governor's office take the lead in an annual Earned Income Tax Credit (EITC) campaign that first promotes full use of the tax credit by low-income households, but also ties the credit to asset building opportunities like saving for an education, retirement or a home. The campaign can be modeled after the successful *Earn it! Keep it! Save it!* campaigns being run in several cities across the country and supported by the Annie E. Casey Foundation.

The Earned Income Tax Credit (EITC) offers an annual opportunity to promote positive and productive investment of this significant resource in ways that help low income families develop long-term financial independence. According to the General Accounting Office, Michigan's EITC-eligible workers left nearly $400 million dollars unclaimed in 2002. A Michigan State University study of a 4-county collaborative initiative targeted at raising EITC claims found that the initiative raised household income in all sites. "Adjusted gross income increases ranged from 13.7% to 17.5% per site, with an average of 14.5%."[36]

Private sector research confirms that effective education of taxpayers and those who help them prepare taxes has a direct impact on raising income and savings levels for low-income households. An H&R Block experiment targeted 15,000 clients in 60 offices in St. Louis and found that participation and savings levels for IRA contributions at the time of tax preparation were increased significantly when a match was offered. Furthermore, the study found that the information given by tax preparers and those in positions to assist with tax filings had a direct impact on clients' take-up and savings rates. [37]

Clear information should be provided by The Governor's office about tax credits available to low-income populations, simple savings and investment options for low-income households, and the plethora of abusive fees and refund anticipation loans (RALs) that take money out of the pockets of low-income filers. Volunteer Income Tax Assistance (VITA) sites are free alternative tax preparation sites that could easily incorporate and build on a *"Earn it! Keep it! Save it!"* style of campaign. The private sector tax preparation firms should be included in this effort but required (perhaps through incentives) to offer asset building products to low-income low-wealth populations.

The Coalition also recommends Michigan follow the lead of the Federal government and, in the 2007 tax season, allow taxpayers to split refunds into more than one account. This should increase the level of retirement or other savings as it becomes possible for tax filers to automatically put away part of the refund for savings and another portion for use. This simple step could also lower the use of RALs by allowing a portion of the refund to pay a set tax preparation fee while the remainder is electronically deposited into the taxpayer's bank account.

RECOMMENDATION: Enact a state-Earned Income Tax Credit (EITC).

The coalition recommends enactment of a state EITC program based on the experience of other states and the ability to directly target and reward working poor households. If a state EITC program were implemented, it would be important to exclude the refunds from asset tests in other programs. Also, given the high prevalence of costly tax return preparation fees and high interest refund anticipatory loans, it would also be prudent to include mechanisms that restrict tax preparers and predatory lenders from acquiring a large portion of the refund intended for the low-income household.

We know that over the last thirty years, Michigan's economy has shifted to more part-time, temporary and low-wage jobs, replacing many of the well-paying and secure manufacturing jobs that previously existed. During this time, there has been a sharp increase in the number of low-income working families. Michigan's tax structure has not helped support low-income families as incomes have gone down because the State of Michigan has a flat income tax rate, which puts a particularly large burden on poor families. Michigan is only one of six states with a flat income tax rate system. Also, in 2002 Michigan's income tax threshold (the point where a family of four starts paying state income tax) was 7th lowest in the country at $13,200 while the estimated poverty threshold for that year was $18,394. Hence, in Michigan very low and low-income individuals are paying income tax and are paying income taxes at the same rate as middle and upper income households.

There is currently a federal EITC that provides the working poor with an annual refund dependent on the exact amount earned by the worker during that tax year. The EITC is an extremely popular and effective way to begin to address the impact low wage levels have on the working poor. The federal EITC was expanded under Ronald Reagan in 1986 (with strong bipartisan support) to help offset the Social Security payroll tax and to reward work and make it more attractive than welfare. For the tax year 2003, the average federal EITC refund was $1,734 with a maximum refund set at $4,300. Federal EITC dollars boost the local economy where the recipient lives and those dollars turn around several times through a multiplier effect. Studies have shown that the EITC has pulled many individuals and families above the poverty threshold. The IRS has estimated that about half of the federal EITC dollars go to working families with incomes below the official poverty line for a family of four.[38] Furthermore, the EITC provides highly targeted tax relief at a lower administrative cost than many other assistance programs.

Building on this success, sixteen states and the District of Columbia have a state-sponsored EITC, but Michigan does not despite the higher relative tax burden we place on low-income workers. The tax policy often gives the working poor an additional boost to their income as well as provides a further incentive to work. Both Republicans and Democrats in Michigan have sponsored proposals for a state EITC, but no bill has been enacted to date.

The policy could be particularly powerful if coordinated with the previous recommendation to "turn every tax season into an opportunity for savings and education." Michigan has begun efforts to promote use of the federal EITC, as currently about 25% of eligible families do not claim the credit.[39] A coordinated tax season campaign could increase use of the federal credit, add on the state credit, and promote the wise use and investment of this annual financial resource in long-term high return assets like education, retirement, IDAs, and saving accounts toward purchasing a home.

EDUCATION AND SKILL DEVELOPMENT

D. LONG-TERM GOAL: Help working families value, participate and complete higher education & skill training.

The Coalition offers two recommendations related to education and skills training: 1) reform Michigan's 529 plan to be more inclusive and progressive, and 2) make quality financial education accessible to all Michiganians so that families can both manage limited resources and plan for a more secure economic future. Although these recommendations have been identified as policy priorities, please see Appendix C for a discussion of other policy ideas explored by the Coalition related to tax incentives to employers, workforce investment boards, and community colleges.

Education and skill training is most often overlooked as a financial asset. However, it is clear that a college degree has a great deal of financial value in that people with a bachelor's degree earn 80% more, on average, than those with only a high school diploma.[40] High-wage jobs in the new economy practically require a college degree as criteria for entry. As the Cherry Commission report highlighted, providing an appropriately educated workforce is as much an economic development policy as an education policy.

RECOMMENDATION: Reform the Michigan Education Savings Program (MESP) to be more inclusive and progressive for low-income households.

Postsecondary education and training is not only increasingly a necessity to secure a good job, but also often the first step to acquiring assets and creating greater opportunity. Research shows that the more educated individuals are, the more likely they are to to have a bank account – often the gateway to building assets – and to build wealth through retirement accounts, investments, and homeownership (see Table 1).

Table 1: Educational Attainment and Asset Ownership

	Bank Account	*Investments**	*Retirement Savings ***	*Home*
No High School Diploma	73%	11%	17%	59%
High School Diploma	90%	32%	46%	65%
Some College	95%	40%	53%	63%
College Degree	98%	64%	75%	76%

*Mutual Funds, Stocks, Bonds
** Defined Contribution Plan, IRAs, KEOGHs
Source: 2001 Survey of Consumer Finances, as cited in New America Foundation (2004). *Building Assets Through Postsecondary Education.*[41]

These assets are valuable not only for the first generation, but can also provide further opportunities for their children, thus creating an ongoing stream of wealth accumulation. Other states involved in asset-building policy (for instance, California, Pennsylvania, Illinois, and Delaware) have focused on expanding opportunities for lower-income families to save for education through support for Individual Development Accounts (IDAs) and/or 529 education savings accounts.[42] The statewide Michigan IDA Partnership proved to be a good approach for encouraging low-income families to save for assets including a home, small business, or postsecondary education.[43] Building on this success makes sense. 529 plans are designed so individuals can make after-tax deposits for future higher education expenses (tuition, fees, books, supplies, and equipment) at postsecondary educational institutions. The earnings on college savings plans are free from federal income taxes, although the penalty for a non-qualified withdrawal is a federal tax of 10% of the untaxed earnings, and state penalties vary among plans.

Michigan's 529 college savings program, *Michigan Education Savings Program,* allows accounts to be opened with a $25 deposit, or $15 through an automatic payroll deposit. The program provides a matching grant of $1.00 for each $3.0 contributed by state residents to their college savings plan, with a lifetime maximum state match is $200 (available during the first year of enrollment only and if the beneficiary is six years old or younger). To be eligible for the match, the beneficiary must reside in a household with a family income of $80,000 or less.[44]

Four other states offer a savings match within their college savings plans (Minnesota, Louisiana, Rhode Island and Maine).[45] Match rates, caps, and other features vary by state. For example, some states offer matches only in the first year of participation, and other impose an age requirement for match eligibility. Savings matches based on income represent a growing trend, as Rhode Island and Maine have recently added this feature to their plans.

While a number of states are offering savings matches to residents as a feature of their college savings plan, other states are providing links to college savings plans through IDAs. For instance, using the college savings plan account as the IDA savings vehicle, Vermont offers a savings match to low-income college savings plan participants. In contrast, at the end of an IDA program, Oregon and Pennsylvania allow IDA participants to roll over participant savings and match funds into the college savings plan, offering a long-term investment mechanism after a participant completes a time-limited IDA program.[46]

IMMEDIATE OPPORTUNTIES

Five *education and skills training* strategies provide short-term opportunities and may be budget neutral:

- Create a link to MESP through IDAs, allowing IDA participants to roll over savings and matched funds into a MESP account;
- Include financial education as an essential learning component of the K-12 school systems;
- Allow financial education to count as qualifying work activity for TANF recipients;
- Integrate financial education component into existing programs offered by Michigan's DLEG; and
- Include financial education in pre-purchase housing counseling and foreclosure prevention education offered by MSHDA.

The Coalition recommends the following changes in the MESP program to provide a more inclusive and progressive structure: (a) provide a 2:1 match ($1,000 maximum lifetime match per account) for state-resident families with an adjusted gross income (AGI) at or below 200% of the poverty line; (b) provide a 1:1 match ($1,000 maximum lifetime match per account) for state-resident families with and AGI between 201% and 300% of the poverty line. Additional changes need to be made to the Matching Grant in order to encourage employers to use the MESP as a vehicle for employees to save toward their own postsecondary and adult education. To this end, the required age for the Matching Grant should be eliminated, and the matches should be made for the first two years the beneficiary is enrolled in the MESP. In addition, savings in MESP accounts should be excluded from state financial aid determinations for families with an AGI at or below 200% of the poverty line.

In considering the above recommendation MESP should incorporate features or explore potential links to another well-tested education saving vehicle Lifelong Learning Accounts (LiLA). LiLAs are individual asset accounts, where the owner receives a tax credit for each contribution up to a defined limit, with participating employers providing matching tax favored contributions to the accounts. LiLA funds can be used by the account owner at any time after the account is established – without tax consequences – for education, training and related expenses. LiLAs are portable, can be used for part-time study, and employee and employer contributions can be made at any time during the employee's life so that workers can upgrade their skills to meet the needs of business and industry while helping to advance their own careers and earnings potential.[47] MESP could support many desirable features, in particular the direct connection to employer contributions, that LiLAs provide.

Making these changes would allow parents to save not only for their children's education, but also for their own education and training, making MESP a more flexible, inclusive, and progressive savings vehicle.

RECOMMENDATION: Connect all families to quality financial education.

The Coalition recommends Michigan ensure all families, especially low-income households, have access to quality financial education by establishing an Office of Financial Education within Treasury that sets and coordinates a financial education strategy for Michigan. Two states, Wisconsin and Pennsylvania, and the US Treasury Department have created Offices of Financial Education. Numerous state treasury departments have created initiatives related to financial education.

Low-income families surviving on the economic margins often lack the skills and options that can help improve their financial well-being and security. Most of these families (10 million Americans - roughly 10% of the US population) don't even have bank accounts. Yet research shows that families that don't have transaction accounts are 43% less likely to have positive net financial assets, 13% less likely to have a home, and 8% less likely to own a vehicle.[48] Financial Education is a prerequisite – indeed, a foundational pillar – for helping low-income families get on the road to economic self-sufficiency and asset building.

In order to help low-income families connect with quality financial education, multiple sectors will need to be involved in a purposeful and coordinated way. There has been an explosion of financial education activities in the past five years in the public and private sectors but no comprehensive strategy to reach appropriate target populations or access the most appropriate distribution mechanisms. Several immediate opportunities were identified by the Coalition including: (a) collaborating with the Michigan Council on Economic Education and the JumpStart coalition to work toward increased financial requisites in the K-12 system; (b) imbedding financial education into existing workforce strategies through DLEG and DHS programming (community colleges, adult education, and one-stop centers); (c) imbedding financial education in pre-purchase housing counseling and foreclosure prevention offerings at MSHDA (d) providing financial education for adults on public assistance, and allowing it to count as work activity for TANF recipients; and finally (e) providing tax credits for employers to deliver workplace-based financial education.

It is precisely because of the complexity and numerous systems that should integrate financial education into existing work that an Office of Financial Education should be established to coordinate a statewide private/public strategy for financial education in Michigan. Placing the office within Treasury will provide the appropriate weight to the effort and offers the greatest opportunity to engage the private sector (both financial institutions and employers) in solutions.

5. Moving Forward: Asset Building Policy Project

Asset Building provides a new perspective, new language, and with that a new opportunity to develop common interests and goals across traditional party lines as we, together, focus on better outcomes for working – but low-income –households. Over the next five years the Asset Building Policy Project (ABPP) located within the Community Economic Development Association of Michigan (CEDAM) will:

- Build common goal alliances for policy outlined in the report across traditional divisions of human service, workforce development, community development, economic development, and single-issue coalitions.
- Engage current and future generations of legislators in exploring Asset Building legislation and its political and policy implications.
- Work with state government and each department as it considers the programming implications that Asset Building policy has for its investments and outcomes.

The ABPP will accomplish these goals through activities that inform, educate, and persuade legislators, departments, the governor's office, private sector employers and financial service providers that asset building policy is an integral part of economic development policy in Michigan. In pursuing this policy the ABPP will:

- Produce Policy Briefs on key policy highlighted in this report.
- Develop research and reports on the challenges and status of working and asset poor households in Michigan.
- Develop a broad grassroots constituency already working on issues related to low-income households and interested in new policy and strategies to address their on-going struggles.
- Create partnerships with other coalitions and advocates working on common strategies to coordinate and enhance political will and influence policy.
- Hold and participate in legislative briefings with current lawmakers and future generations of young leadership on how and why Asset Building policy can be a powerful tool in creating bi-partisan approaches to address common goals.
- Write editorials and promote media coverage related to Asset Building policy and the policy ideas expressed in this report.
- Sustain a statewide, diversely representative Asset Building Advisory Council to guide and inform the project. The Advisory Council will build from the existing stakeholders that participated in the development of this report, but will also reach out to new members that add perspective and knowledge to the work of the ABPP.

Measuring Project Outcomes

The Asset Building Coalition, now the Advisory Council, also wanted to make sure that progress in this effort was documented and measured. With that in mind, two existing tools were identified that would help to measure project outcomes.

At the public announcement of the ABPP at the Michigan Affordable Housing Conference May 17, 2005, the 2005 CFED Assets & Opportunity Scorecard was also released. The bi-annual *Scorecard* rates all 50 states and the District of Columbia on outcomes and policy that measure and encourage greater financial security for working poor households. Michigan received a very average "C" grade on outcomes for working families and "substandard" policy rating for asset building policies. The Assets and Opportunity Scorecard will serve as a measuring stick on the relative progress made in Michigan as it relates to asset building policy and outcomes for our citizens. While no tool is precise or perfect, the Assets and Opportunity scorecard does provide us nationally available analysis to policy and outcomes that align very closely with the desired outcomes and

policy the Asset Building Policy Report outlines. It is our hope that in two years time Michigan will improve its rating on policy to at least "standard" and thus improve our state's outcome measures.

In addition to the Assets and Opportunities Scorecard there is one other available tool created to "assess current and future state efforts to assist working poor families achieve economic self-sufficiency." That tool was produced by the Michigan League for Human Services in May 2003 and titled, *Working for a Living in Michigan: State Workforce Policies and Low-Income Workers*. "*Working for a Living*" provides additional (and complementary) indicators that could track progress made by working families in Michigan toward expanded opportunities and greater economic security. The ABPP will use these tools in combination to create a framework for tracking Asset Building Policy progress throughout this multi-year effort. Policy change and resulting impact on households is difficult to measure but without some framework and indicators the significant effects and relationship that policy change has on a community will be lost. ABPP will set its benchmarks and policy targets in the first year of our effort and continue to refine them so that there is a living record and history of the impact asset building policy has in our state.

In Closing:

The Asset Building Policy Project (ABPP) brings a unique and distinct focus to public policy in Michigan. These policies and tools help low-income families help themselves by building financial assets. The policy outlined here is in alignment with social and tax policy ideas that will, over the next century, support lower-income workers to remain financially secure in the information economy. Understanding and building assets at the individual household level will become even more critical to help families manage change and plan for a brighter economic future. New ideas and policy must be created to support working families in achieving financial security.

This report*, Helping Working Families Achieve Financial Security,* provides 4 over-arching policy goals, 12 specific policy recommendations, and numerous policy ideas for legislators, departments, the private sector and the non-profit sector to pursue. As important, the report defines Asset Building Policy in a way that ensures working families benefit from opportunities asset building and ownership provides. More than other states, Michigan faces unique challenges as it transitions to the new economy. Asset Building policies, many outlined in this report, align with Michigan's economic development goals and provide individual and families opportunities and new tools to plan for and achieve a more secure financial future.

"All Michigan citizens should be able to envision a more secure financial future and have the opportunity to build the resources necessary to achieve it."

Asset Building Coalition November 2005

Appendix A: Asset Building Coalition Participant List

Max Chiddister
Bank One

Ron Jimmerson
Cascade Engineering

Kate Martin
Community Action Agency (Jackson)

Earl James
City Vision, Inc.

Tony Lentych, Jerry Hollister
Community Economic Development Association of Michigan

Larry Good
Jeannine La Prad
Corporation for a Skilled Workforce

Lillian "Beadsie" Woo
Corporation for Enterprise Development

Rob Collier
Council of Michigan Foundations

Benita Melton
Charles Stewart Mott Foundation

Pat Caruso
Department of Human Services

Bob Johnson
Department of Labor and Economic Growth

Charles Overbey
Department of Management and Budget

Milton Rohwer, Lynne Ferrell
The Frey Foundation

Rita VanderVen
Grand Rapids Opportunities for Women

Harry J. Ford
Federal Reserve Bank of Chicago

JoAnne Fillwock
Financial Health Credit Union

Pamela Paul-Shaheen
Office of the Governor
State of Michigan

Karen Aldridge Eason
Foundation Liason
Office of the Governor
State of Michigan

Mark Jansen
Habitat for Humanity Michigan

Jennel Proctor
Huntington Bank

Ramondo Gee
Internal Revenue Service

John Carman
Inner City Christian Federation

Edward Hoort
Legal Services of Eastern Michigan

Mike Shalley
Michigan Community Action Agency Association

David Dieterle
Michigan Council on Economic Education

Monika Wierzbicki
Michigan Credit Union League

Robin McMillan
Michigan Education Trust
Michigan Department of Treasury

Susan Cocciarelli
Michigan EITC Coalition

The Honorable Paul Condino
Michigan House of Representatives

The Honorable John Espinoza
Michigan House of Representatives

The Honorable Jerry Kooiman
Michigan House of Representatives

The Honorable Steve Tobocman
Michigan House of Representatives

Eric Muschler
Michigan IDA Partnership

Sharon Parks
Michigan League for Human Services

Charlene Turner Johnson
Michigan Neighborhood Partnership

Gary Heidel, Chuck Kieffer
Michigan State Housing Development Authority

The Honorable Bill Hardiman
Michigan State Senate

The Honorable Buzz Thomas
Michigan State Senate

John Melcher
Community & Economic Development Program
Michigan State University

Linda Kinney, Don Kuchnicki
Michigan Works! Association

Don Jones
Oakland Livingston Human Services Agency

Jan Warren
Northwest Michigan Council of Governments

Andrew Brower
The Source

Jacqueline Jones
United Way for Southeast Michigan

Trina Williams Shanks
University of Michigan

Sheri Brady
W.K. Kellogg Foundation

Appendix B: Status of IDA Activity in Michigan Fact Sheet October 2005

IDA (Individual Development Account) activity is exploding in Michigan. The Michigan IDA Partnership (MIDAP), a partnership between the **Michigan Family Independence Agency** and the **Council of Michigan Foundations**, has created a statewide program with over 1600 IDA Accounts available. IDAs help working poor families save toward their household dream of buying a home, attaining post-secondary education, or starting a small business. Since 2001 Michigan has:

- Established **5 IDA Program Regional Networks** to reach a statewide goal of 2000 IDA Accounts
- **Increased** the number of **available IDA Accounts** in Michigan from 50 to **1600**
- Expanded the number of **IDA Program Sites from 5 to 50**
- Had over **1280 open/active accountholders** saving toward their IDA Asset Goal.

OUTCOMES:

- The Independent Evaluation Report through Year Three of the project found:*
  - The **typical IDA Participant is a 33-year-old unmarried African-American** woman with some college education, a full-time job, a **monthly household income of about $1,700** ($20,000 annually), and **two children** living at home. Nearly 80% of all participants plan to purchase a home, 10% intend to use their account for a business, and 10% for education.
  - **Regular savings** by participants **went from 25% to 71% ,** and 87% report they expect to save regularly in the future.
  - 99% have been **affected positively by being in their IDA Program** and 84% believe the financial management education classes have helped them save.
  - 90% are **more aware of their credit rating.** Families showed, on average, a **12% to 23% increase in their credit score** depending on the credit score source.
  - 83% report they are **more likely to work or stay employed** since opening their IDA.

- Through October 31, 2005, 675 IDA Participants have made an asset investment (455 homes purchased, 130 education account uses and 90 business accounts uses). The mortgages leveraged to date exceed $38 million (see charts on next page).

- The project has leveraged $3 million in private sector funding, $4 million from the state of Michigan (including FIA and MSHDA funds) and $2 million in Federal Assets for Independence Act funding (All 5 Regional Coordinating Organizations (RCOs) have received AFIA support).

IDA Policy to Continue Growth:

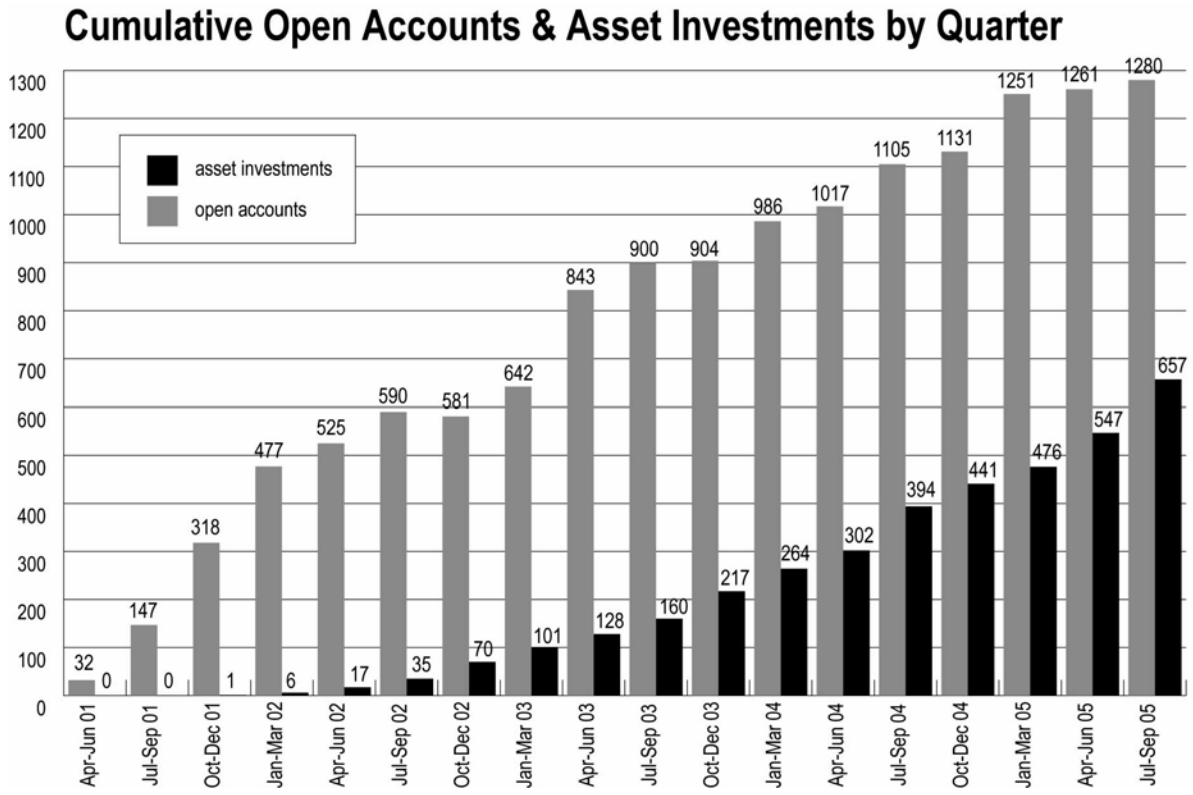
- Develop annual State Support for IDA Accounts through FIA and MSHDA existing budgets.
- Reauthorize the Assets for Independence Act with recommended changes (federal).
- Pass the Saving for Working Families Act (federal).

For Further information Contact:

Michigan IDA Partnership
17177 North Laurel Park Drive, Suite 161
Livonia, MI 48152
Phone: 734 542-3951
Website: go to www.cmif.org and click on Michigan IDA Partnership

* Full evaluation reports are available online at http://www.cmif.org/IDA/IDAEvaluation.htm

Michigan IDA Partnership
Program Status Update
October 2005



Asset Investments Summary Table As of October 31, 2005	
Homeownership Accounts	455
Education Accounts	130
Business Accounts	90
Total Asset Investments	**675**
Total Participant Savings	$ 648,689
Total Match Amount	$ 1,879,001
Current Mortgages Leveraged	$ 38,551,611

In addition to the quantitative impact of the growing number of IDA Asset Investments, the program is also having a qualitative impact on its participants including:

- All participant graduates indicate they continue to have a savings goal after the program.
- 94% of graduates continue to create and use household budgets.
- 90% of graduates feel more economically secure.
- 72% of graduates are satisfied with their current financial situation.

Appendix C: Asset Building Policy Ideas

✓ Savings & Investment Policy Ideas

1. *Engage employers in improving knowledge of and access to financial services by low-income workers and their families.*

22% of American families earning less than $25,000 a year do not have a checking or savings account.[49] They are considered "unbanked". A greater number of low- and moderate-income families are considered "underbanked" because of their reliance on high-cost alternative financial service providers, such as check cashers and payday lenders. In Michigan, as elsewhere in the country, banks and credit unions face increased competition from outside the traditional depository institutions. The exponential growth in the alternative financial services sector demonstrates the need for financial services for low- and moderate-income families. "These alternative financial institutions do not offer asset-building services such as savings accounts or credit products that can help people build a positive credit history." Many low-income families are already savers, whether or not they have bank accounts. Without a connection to a formal financial institution, however, their savings are at greater risk, will grow more slowly, and will not be readily available to support access to reasonably priced credit. In short, they likely will face more obstacles along the path to longer-term prosperity."[50]

Employers could play an important role in fostering relationships between financial institutions and their low-income workforce. A recent employer focused IDA demonstration project by United Way of America found that many employers with large numbers of entry-level jobs were surprised to find out how many of their employees were unbanked. They found a high level of employer interest in helping employees improve financial literacy, establishing connection to financial institutions and implementing or expanding direct deposits of payroll, which lowers transaction costs for everyone.

A new product that has emerged in recent years is the Stored Value Card (SVC). Employees of the grocery store chain Meijer can choose to have their payroll direct–deposited into a bank account or to a payroll card. The latter is a SVC that can be cashed at the stores' customer service desks without fees or used wherever Visa is accepted. SVCs are not credit cards in that cardholders are not extended any credit. They are not debit cards because they are not linked to any accounts. SVCs work similarly to gift cards: they are uninsured and allow the holders to spend as long as there is value left. They are a low-cost alternative to cash.[51]

Employers could become partners with banks and credit unions in educating workers and promoting low-cost savings and credit products. Such partnerships would allow employers to save costs, open a new market segment to banks and credit unions and help workers on their path to become responsible account holders, credit-worthy borrowers and owners of financial assets.

2. *Encourage financial institutions to innovate in serving low-income customers.*

For most people, owning a savings or checking account is the first step onto the ladder of financial services they will need throughout their lives. The most tangible embodiment of this concept is the Credit Path, a model developed by Alternatives Federal Credit Union in Ithaca, NY, to describe the process by which low-income individuals can progress from meeting immediate transactional needs to building longer-term assets. The model, a metaphor for the progression to financial prosperity, describes a path along which consumers travel, first as transactors, then as savers, then as borrowers, and finally as owners.[52]

The federal Community Reinvestment Act (CRA), passed in 1977, is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. The CRA has had an impact on broadening access to savings and credit for low- and moderate-income consumers. But its requirements for retail financial services are rather flexible and the enforcement is weak. The service test under CRA should be strengthened and used to encourage traditional financial institutions create products that meet the specific needs of low-income families and provide opportunity to move forward along the credit path. Too many consumers are driven to alternative and abusive financial services that perpetuate debt rather than building skills and financial knowledge to become responsible account owners. Often financial products targeted at low-income households are inadequately promoted so consumers do not know about low-fee or no-fee checking accounts.

In Puerto Rico, Banco Popular has made great strides in reaching the 50% of residents who are unbanked. The bank's *Acceso Popular* account has a $1 monthly fee, no minimum balance, free ATM transactions, and free bill payment. And it has a savings "pocket" into which small sums (initially, $5 per month) can be automatically transferred. Banco Popular opened nearly 60,000 such accounts in 2001. Half of the account holders activated the savings "pocket" in their accounts.[53]

Here in Michigan, the Office of Financial and Insurance Services (OFIS) has an oversight responsibility for state chartered financial institutions. A new act was recently passed to allow credit unions to do check cashing. This potentially creates new opportunities for credit unions to expand their customer base and explore new product and service offerings. Effects of policies like this should be monitored over time to see if greater flexibilities enjoyed by financial institutions lead to higher levels of product innovation and increased inclusiveness of our financial system. The Office of Financial and Insurance Services should play a larger role in monitoring and encouraging the financial service industry to provide innovative, affordable, and useful products to working families as they move along the credit path.

3. *Policies and regulations should engage industry and keep pace with technological changes.*

In 2002, the Treasury Department sought to "bank" the "unbanked" with the First Accounts program. It gave out 15 grants (totaling $8 million) to nonprofit community organizations to move unbanked individuals into the financial mainstream in 25 states. Preliminary evaluation of the program showed minor impact on overall access. It is possible that because community organizations were the grant recipients, the financial sector was not engaged and the experiment did not spur widespread innovations. As we explore ways to ensure universal access to financial services, the industries need to be actively involved. There needs to be a balance between regulatory oversight and flexibility for the private sector to innovate and collaborate. For example, encouraging nontraditional partnerships among financial institutions, community organizations and businesses may be an effective way to improve access to financial services for millions of unbanked households. Financial institutions should be encouraged to test new products and business models for feasibility, profitability, and convenience.

Technological advances have driven many new products into the low-income marketplace recently like stored value cards, pre-paid debit cards (attached and unattached to accounts), saving pockets, and payroll cards to name a few. However, the greatest innovation has occurred in alternative unregulated financial service providers (pay-day lenders, check cashing outlets) or through retail outlets like Wal-Mart that cash checks, sell money orders and do wire transfers. These services are not inherently abusive services. In fact they clearly meet market demand for a population not served by traditional banks. They also offer convenience to busy working households. As these providers look to expand their offerings into products traditionally offered by depository institutions, it is important that regulatory bodies and legislators keep pace with industry changes and provide consumers the same type of oversight and safeguards as in banking. The financial services sector is changing rapidly and the government has a role to play in ensuring all consumers, but especially low-income consumers, have access to affordable and non-abusive financial products.

✓ Ownership Policy Ideas

1. *Use Certification to Drive Improvements in the provision of financial and homeownership services.*

Coalition members are committed to improving how housing and financial education services are delivered to the state's residents. One recommendation is to implement a process to certify, and thereby improve the quality and capacity of, housing resource specialists, case managers, counselors, managers, and other front-line personnel delivering these services. Certified personnel would be able demonstrate high levels of knowledge and skill related to assistance in the following areas: financial management, financial counseling, home ownership, foreclosure prevention, credit repair, and predatory lending. A certification process could be used to more broadly align educational offerings related to personal financial skills and better coordinate various public and private sector funding sources. In combination these resources could support a more effective and useful network of home ownership opportunity centers (called opportunity centers) that provide education and services that promote greater financial security.

Some key steps are necessary to expand ownership opportunities through this process:

- Conduct an environmental scan of key providers of financial management and homeownership education – including for-profit and non-profit providers. Assess the range and utility of educational offerings available and the gaps in providers in different regions of the state.
- Assess the viability of building on the network of agencies that provide a full range of these services and tie in other economic support mechanisms. The certification process could build on existing community-based operations and develop a statewide and consistent set of financial and homeownership services.
- Integrate a strong credit component that offers a mechanism to improve credit like the "Pay Rent, Build Credit" (PRBC) system.[54]
- Make sure the 5-year Michigan Affordable Housing Plan includes the development of a statewide delivery system and ownership opportunity centers.

2. *Support Insurance Policy Reforms that Make the Cost of Insurance More Affordable.*

The cost of insurance is a major barrier that prevents many moderate and low-income home owners from adequately being able to protect their primary asset – their home. The Coalition advocates for reforms in the state insurance policy to bring the cost of insurance down, and to ensure greater access to non-predatory insurance products and services.

✓ Leveraging Limited Resources Policy Ideas

1. *Ensure Health Care Affordability and Accessibility*

Including in the leveraging limited resources area is also preservation of resources. Health care is essential to preserve financial assets. Over the last four years more than 50% of bankruptcies were caused by medical bills incurred by families that had no health insurance. During the deliberations of the Asset Building Coalition, lack of health insurance was repeatedly noted as an area of concern in providing low-income families financial security. Almost 30% of Michigan citizens (about 2.54 million people) under the age of 65 went without health insurance for all or part of 2002/2003. About 60% of these individuals went without health insurance for six months or more. Most uninsured Michigan residents are in working families: 76% of the uninsured have at least one person in the family that works full or part time and 44% are from families that work full time, all year. Michigan's high unemployment rate exacerbates this problem since employers provide most of the health

insurance in the nation (in 2000 the State unemployment rate was 3.5% and by the end of 2003, the rate was 7.4%).

In Michigan, the average income for a household that has access to publicly provided health insurance is only about 60% of the poverty level. This puts Michigan in the bottom 20 for states that provide lower-income families access to Medicaid. By comparison, Ohio and Illinois provide Medicaid coverage to families at approximately 100% of the poverty level.

Health care is a multi-faceted dilemma that has produced much debate. The increasing costs of providing care and the increasing proportion of individuals and families that are under or uninsured is alarming. Even just from 2000 to 2003, the average worker's premium contribution for individual coverage has risen 52%. Premiums for a family of four have risen by 49% during the same time period, far outpacing wage gains.[55] There are many theories about the potential mechanisms to improve health care accessibility and affordability. The ABC for Michigan group does not wish to propose a long list of policy changes or new programs. Instead, the group suggests a close working relationship between an existing project, Michigan's State Planning Project for the Uninsured, and the ABC for Michigan group. This state planning project has $900,000 in funding given by the DHHS. Several of the planning projects' members are also members of the ABC for Michigan group, lending the opportunity to contribute and collaborate without duplicated effort. There is a critical relationship between access to healthcare and financial security for working families.

It is noteworthy that some research was conducted as part of a preliminary analysis into the health care dilemmas facing the State of Michigan. There were two policies that stood out as being potentially very helpful to the under or uninsured in Michigan. These policies seem to be present in many other states and do not appear to increase costs significantly; however, they can reduce the number of uninsured significantly. The first policy relates to high-risk insurance pools. Thirty-two states have high-risk health insurance pools, but Michigan does not. These high-risk insurance pools provide health insurance for those individuals that have chronic diseases or are ineligible or unable to pay the (higher) premiums associated with their health status. The high risk insurance pools are usually funded by pooling the funds of insurers and are sometimes supplemented by State funds.

Another potential change involves Michigan's policies for insuring the parents of SCHIP recipients. Michigan has no asset limit for Children's Medicaid and SCHIP, but has a low income threshold for parents of SCHIP recipients. The result is that many Michigan adults have children who receive public assistance for their children's health care, but do not have any form of health insurance themselves. Michigan's income threshold for publicly assisted health care for parents of SCHIP recipients is among the lowest in the country. This represents an opportunity for the state to increase health care coverage for low-income parents.

2. *Guarantee quality child care that is affordable and accessible.*

In addition to health insurance, child care is another work support that is a critical supplement to take-home pay. For low-income working families who lack the resources to pay for private day care or have little flexibility for missing work due to a child's illness, quality and affordable child care is crucial for job retention and income preservation.

There are legitimate concerns about the quality of the child care, the wage rates (and satisfaction level) of child care providers and the costs versus the benefits of working given the high costs of child care. All of these concerns are particularly acute for families of lower socio-economic status. Child care centers and independent providers for low-income families often have even lower wage workers than the sector as a whole, potentially compromising the quality of care. Furthermore, lower-income women have lower wage rates which make child care relatively more expensive for them. There are federal and state programs that can help low-income women with child care expenses, but they are often not sufficient in either the funding level or in reaching all families that are at need. Funding for child care has increased markedly since the welfare reform changes of 1996. However, the number of families needing child care has increased markedly as well since welfare reform put many more mothers to work.

The two primary mechanisms for child care subsidies are the Child Care and Development Block Grant (CCDBG) and state TANF funds (part of the 1996 welfare reform changes were to allow states to use TANF funds for child care). Since these funds are not sufficient to meet all the child care needs, states often directly or indirectly ration child care. Low-income families that have recently gotten off welfare are more likely to receive child care subsidies than families that have been working (but are still eligible). States often deliberately avoid widespread marketing or promotion of the child care subsidies because they know they cannot meet the overall need. Also, many states have highly onerous application procedures and reauthorization for the subsidies – usually required every 3-12 months depending on the state – which are time consuming and require time off from work. Hence, despite the increases in funding, there is still a tremendous amount of unmet need. This is even putting aside the other issues mentioned above regarding quality of care, quality of providers, and the juxtaposition between low wages for mothers and high child care costs.

There are some policy changes that could provide assistance to low-income families in Michigan. For example, consistent inflation adjustments to the child care subsidy payment would allow for child care workers to be better compensated, which clearly effects quality of care. Michigan could also be more in line with federal policies that allow women to receive cash assistance until a child reaches 12 months of age. To continue receiving cash assistance in Michigan, mothers must seek work when an infant is just 3 months old. This means low-income Michigan mothers have the additional burden of finding quality child care for young infants (in addition to finding a job that covers all their expenses, including child care).

✓ Education and Skills Development Policy Ideas

1. *Provide a range of employer tax credits to encourage investments in education and training.*

Most employers today acknowledge the importance of skill development, and many are investing in workforce education and training. An increasing network of employers in Michigan (e.g., Cascade Engineering, The SOURCE employers, Whirlpool, Valassis, Donnelly Corp., etc) are finding innovative ways to invest in education and training because they recognize the returns on investment in the form of improved performance and retention. The question is how we create a policy mechanism to encourage the private sector to increase investment in human capital.

The Coalition recommends the following targeted tax incentives in order to encourage the private sector to invest in training and help employees save for their own educational goals: (a) Tax credit for offering automatic payroll deductions into employee MESP or IDA accounts (eligibility for credit based on a certain percentage of the workforce participating in the automatic payroll deductions); (b) permit employers to claim a charitable tax deduction for match contributions to employee MESP or IDA accounts; and (c) tax credit for employers that offer tuition reimbursement for GED, ESL, certificate, and degree programs (perhaps a Single Business Tax credit of up to $2,000 annually per employee for expenses related to tuition reimbursement).

2. *Use existing federal and state funding to support employer and employee investments in education and training.*

We must consider how local workforce investment boards (system created under the Workforce Investment Act (WIA) to provide leadership for regional workforce development), can invest differently in education and training. The Coalition has examined one critical issue, namely how to better integrate a range of workforce development resources with other funding streams to provide participants with the full range of resources available to help them get education and training.

There are a few structural challenges concerning the State's approach to providing assistance to the local Workforce Investment Boards (WIBs) pertaining to the training resources for low-income workers: (1)

Michigan does not require local WIBs to go beyond the federal legislation requirement for targeting training resources; (2) the state offers little guidance in implementing the requirement for training; and (3) the state offers little direction to local WIBs concerning service priorities for the use of training funds.[56] As a result, local workforce areas have had an uneven approach to training low-income workers, and have limited the number of people receiving training due to their ineffectiveness in integrating Workforce Investment Act (WIA) resources with other support (such as TANF, EDJT, Carl Perkins, and federal Pell grants). The Coalition recommends the following strategies: (a) examine state and agency policies to determine whether they encourage interagency competition, or other barriers to integration of the resources and services provided by the agencies; and (b) explore the creation of incentives for community colleges, school districts, community-based organizations, and recipients of federal WIA funds to come together in partnership around providing basic literacy and occupational education and training.

3. *Use public funding allocations to encourage community colleges to be more responsive to the needs of low-income workers and employers.*

Another piece of the puzzle concerns the role of community colleges in offering quality adult education courses and services targeted to low-income individuals. The community college infrastructure – which already caters to the needs of working adults by providing evening/weekend courses and self-paced degree completion – provides a strong foundation for strengthening developmental, non-credit, and continuing education for adults in Michigan. The challenge is how to encourage community colleges to invest differently in adult education, by improving offerings and instruction, and better targeting support services for low-income students.

Although Michigan is also among the 20 states that provide some Full Time Equivalent (FTE) resources for non-credit career classes, a key problem is that the *level* of FTE funding is below the level for academic classes.[57] And while older, non-traditional students looking to bridge the skills gap have appeared on campus in large numbers, community colleges have not had the full incentive to provide quality short-term, career-oriented classes that students – and employers – are looking for.

The Coalition recommends bringing FTE funding for developmental, short-term, career-oriented courses to the same level of FTE funding for degree and certificate-granting academic courses.

Endnotes

[1] The Coalition committees were charged with considering policy options using the following criteria: (a) Policy should be relevant to the lives of low-income families; (b) garner bi-partisan support; (c) effective and have measurable outcomes; (d) integrated and have an impact at the individual level *and* relate to broader community development and state macro-economic outcomes; (e) sustainable and build toward broader and longer-term support for an asset building agenda; and (f) feasible to current budget constraints but consider long-term potential. While not every recommendation in this report will meet each of the above criteria, the final list of recommendations did adhere to the majority of the criteria as planned (realizing that changes in the state's budget situation or political environment heavily impact feasibility).

[2] Sherraden, M. (2001) "Asset-Building Policy and Programs for the Poor" in *Assets for the Poor: the Benefits of Spreading Asset Ownership.* New York: Russell Sage Foundation, p. 302.

[3] Scanlon, E. and Page Adams, D. (2001). *Effects of Asset Holding on Neighborhoods, Families and Children: A Review of Research* in *Building Assets: A Report on the Asset Development and IDA Fields*. Washington D.C.: Corporation for Enterprise Development, pp. 3.043-3045.

[4] Sherraden, M. Assets and the Poor: A New American Welfare Policy (2001). M.E. Sharpe, Inc. Armonk, New York. 1991. p. 288.

[5] Michigan League for Human Services; website statistics on working wages in Michigan. (September 2005).

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[7] Over 400 families living below 200% of poverty have used their own savings and match provided through an Individual Development Account (IDA) program to purchase a home. Wanda Warren is based on some of these stories and represents a typical example of a working household using Asset Building policy, like an IDA, to gain greater financial security through the program.

[8] Corporation for Enterprise Development. Assets and Opportunity Scorecard. Washington D.C. 2005

[9] The Michigan IDA Program continues but with limited funding. A total of 1600 have been made available, but the total number of household that would be income eligible for the program exceeds 285,000 Michigan families. Select findings from an independent evaluation of the Michigan IDA Program through Year 3 found: (a) regular savings by participants went from 25% to 71%, and 87% reported they expected to save regularly in the future; (b) 84% believed the financial management education classes helped them save; (c) 90% were more aware of their credit rating: (d) families showed, on average, a 12% to 23% increase in their credit score depending on the credit score source.

[10] See endnote 1.

[11] Borrowing to Make Ends Meet, Demos September 2003.

[12] Michigan ranked 36th among states on the percentage of sub-prime lending occurring in the state according the CFED Assets & Opportunities Scorecard.

[13] Summary of ASPIRE Act of 2005 by the New America Foundation, Asset Building Program.

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[39] Federal Reserve Bank of Chicago. An Informed Discussion of the Earned Income Tax Credit – Milwaukee. January 2004.
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[43] Select findings from an independent evaluation of the programs through Year 3: (a) regular savings by participants went from 25% to 71%, and 87% reported they expected to save regularly in the future; (b) 84% believed the financial management education classes helped them save; (c) 90% were more aware of their credit rating: (d) families showed, on average, a 12% to 23% increase in their credit score depending on the credit score source; and (e) through October 2005, 675 IDA Participants made an asset investment (455 homes purchased, 130 education account uses and 90 business accounts uses).

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