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An Assets Agenda for the States

Policy Ideas and Recent Developments

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Pulling yourself up by your bootstraps and a "hard work" ethic are the hallmarks of America's definition of success. To achieve success and the economic mobility of the American Dream, however, requires not only the ability to generate income, but also the ability to translate such income into assets. While income may measure whether or not a person has enough to get by, assets measure whether or not a person has enough to get ahead.

The U.S. government has long recognized the distinction between these two concepts. In fact, throughout its history the federal government has designed and implemented policies and programs to help families build assets.[1] In fiscal year 2013, the federal government will spend, through both direct outlays and tax deductions and credits, nearly $548 billion on asset building policies.[2] Unfortunately these policies are terribly skewed, often subsidizing the wealthiest at the expense of the nation's poor.

A prime example is the tax code, which rewards wealth and exacerbates wealth inequality. A typical middle-class household making $50,000 a year receives less than $500 in benefits from the most expansive of these federal policies annually and families making $100,000 get about $2,000.[3] By contrast, taxpayers bringing in more than $1 million enjoy $95,820 in annual support through mortgage and property tax deductions and investment tax breaks.[4]

At the same time, the racial wealth gap has also grown significantly. The median wealth of a white family in 2009 was 20 times greater than that of the average black family, and 18 times greater than the average Hispanic family.[5] The average white family had $113,149 in net worth, compared to $6,325 for Hispanics and $5,677 for blacks. This is the largest gap since the government began collecting this data a quarter of a century ago, and twice what it was before the start of the Great Recession. While financial assets, such as stocks, held largely by wealthier Americans, have made a roaring comeback, the value of homes, the main source of wealth for average Americans and most Hispanics and blacks, has remained significantly depressed.

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[1] Lillian G. Woo, David Buchholz, and William Schweke, Hidden in Plain Sight: A Look at the $355 Billion Federal Asset Building Budget (CFED, 2004).

[2] Reid Cramer, Justin King, and Rachel Black, The Assets Report 2012 (New America Foundation, 2012).

[3] Id.

[4] Id.

[5] Rakesh Kochhar, Richard Fry, and Paul Taylor, Twenty to One: Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics (Pew Research Center, 2011).

Given current wealth disparities, we must focus on creating tools that working families can use to build financial stability. Despite state budget crises opportunities exist on the state level to create asset building policies and programs. This paper endeavors to examine current state asset building efforts with an eye toward examining those policies and priorities that are emerging as trends in this challenging economic environment.

State Asset Building Policies and Programs

States alternately promote and discourage asset building through their public policies and programs. Over the past two decades state asset building initiatives have intensified as states have attempted to improve the financial well-being of their residents. These public programs and policies can generally be categorized into four types of initiatives: (1) promoting savings, (2) increasing access to the mainstream financial system, (3) consumer protection, and (4) financial education. The remainder of this paper highlights specific state asset building trends during 2012 in each of these areas with the goal of highlighting current practices and predicting future trends.

Promoting Savings

The first step in asset accumulation is developing saving habits. Without saving, a household is living paycheck to paycheck without hope of progressing economically. Thus, many state asset building strategies focus on savings.

Removing Asset Limits

The majority of public benefit programs – such as Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Medicaid – limit eligibility to those below both certain income and asset thresholds. If a family has assets over the limits, which are typically only $2,000 to $3,000, it must "spend down" its savings in order to qualify for assistance.[6] These limits, which were designed to ensure that benefits went to those most in need, create a disincentive to save. Yet, personal savings and assets are precisely the kinds of resources that allow families to move away from public benefit programs permanently.[7] Some states, recognizing that asset limits create continued reliance on public benefits, have begun changing the asset limits on their state-administered public assistance programs.[8]

States alternately promote and discourage asset building through their public policies and programs. Over the past two decades state asset building initiatives have intensified as states attempt to improve the financial well-being of their residents.

Six states have eliminated asset limits in TANF entirely, while others have increased limits, excluded certain assets such as retirement savings or college savings accounts from these limits, or both.[9] At least 20 states have eliminated asset limits for Medicaid and a few have raised the limits,[10] and the federal government will eliminate the Medicaid asset test in 2014. States have been most successful in eliminating asset limits in SNAP, with 36 states eliminating asset limits and a few increasing them.[11] Such policy changes recognize that assets are an important part of economic mobility. Unfortunately, the current economic climate is threatening to undo this progress.

Facing budget deficits, several states have attempted to reinstate asset limits in order to reduce enrollment in

[6] Stacy Dean, Colleen Prawling, and Dory Rand, Lifting Asset Limits in Public Benefit Programs (CFED, 2009).

[7] Id.

[8] States have full discretion in setting or eliminating asset limits for TANF, Medicaid, and the State Children's Health Insurance Program (SCHIP). They also have some flexibility to address asset limits in SNAP.

[9] See, "State Asset Limit Reforms" in the online appendix at newamerica.net/stateassetsagenda.

[10] Id.

[11] Id.

assistance programs and, hopefully, to cut costs. For instance, although Pennsylvania dropped asset limits in its SNAP program in 2008,[12] in early 2012 Pennsylvania's Department of Public Works announced that it would reinstate them.[13] Under the state's original proposal, individuals would not have been able to have more than $2,000 in assets; however, after public pressure the state raised this to $5,500, excluding retirement and educational accounts, vehicles and a primary residence. The new test, which became effective May 1, 2012, could greatly affect the 850,000 Pennsylvania families currently receiving SNAP benefits.[14]

According to research, however, reintroducing asset limits will not save states money. In fact, the opposite may be true. For example, eliminating Medicaid asset limits in Oklahoma saved the state $1 million in administration costs.[15] When Ohio contemplated removing its TANF asset limits, its budget analysis predicted a small increase in the state's TANF caseload as a result of the elimination. Not only did this not occur, but caseloads remained at record low levels.[16] Virginia estimated that eliminating asset limits in its SNAP program would increase enrollment by 40 families at a cost of $127,200 in additional payments; however, the state would save $323,050 in administration staff time.[17] Research has shown that for every $1 in SNAP benefits paid states receive $1.73 in economic activity, so decreasing eligibility may actually harm state economies.[18]

Discouraging those who most need to save from saving ultimately increases low-income families' dependence on government assistance. It also may have a chilling effect on low-income families' entry into mainstream banking.

While the current economic environment may make reverting back to old asset limit rules appealing, this is a short-term solution. Discouraging those who most need to save from saving ultimately increases low-income families' dependence on government assistance. It also may have a chilling effect on low-income families' entry into mainstream banking. Without assets there is less reason for such a relationship. Although states may not want to completely eliminate asset limits at this time, they must be discouraged from re-instating them since it will not only fail to provide cost savings, but it will also reduce the economic benefits public benefit payments provide to both individuals and states' economies. States should instead be encouraged to raise their asset limits now as a first step to eventually eradicating them once state fiscal situations improve.

Creating Children's Savings Accounts

Children's Savings Accounts (CSA) are long-term asset building accounts established for children as early as birth

[12] Representative Mark B. Cohen, Letter from Representative Mark B. Cohen, Chairman et. al., to Gary Alexander, Secretary, Pennsylvania Department of Public Welfare (January 12, 2012).
[13] Alfred Lubrano, Pennsylvania To Impose Asset Tests for Food Stamps, Philly.com, January 10, 2012.
[14] See, "Recent State Asset Limit Action" in the online appendix at newamerica.net/stateassetsagenda.
[15] Leslie Parrish, To Save, or Not to Save? Reforming Asset Limits in Public Assistance Programs to Encourage Low-income Americans to Save and Build Assets (New America Foundation, 2005).
[16] Dory Rand, "Reforming State Rules on Asset Limits," Clearinghouse Review Journal of Poverty Law and Policy 40 (March-April 2007):625-637.
[17] Economic Impact Analysis Virginia Department of Planning and Budget, 22 VAC 40-295. State Board of Social Services, Temporary Assistance for Needy Families, August 5, 2003. Since research shows that very few low-income households have any significant assets administering asset tests are both inefficient and a waste of valuable state resources. See generally, Robert Wagmiller, Debt and Assets Among Low-Income Families (National Center For Children in Poverty, October 2003).
[18] Testimony of Mark Zandi, Moody's Economy.com, Committee on the Budget U.S. House of Representatives Hearing, "The Economic Outlook and Budget Challenges."111th Congress, 1st Session, January 27, 2009.

and allowed to grow over a lifetime.[19] Under most CSA proposals, the accounts would be seeded with an initial deposit from the government, often with supplemental amounts for low-income families, and then states would offer matching funds, up to a cap, for contributions made by family, friends and children themselves.[20] CSAs are typically linked to financial education to encourage saving behavior and funds in the accounts are usually restricted to use for higher education, starting a small business, buying a home or funding retirement.[21]

Since Michael Sherraden first conceived of them in the early 1990s, a number of organizations have conducted CSA pilots. Most prominent was the Saving for Education, Entrepreneurship and Downpayment (SEED) program, a 10 year demonstration program conducted in 12 states to develop and test this universal, progressive asset building concept.[22] In addition to demonstrating how these accounts could be administered, the SEED initiative also generated vast research on the effectiveness and impact of CSAs. Among the SEED findings was the fact that families of all income levels saved through the program.[23] Despite high poverty levels 57 percent of families deposited money in their children's accounts with an average family saving $1,500.[24] Perhaps more importantly the research revealed that assets in SEED accounts lead to positive attitudinal, behavioral and social effects. Children in the SEED program reported improved self-images and an increased focus on future goals because of the assets they had accumulated.[25]

Since the SEED program other pilot programs have developed. In 2010 the City of San Francisco launched the Kindergarten to College program (K2C) in 37 elementary schools and expanded it to all San Francisco elementary schools in the fall of 2012.[26] Under the program children are provided with an initial deposit of $50, matching funds of up to $100 for the first year, and children receiving free or reduced lunch receive an extra $50.[27] Additional incentives include a $100 bonus when families sign up for auto-deposit of a minimum of $10 every month for six months.[28] Similarly, the Mississippi College Savings Account (CSA) program, a wide scale CSA demonstration, was officially launched in the fall of 2012 with the goal of providing savings accounts to 500 children across the state.[29] The program provides a $50 initial deposit and children also receive financial education in the classroom. To encourage them to invest in their child's future, parents are offered the Federal Deposit Insurance Corporation's (FDIC) Money Smart curriculum.

Alternatively, other states, such as Illinois, have opted to create task forces to study the feasibility of implementing a state CSA program.[30] The Illinois task force, which included representatives from the Governor's leadership staff, community organizations, financial institutions and children's rights groups, issued its final report in 2010 setting forth its recommendations for adopting and implementing an Illinois CSA program.[31] Among its findings was that early asset building benefits both individuals and states.

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[19] Michael Sherraden, Assets and the Poor: A New American Welfare Policy (New York: M. E. Sharpe, Inc., 1991).
[20] Id.
[21] Id.
[22] Deborah Adams et. al., Lessons from SEED: A National Demonstration of Child Development Accounts (CFED, September 2010).
[23] Id.
[24] Id.
[25] Id.

[26] See the Kindergarten to College Savings Program website, available at http://www.k2csf.org
[27] Id.
[28] Id.
[29] "Children's Savings Account Program Launches in Mississippi," CFED Newsletter, February 2012.
[30] Illinois P.A. 95-358. In 2007, Illinois passed legislation establishing a CSA task force Illinois Public Act 96-0329. Unfortunately, the task force was never fully appointed. As a result, in 2009 legislation was re-introduced, passed and the task force re-establish and appointed.
[31] Creating a State of Promise and Prosperity: Illinois Children's Savings Account Task Force Report, Illinois Asset Building Group, November 2010. See, "State Children's Savings Account Task Forces" in the online appendix at newamerica.net/stateassetsagenda.

Beyond the financial benefits to an individual, states' economies grow as a result of a better educated workforce, the attraction of businesses looking to hire skilled workers at higher salaries, and an increased tax base. For instance, saving for college increases the number of college graduates and nearly twice as many college graduates earn between $50,000 and $75,000 as those individuals with only a high school diploma.[32] An educated workforce earning higher salaries translates into higher state income tax revenues.[33] High school graduates paid an average of $7,100 in tax in 2008 versus $13,000 by those with a bachelor's degree.[34]

Most states, however, have been reluctant to implement CSA programs due to budgetary concerns and questions regarding how to fund such programs. There are, however, several possible funding sources for CSA programs. For example, states can consider tax reforms such as: (1) decoupling from harmful federal tax changes,[35] (2) expanding sales taxes to cover more services,[36] (3) capping administrative subsidies to vendors for collecting sales taxes,[37] and/or (4) collecting Internet sales taxes.[38]

Care must be taken, however, to ensure that the tax burden on low-income households is not increased by any tax reforms. For example, sales taxes are already regressive because upper income households save more than they consume as a percentage of their income. To ensure that increasing or expanding sales taxes does not further burden lower income families, those states with flat personal income taxes could convert to progressive income tax structures thereby increasing affluent families' share of taxes paid, while lower income families' share would remain the same. Alternatively, increased sales tax burdens could be offset through tax credits and deductions, such as the earned income tax credit, that specifically target low-income families.[39]

[32] Digest of Education Statistics (National Center for Education Statistics, 2009.) Only 12.8 percent of high school graduates earn between $50,000 and $75,000, versus 23.3 percent of those with bachelor's degrees.

[33] Creating a State of Promise and Prosperity, Supra, note 31.

[34] Sandy Baum et. al., Education Pays 2010: The Benefits of Higher Education for Individuals and Society (College Board Advocacy and Policy Center, 2010).

[35] Nicholas Johnson and Ashali Singham, States Can Opt Out of the Costly and Ineffective "Domestic Production Deduction" Corporate Tax Break (Center for Budget Policy and Priorities, January 14, 2010). State tax systems are built around the federal tax code and there are several federal tax provisions that states could decouple from including the domestic production deduction. This credit, which creates an incentive to produce in the U.S. rather than abroad, by allowing companies to claim a tax deduction based on profits from qualified production activities, costs Illinois, for instance, over $100 million in FY 2011.

[36] Sales Taxation of Services: 2007 Update (Federation of Tax Administrators, October 2008). As U.S. consumption moves from goods to services, states' sales tax revenues are decreasing because states typically do not apply sales taxes to many services. Yet, there are 168 different state services that could potentially be taxed. Michael Mazerov, Expanding Sales Taxation of Services: Options and Issues (Center on Budget Policy Priorities, August 10, 2009). In 2007, Illinois, for instance, could have collected $4.5 million in sales tax revenue if it had taxed all "feasibly taxable" services.

[37] State Revenue Systems Options for the Current Fiscal Crisis: A Resource Guide (AFT Public Employees, 2009). (Nearly half of all states provide retailers with a subsidy to offset their costs for collecting sales taxes generally allowing stores to keep up to 5 percent of their sales tax collections). "Skimming the Sales Tax: How Wal-Mart and Other Big Retailers (Legally) Keep a Cut of the Taxes We Pay on Everyday Purchases," Good Jobs First, November 2008. For instance, Illinois pays $126 million a year in these subsidies. Iris Lav, A Balanced Approach to Closing State Deficits (Center on Budget and Policy Priorities, February 16, 2010). These subsidies, which stem from an era before computerization when calculating and remitting such sales taxes consumed considerable time, are now unjustified given today's technology and all states could eliminate them.

[38] Another way to increase sales tax revenue is to tax Internet or so-called "remote sales." Illinois lost an estimated $169 million, for instance, in unpaid taxes on online sales in 2010. A New Method for Estimating Illinois's E-Commerce Losses (Illinois Department of Revenue, February 2009). Although sellers usually collect sales taxes and remit the taxes to the state, a series of U.S. Supreme Court rulings starting in the 1960s relating to catalogs and mail orders appear to limit states' taxing authority on internet sales. See, National Bellas Hess Inc. v. Department of Revenue of Illinois, 386 U.S. 753 (1967) and Quill Corp. v. North Dakota, 504 U.S. 298 (1992), but see, Scripto Inc. v. Carson, 362 U.S. 207 (1960) and Tyler Pipe v. Washington Department of Revenue, 438 U.S. 232 (1987). E-commerce Sales Rise 14.8 percent in 2010, Allison Enright, Internet Retailer, February 17, 2011. See, "States and Internet Sales Tax" in the online appendix at newamerica.net/stateassetsagenda for a complete discussion on states' ability to and attempts at taxing internet sales.

[39] Mazerov, Expanding Sales Taxation of Services: Options and Issues, supra note 36.

In sum, despite budgetary challenges, the long-term benefits of a CSA program could significantly outweigh any initial set up or administrative costs. States must be encouraged to take a long-term perspective on asset building, through initiatives such as CSAs, if they are to promote the future economic stability of both individuals and states.

Improve 529 College Saving Programs

Currently only a third of parents earning less than $35,000 are saving for their child's education and the average savings is less than $15,000.[40] 529 College Savings Plans (529s) have become the primary vehicle for college savings.[41] 529s are education savings plans operated by states or educational institutions, and are designed to help families set aside funds for future college costs.[42] There are two types of 529 plans: (1) pre-paid tuition plans,[43] and (2) college savings plans.[44] Earnings on 529 account funds are not generally subject to federal or state taxes when used for the qualifying educational expenses of the designated beneficiary, such as tuition, fees, books, and room and board.[45] All fifty states and the District of Columbia sponsor at least one type of 529 plan and each state can determine its 529 plan's features such as fees, minimum deposits and savings incentives.

Although 529 programs have no eligibility limits based on income, research indicates that only 9 percent of 529 accountholders earn less than $50,000.[46] The median income of families with 529 plans ($142,400) was about three times the median income of families without these accounts ($45,000).[47] Additionally, only 5 percent of those who have 529 accounts are black, whereas 84 percent are white.[48] The reasons for such low participation rates vary. One reason appears to be a lack of knowledge about such plans – 70 percent of households with incomes below $35,000 report that they do not know about 529s.[49] Another reason is that low-income families have the least to gain from participation in 529 plans and, in certain respects, have much to lose. 529s' benefits – deductions on income taxes at the state tax level and no tax on funds on the federal level if used for qualifying purposes – do not reward low-income families due to their already low tax liabilities.

There is also the perception that such savings will reduce low-income families' chances of obtaining financial aid. In reality, however, such assets would count little in determining financial aid. At least 18 states exempt 529 assets from financial aid calculations[50] and only 5.6 percent of a 529 plan's value is used for determining federal financial aid.[51] However, as discussed earlier, because of public benefit programs' asset limits, 529 accounts could

[40] How America Saves for College, Sallie Mae and Gallup (2010).
[41] Rachel Black and Mark Huelsman, Overcoming Obstacles to College Attendance and Degree Completion: Toward a Pro-College Savings Agenda (New America Foundation, March 2012) and "Higher Education: A Small Percentage of Families Save in 529 Plans," Government Accounting Office Report, GAO-13-6, December 2012.
[42] 26 U.S.C. §529. See generally, 529 Plans: Questions and Answers, IRS website.
[43] Pre-paid tuition plans generally allow savers to purchase units or credits at participating colleges and universities for future tuition and, in some cases, room and board. Most prepaid tuition plans are sponsored by state governments and have residency requirements. For more information, see the website of the College Savings Plan Network.
[44] College savings plans for the purpose of paying the student's eligible college expenses generally permit an account holder to establish an investment account, which can be invested in stock mutual funds, bond mutual funds, and money market funds, as well as, age-based portfolios that automatically shift toward more conservative investments as the beneficiary gets closer to college age. Withdrawals from college savings plans can generally be used at any college or university. See again the website of the College Savings Plan Network for more information.
[45] 529 Plans: Questions and Answers, supra, note 42.
[46] Bridget Bearden, Evaluating the College Savings Market Opportunities (Financial Research Corporation, 2009).
[47] GAO Report 13-6, supra, note 41.
[48] Id.
[49] Black and Huelsman, Overcoming Obstacles, supra, note 41.
[50] See, "State Exemptions for 529 Accounts from Financial Aid Determinations" in the online appendix at newamerica.net/stateassetsagenda.
[51] 529 Plans: Questions and Answers, supra, note 42. Additionally, federal rules permit households with less than $50,000 in parental income to exclude 529 assets in federal financial aid applications if the parents were eligible to file a 1040EZ or 1040A, did not have to file a tax return or were a dislocated worker, see Federal Student Aid Handbook 2011-2012 (U.S. Department of Education 2011).

hurt a family by jeopardizing their eligibility. Whether or not 529 accounts are counted against families applying for public benefits depends on the both the state and on the program.[52]

Regardless of the reasons, states should encourage the broader use of 529 programs among low-income and minority populations and remove any participation barriers they face. A survey of state 529 plan administrators found that many states have, in fact, attempted to reached out to lower income populations using strategies such as: (1) matching deposits in 529 savings accounts,[53] (2) connecting 529s with federally-funded financial aid grant programs,[54] and (3) excluding 529 savings from states' public benefit programs' asset limit tests.[55] However, these types of initiatives cost money, and, given state budget constraints, states may need to need to examine other low- or no-cost options instead.

[52] See, "State Exemptions for 529 Accounts from Public Benefit Programs' Asset Limits" in the online appendix at newamerica.net/stateassetsagenda.

[53] See, "States' 529 Matching Programs" in the online appendix at newamerica.net/stateassetsagenda.

[54] Fulfilling The Commitment: Recommendations For Reforming Federal Student Aid (Rethinking Student Aid Study Group, College Board, September 2008). Under these programs, accounts are established using federal financial aid grants well in advance of the typical financial aid application period. Specifically, existing Pell Grant eligibility guidelines are used to identify low-income children who would likely receive such grants years later when they applied to college. These financial aid grants are put into accounts for them now so that they can grow during the years before the child starts college. See, Margaret Clancy and Michael Sherraden, The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States (Center for Social Development, George Warren Brown School of Social Work, Washington University, December 2003). Four states have established 529 accounts for children who would eventually be eligible for the federal GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) program, a program aimed at providing post-secondary financial resources and information to low-to-moderate income, at-risk students. See, Gaining Early Awareness and Readiness for Undergraduate Programs: Gear-Up (U.S. Department of Education). These states are California, Virginia, Louisiana, and Iowa.

[55] See "State Exemptions for 529 Accounts from Public Benefit Programs' Asset Limits" in the online appendix at newamerica.net/stateassetsagenda; supra, note 50.

One low cost option is for states to begin collecting data on current 529 plan participation. Since Federal law does not require states to collect data on 529 participation rates of various demographic groups, most states do not track this information. Of the states that track demographics a 2003 survey revealed that 17 percent of them tracked income in some manner (of these, half collected data for fewer than 50 percent of their state-resident participants), 10 percent tracked race or ethnicity of the account owner, 51 percent tracked participation by zip code and only 5 percent tracked participation by educational attainment of the account owner. Collecting such data could provide states with valuable information about the types of outreach and improvements they could make to their 529 plans to increase low-income and minority participation rates.

Low-income families have the least to gain from participation in 529 plans and, in certain respects, have much to lose. 529s' benefits – deductions on income taxes at the state tax level and no tax on funds on the federal level if used for qualifying purposes – do not reward low-income families due to their already low tax liabilities.

For example, after it began gathering such data, Texas found that only 17 percent of participants in its 529 pre-paid tuition plan were African-American or Hispanic during 2008 to 2009, even though together these populations represent a majority of Texans under age 18.[56] Moreover, only 5.4 percent of such accountholders had incomes below $50,000, even though 41.4 percent of Texas families earn

[56] With the Stroke of a Pen: Two Dozen Low-Cost, Politically Viable State Policy Ideas to Increase Financial Security and Opportunity in Tough Fiscal Times (CFED, November 2011).

less than $50,000 per year.[57] With this information RAISE Texas, a prominent Texas asset building coalition, developed suggestions for making the state's 529 program more accessible to these populations, leading to the recent launch of the Texas Match the Promise Foundation, an effort which will supply matching scholarships to participants in the state's prepaid tuition fund.[58] Other states are following suit. Advocates in Illinois, for instance, were recently successful in getting the Illinois Treasurer's Office to update its enrollment forms to collect such demographic data.[59] This change did not require any legislative or regulatory changes, but merely the updating of a form. The data collected from this change will inform future policy decisions about how to increase 529 participation by low-income and minority groups.

States should encourage the broader use of 529 programs among low-income and minority populations and remove any participation barriers they face.

Whatever the mechanism, states' ultimate goal should be to expand access to college education. As the discussion on CSAs noted, the value of a college education goes beyond the individual and benefits states' economies as well.

Expand Individual Development Accounts

Individual Development Accounts (IDAs) are matched savings accounts that help low- and moderate-income individuals save towards the purchase of a lifelong asset.[60] For every dollar saved in an IDA, savers receive a corresponding match that serves as both a reward and an incentive to increase savings. Savers agree to complete financial education classes and use their savings for an asset building purpose – typically for post-secondary education or job training, home purchase, or to capitalize a small business.

IDAs are offered through collaborations between financial institutions and local nonprofit organizations and, in some cases, states. The IDA program sponsor recruits participants for the program and an IDA account is opened with the partnering bank or credit union and matching fund are provided from IDA grant funds. IDA programs' lengths vary between six months to several years at the end of which participants are able to withdraw the funds for their specific saving goal.

IDAs are usually funded by grants under the federal Assets for Independence Demonstration Act (AFI). To be eligible for a grant, the grantee must provide non-federal funds equivalent to the amount of federal funds requested. In the current economic climate, however, it can be difficult for grantees to gather such matching funds. Federal legislation has been introduced, though not yet passed, to lower the non-federal matching funds requirement from 100 percent to 50 percent to rectify this problem.[61]

Yet, IDAs can also be funded by states without AFI funds. Such non-AFI funded IDAs can be particularly beneficial. Under AFI funded IDAs, savings may only be used for purchasing a home, pursuing post-secondary education, or starting a business.[62] However, research has found that

57 Id.

58 See, Texas Match the Promise Foundation's website.

59 Although a bill was introduced to require the collection of 529 data, ultimately the state agreed to make an informal administrative change rather than impose new legislation. See, H.B. 0261, 97th General Assembly, Regular Session, Illinois (January 25, 2011).

60 See generally, IDA Basics: How IDAs Work," CFED, available at http://cfed.org/programs/idas/ida_basics/.

61 Stephanie Tubbs Jones Assets for Independence Reauthorization Act of 2011, HR 1623, 112th Congress, 1st session, Congressional Record (April 15, 2011): H2909 and Stephanie Tubbs Jones Assets for Independence Reauthorization Act of 2010, HR 6354, 111th Congress, 1st session, Congressional Record (2010).

62 The exceptions are Pennsylvania and Indiana's AFI IDA programs. These states were administering state-level IDA programs before the AFI program was created. When AFI was enacted it authorized the awarding of grants to these existing IDA programs. Since these programs are based partially on state law, however, these programs are different from regular AFI programs

these goals may be too limited.[63] For example, Native American populations report home repairs and car purchases as the assets that they need to acquire to become financially stable and economically mobile.[64] Similarly, people with disabilities often need to save for expensive assistive technology purchases.[65] Neither of these types of purchases are permissible under AFI-funded IDAs.

State-funded non-AFI IDAs, however, do not have these limitations. This flexibility allows them to design IDA programs that can address the specific needs of their residents. For example, Utah and Washington have operated IDA programs for people with disabilities for several years.[66] These programs allow for the purchase of assistive technologies, expanding their usefulness to the disabled population. Georgia recently attempted to pass similar legislation that would have also allowed assistive technology purchases through its state IDA program, but the Governor vetoed the measure.[67] Currently, at least 35 states support IDA programs or have IDA legislation pending.[68]

State funding for IDA programs can come from a variety of sources such as: (1) direct expenditure of federal funds under state control (e.g. TANF funds);[69] (2) direct expenditure of general state revenue; or (3) the establishment of tax credit programs. Michigan's Department of Human Services (Michigan DHS), for instance, partnered with a community group and provided $5 million in surplus TANF funds to offer a statewide non-AFI IDA program.[70] Eleven states have also reported using general state revenue funds as a source of IDA funding, and three states have reported relying on state tax credits.[71]

IDAs are intended to be more than simply saving accounts; they are intended to induce behavioral changes – acquiring education, buying a home, or starting a business – that fundamentally alter households' lifetime prospects.

Research on the effectiveness of IDAs is mixed. While some research has found that IDAs' usefulness is limited, other research has found that IDAs are beneficial.[72] One of the reasons for the differing results may be that IDA

including the types of purchases that are allowed. Thus, in Pennsylvania IDA participants may use their IDAs for home repairs, purchases of cars and computers, day care (including child care) related to employment or education, or to contribute to the state's 529 plan. See Report to Congress Assets for Independence Program: Status at the Conclusion of the Tenth Year (Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services, 2009).

63 Emily Carpenter, Major Findings From IDA Research in the United States (Center for Social Development, Washington University in St. Louis, 2008).

64 Id.

65 Karen Harris and Hannah Weinerger-Divack, "Accessible Assets: Bringing Together the Disability and Asset building Communities," Clearinghouse Review Journal of Poverty Law and Policy 44 (May-June 2010): 1-2.

66 Martha Wunderli, Email from Martha Wunderli, Utah Individual Development Account Network, Statewide Director, AAA Fair Credit Foundation, to Hannah Weinberger-Divack (Jan. 25, 2010) (on file with author). Matched Savings Account for Assistive Technology, Washington Access Fund.

67 H.B. 226, 2011 General Assembly, Regular Session (Georgia 2011).

68 Naomi Warren and Karen Edwards, Status of State Supported IDA Programs in 2005 (Center for Social Development, Warren School of Social Work, Washington St. Louis University, October 2005).

69 See, "States' Funding Sources for IDA Programs" in the online appendix at newamerica.net/stateassetsagenda for a discussion of how states can use TANF funds to support IDA programs and a list of states that have done so.

70 Moving to Scale: Offering IDAs through Large-Site Models (National Economic Development and Law Center, February 2007).

71 Warren and Edwards, Status of State Supported IDA Programs in 2005, supra note 66.

72 A Brookings Institute report examined 10 years of IDA data and concluded that such programs had no significant effect on homeownership rates or duration of ownership. Michael Grinstein Weiss et. al., Ten Year Impacts of IDAs on Homeownership: Evidence From a Randomized Experiment (Brookings Institute, March 4, 2011). Also see Chang-Keun Han et. al., Assets Beyond Saving in Individual Development Accounts (Center for Social Development, Washington University in St. Louis, CSD Working Paper No. 07-25, 2007).

programs have not yet achieved the scale necessary for a complete evaluation. There are only around 20,000 IDA accounts nationwide, which leads to small sample sizes.[73] It is also important to remember that IDAs are intended to be more than simply saving accounts; they are intended to induce behavioral changes – acquiring education, buying a home, or starting a business – that fundamentally alter households' lifetime prospects.[74] Such gains may take time to develop. In the meantime, given the estimated effects on economic behavior, the social valuation of those effects, and the costs and benefits of alternatives—IDAs remain a valuable option for states to consider.

Create Automatic IRA Programs

Without Social Security, approximately 20 million Americans would fall below the poverty line, including more than 13 million elderly and 1 million children.[75] According to the Social Security Administration, 23 percent of elderly married couples who receive Social Security and 43 percent of such unmarried individuals rely on Social Security for 90 percent or more of their income.[76] Although these seniors are clearly counting on Social Security to provide for them in retirement, "Social Security is not, and never was intended to be, the sole source of retirement income."[77] It was instead intended to provide seniors with a modest standard of living or a baseline that was to be supplemented by private pensions and retirement savings.[78]

Yet, the majority of Americans do not begin saving for retirement until it is far too late. In surveys, 68 percent of Americans are not able to reach their monthly retirement savings goals because of other financial responsibilities and one-third reported that they save but not enough, while another one-third reported they are not saving at all.[79]

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Moreover, half of all U.S. workers, or approximately 75 million Americans, do not have an employer sponsored retirement plan.[80] Low- and moderate-income workers, particularly those who are part-time and those who are in the service industry, are the least likely to work for an employer that offers a retirement plan.[81] Only 25 percent of all workers with annual earnings of between $15,000 and

[73] 2010-2011 IDA Program Survey, (CFED, January 2011).
[74] Gregory Miller, "Effects of Individual Development Accounts on Asset Purchases and Saving Behavior: Evidence from a Controlled Experiment," Journal of Public Economics 92 (June 2008): 1509-1530.
[75] Paul N. Van de Water and Arloc Sherman, Social Security Keeps 20 Million Americans out of Poverty: a State-By-State Analysis (Center on Budget and Policy Priorities, August 11, 2011).
[76] Social Security Administration Performance and Accountability Report Fiscal Year 2011 (Social Security Administration, 2011).
[77] Dean Baker, Social Security, the Wrong Retirement Crisis (Center for American Progress, January 14, 2005). See also Franklin D. Roosevelt, "A Message Transmitting to the Congress a Report of the Social Security Board Recommending Certain Improvements in the Law," (January 16, 1939).
[78] Franklin D. Roosevelt, Address to Advisory Council of the Committee on Economic Security on the Problems of Economic and Social Security, (November 14, 1934).
[79] Don Taylor, Two-thirds of Americans Don't Save Enough, Bankrate.com.
[80] Office of Management and Budget, Executive Office of the President, Budget of the United States Government, Fiscal Year 2010, A New Era of Responsibility: Renewing America's Promise 84–5 (2009). See also, J. Mark Iwry & David C. John, Pursuing Universal Retirement, Retirement Security Project, No. 2009-3. (2009) and Craig Copeland, Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2007, Issue Brief No. 322, (Employee Benefit Research Institute, Washington, D.C.), Oct. 2008, at 7–8.
[81] Copeland, Employment-Based Retirement Plan Participation, Supra, note 78. See also, Universal Voluntary Retirement Accounts Coaching Brief: Engaging Small Business, Economic Opportunity Institute (n.d.) (on file with author).

$19,999 work for an employer that sponsors a plan, whereas almost 71 percent of those workers earning more than $50,000 are offered a retirement plan at work.[82]

One innovative policy proposal to bridge the retirement savings gap among workers of low to moderate income would be to offer Automatic Individual Retirement Accounts (IRAs.) Automatic IRAs would be government sponsored, defined contribution retirement plans for workers who lack access to an employer-sponsored retirement plan. Employers not offering a retirement plan would be required to give their workers the opportunity to enroll in an Automatic IRA. Employees would contribute to these accounts through regular payroll deductions administered by their employers.

The concept of Automatic IRAs has gained in popularity. Legislation to create a national Automatic IRA program has been introduced in several Congresses and was reintroduced in 2012.[83] It has also been included in all of the Obama Administration's budget proposals including its FY 2013 budget request.[84] States do not need to sit idly by while Congress considers a national Automatic IRA program. Instead they can, and have, introduced their own Automatic IRA legislation.[85]

In September of 2012 California became the first state to enact Automatic IRA legislation.[86] The California Secure Choice Retirement Savings Trust Act would create a statewide retirement savings plan for private sector workers who do not have access to an employer-sponsored retirement savings plan. Under the law:

- All California employers with more than five employees not offering a retirement savings option would be required to offer the new state IRA program.

- Eligible employers not electing to offer their own savings option would be required to automatically enroll all employees into an IRA plan with a 3 percent payroll deduction, called the California Secure Choice Retirement Savings plan.

- Employees could opt-out of the program and/or change their deduction amount.

- All investments would be placed in a pooled trust fund administered by an appointed nine-member board that contracts with third-party firms to manage, invest, and administer the funds. The trust fund would provide a modest guaranteed rate of return through the use of private insurers who would insure the return rate and bear any liability for losses.

Unfortunately, before the law can be implemented several conditions must be met. First, a preliminary market analysis must be paid for by an entity other than the state.[87] Second, the proposed plan must be approved by the Internal Revenue Service and be deemed, by the U.S. Labor Department, not to be an employer-sponsored plan subject to the Employee Retirement Income Security Act (ERISA).[88] Finally, the California legislature would need to enact legislation approving the final plan.[89]

Illinois legislators have also been considering Automatic IRA legislation.[90] Under Illinois' proposal small employers with more than 10 employees, who have been in business at least 2 years and which have not offered a retirement plan during such two year period, would be required to

[82] Id.
[83] Automatic IRA Act of 2006, H.R. 6210, 109th Congress (2006), Automatic IRA Act of 2007, H.R. 2167, 110th Congress (2007), Automatic IRA Act of 2010, H.R. 6099, 111th Congress (2010), and H.R. 4049/S. 1557, 112th Congress (2011).
[84] OMB, EOP, A New Era of Responsibility: Renewing America's Promise 84–5 (2009), Budget of the U.S. Government Fiscal Year 2011 101-102 (2010), Budget of the U.S. Government Fiscal Year 2012 113 (2011) Budget of the U.S. Government Fiscal Year 2013 147 (2012).
[85] See, "States' Automatic IRA Legislation" in the online appendix at newamerica.net/stateassetsagenda.
[86] S.B. 1294, General Assembly, Regular Session (California 2012).
[87] Id.
[88] Id.
[89] Id.
[90] H.B. 1672/S.B 1844, 97th General Assembly, Regular Session (Illinois 2011-2012), H.B. 4497, 97th General Assembly, Regular Session (Illinois 2011-2012) and H.B. 2461/S.B. 2400, 98th General Assembly, Regular Session (Illinois 2012-2013).

automatically enroll their employees in a payroll deduction direct deposit Automatic IRA type account. In the event that an employee does not select a contribution rate or investment option the default contribution rate would be 3 percent of their wages and the default investment option would be the target date/life cycle option. However, employees could elect to opt-out of the program at any point, as well as increase or decrease their contribution amount at any time.

Employer's costs under such a program would be relatively small and, to increase efficiency and economies of scale, these accounts, would be pooled and administered by the state. Startup costs for the state would be minimized to the greatest extent possible by using the state's existing 529 college savings structure as a platform for the Automatic IRA accounts. Additionally, as the accounts grow these start-up costs would be paid from a portion of the interest generated from the accounts as well as ongoing administrative costs.

While Illinois's legislation did not pass, it will likely be re-introduced in 2014. Moreover, with the passage of California's legislation it is likely to become a trend as it is a fairly inexpensive program which is particularly appealing given the current political and economic climate.[91]

Create Prize Linked Saving Programs

Another innovative asset building strategy that is gaining momentum is prized linked savings (PLS) programs. PLS programs offer savers a return in the form of the chance to earn large prizes, rather than the more traditional forms of interest and dividends.[92] In these programs, financial institutions offer consumers a savings product with a low minimum balance requirement and accountholders make monthly deposits, which qualify them for monthly and/or annual drawings.[93]

The high demand for lotteries in the U.S. has led some to argue that the demand for a savings vehicle offering chances to win a high payoff prize could be substantial.[94] In 2011, for instance, U.S. lottery sales were $68 billion.[95] Spread out over the more than 118 million households in the entire U.S., this amounts to roughly $576 per household. In the same year, American households spent $407 per household on all dairy products, and $456 on alcohol.[96] In other words, Americans spent more on lottery tickets than milk or beer. Unlike the lottery, however, where the majority of people wind up losing, under PLS programs everyone saves while still experiencing the thrill of the lottery.

While PLS programs are a relatively new idea for the U.S., they have thrived in other countries for years. In fact, over 20 countries, including the United Kingdom, Sweden, South Africa, and many Latin American and Middle Eastern countries offer such programs.[97] Early evidence seems to indicate that they will appeal to Americans as well. A marketing survey conducted in 2006 asked Wal-Mart customers if they would be interested in a PLS program and nearly 60 percent of respondents said yes they would be interested.[98]

The first large scale PLS program in the U.S. was in Michigan. Through collaboration with various partners, eight credit unions incentivized their members to save

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[91] The author has had conversations with legislators in other states, including Colorado, which are thinking about introducing such legislation for the first time, as well as states, such as California, which are contemplating reintroducing legislation.

[92] Peter Tufano et. al., *Consumer Demand for Prized-Linked Savings: A Preliminary Analysis*, Working Paper, 2008 at 08-061.

[93] *Prize Linked Savings: An Opportunity to Save While Having Fun* (D2D Fund, Policy Update 2011).

[94] See, *North American Association of State and Provincial Lotteries (NASPL) website* (accessed January 23, 2012).

[95] Id.

[96] Bureau of Labor Statistics, U.S. Department of Labor, Consumer Expenditure Survey 2011, Table No. 3, Age of Reference person: Average annual expenditures and characterizes.

[97] Prize Linked Savings, Save Up website (accessed on January 23, 2012).

[98] Id.

more regularly by offering raffle prizes.[99] Under this savings promotion, called "Save to Win," every $25 put into a special savings account earned the member a chance to win prizes through a raffle.[100] Over the course of 11 months, over 11,500 Michigan residents opened and saved $8.5 million in Save to Win PLS accounts.[101] 56 percent of the Michigan participants in the program were non-savers prior to the program.[102]

The main reason that PLS programs have not proliferated in the U.S. is because in most states, they would be illegal. A few states' existing laws already allow for savings promotion raffles; however, in most other states legislation would need to be enacted to expressly permit entities to hold private lotteries.[103] While recently a number of states have been successful in passing legislation that would enable them to launch PLS programs, several other states have not been as successful.[104]

Since the personal savings rate was negative 1 percent immediately before the Great Recession – the lowest it had been since the Great Depression – the case for increased saving among Americans is clear.[105] While the savings rate has subsequently increased, it is still low compared to previous generations.[106] By making savings fun and exciting, state facilitated PLS initiatives can stimulate increased saving behaviors.

99 *Prize-Linked Savings Accounts* (D2D Fund, April 6, 2012).
100 *Prize-Linked Savings FAQs*, (D2D Fund Fact Sheet).
101 *Save to Win: 2009 Final Project Results*, (D2D Fund, 2010).
102 *Prize Linked Savings FAQ*, supra, note 94.
103 See, "States' Prize Linked Savings Laws" in the online appendix at newamerica.net/stateassetsagenda.
104 Id.
105 "Savings at Lowest Rate Since Depression," *CBS News*, September 13, 2010.
106 James Rankin and Kyle Brown, *Personal Income and Outlays, February 2012* (U.S. Department of Commerce, Bureau of Economic Analysis, September 28, 2012). (In August of 2012, the personal savings rate was 3.7 %.)

Increasing Access to Mainstream Financial Services

Just as important as saving is the ability to access safe and affordable financial products and services, including the ability to access and obtain credit.

Banking the Unbanked

According to a FDIC study, 34 million Americans are either unbanked, meaning they do not have a bank account, or underbanked, meaning that they have an account but rely primarily on alternative financial services providers.[107] Low-income households, with incomes of $30,000 or less, constitute nearly 82 percent of unbanked and nearly 41 percent of underbanked households, and minorities are more likely to be un/underbanked -- nearly 63 percent of unbanked and 40 percent of underbanked households are African American or Hispanic.[108]

The FDIC also studied banks' initiatives to bank the unbanked and found that many of these initiatives were lacking.[109] For instance, only 37 percent of banks said that they actively marketed to un/underbanked communities."[110]

Since it launched in San Francisco in 2006, the Bank On model is being replicated in more than 70 cities and states nationwide, with an estimated 20 additional programs launching by the summer of 2012.

Several strategies for banking the unbanked have been proposed. One of the most successful has been Bank On

107 2011 FDIC *National Survey of Unbanked and Underbanked Households* (Federal Deposit Insurance Corporation, September 2011).
108 Id.
109 2011 FDIC *Survey of Banks' Efforts to Serve the Unbanked and Underbanked* (Federal Deposit Insurance Corporation, December 2012).
110 Id.

programs. Bank On programs are collaborations between governmental agencies (e.g., cities or states), financial institutions and community groups, wherein the financial institutions offer low cost basic transaction accounts to unbanked individuals.[111] The governmental agencies provide guidelines for the accounts, including the allowable account fees and minimum balance requirements, accepting alternative forms of identification such as Individual Tax Identification Numbers (ITINs) or Matricular Consular cards, and requirements to offer so-called "second chance accounts" for those who have had an account closed and/or whose name appears in ChexSystem.[112] Bank On programs also offer financial education to encourage families to save and build assets, learn how to budget, manage a checking account, improve their credit scores, and pay off debt.[113]

Since it launched in San Francisco in 2006, the Bank On model has been replicated in more than 30 cities, 4 states, two regions with dozens more programs in development.[114] In Illinois, for instance, the Illinois Asset Building Group (IABG) assisted in the development and implementation of a Bank On Chicago program that launched in 2010 in 16 of the city's most economically challenged neighborhoods.[115] Since Bank On programs are collaborative, asset building advocates have the chance to provide significant guidance and assistance in creating the programs. IABG was able to provide valuable insight into the types of account features low-income City of Chicago residents needed, as well as their perceptions of the program and ways to effectively market the program to these populations. This is a unique opportunity wherein asset building groups can provide valuable leadership.

For states that have not started a Bank On program the Join Bank On website provides a wealth of resources including toolkits which walk through – step by step – the process for starting a program.[116] It generally takes local partners between six and 18 months to develop a Bank On initiative from an initial idea to a fully implemented program.[117]

While the Bank On field is still relatively young, its successes in other states and cities shows that it addresses the needs of underserved families and helps them achieve financial stability. Moreover, Bank On programs are low cost initiatives that states, in partnership with financial institutions whose public images can also benefit from participation in Bank On programs, should work quickly to implement.

Alternative Data Credit Reporting

An estimated 50 to 70 million Americans do not have a credit score.[118] They are considered "thin file" meaning that the "big three" U.S. credit bureaus (TransUnion, Experian and Equifax) do not have enough information about these individuals' finances to assign them a credit score, whether good or bad.[119] Without a credit history, it is difficult, if not

[111] See generally, Join Bank On website.

[112] Previously individuals were required to present U.S. identity documents, including a social security card, to open a bank account so that banks could comply with Federal anti-money laundering and counterterrorism laws. Since these requirements presented a barrier for undocumented immigrants to open accounts, the U.S. Treasury Department and the FDIC issued guidance indicating that Matricular Consular cards and ITINs are acceptable forms of identification for financial institutions to identify their customers and still comply with banking regulations. See, *Customer Identification Programs for Banks, Savings Associations, Credit Unions and Certain Non-Federally Regulated Banks* (68 Federal Register 25089, May 9, 2003). Nevertheless, most banks still do not accept these forms of identification.

[113] Id.

[114] Genevieve Melford and Michelle Nguyen, "Partnerships You Can Bank On: Sustainable Financial Institutions' Engagement in Bank On Programs," CFED, March 2012. See also, Leigh Phillips and Anne Stuhldreher, *Building Better Bank Ons: Top 10 Lessons From Bank On San Francisco* (New America Foundation, February 2011). (The Obama Administration called for the creation of a national Bank On program, Bank On USA, in 2010. Budget of the United States Government, supra, note 78.

[115] See, Bank On Chicago website.

[116] See generally, Join Bank On website.

[117] *Banking On Opportunity: A Scan of the Evolving Field Of Bank On Initiatives* (U.S. Department of The Treasury, Office Of Financial Education And Financial Access, 2011).

[118] Karen Harris, *Alternative Credit Reporting* (Shriver Brief, May 12, 2010).

[119] Michael A. Turner et al., *Give Credit Where Credit Is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data* (Policy and Economic Research Council & Brookings Institution Urban Markets Initiative, 2006).

impossible, to qualify for a mortgage, obtain a credit card, buy a car, or finance a small business. Increasingly, even employment, rental housing and real property insurance decisions hinge on credit information.[120]

One proposal to bring these unscored individuals into the credit mainstream is to allow the reporting of non-traditional data such as utility bills, mobile phone bills, and rent payments.[121] Including such data would allow these individuals to benefit from their timely payment of these bills. Moreover, individuals could build a credit history, without adding additional debt burdens.[122]

There is, however, much debate about whether the inclusion of such nontraditional credit information will be helpful or harmful to those with thin files or no score at all. On the one hand, the first large-scale study to examine the effects of alternative credit data reporting[123] examined eight million TransUnion credit reports, with and without utility and telecommunications data, and found that including such information increased the number of people able to be scored.[124] Unfortunately, due to the study's size it is not predictive of the results of adopting a full alternative data reporting system.[125] Additionally, assuming that full credit reporting should be done, it will require changes in some states' laws. While some states currently have no laws preventing a utility company from reporting to a credit bureau, other states such as California, New Jersey, Ohio and Texas have laws in place that prevent utility companies from transferring such payment data to third parties.[126]

On the other hand, the current credit system has consistently disenfranchised and denied low-income families access to the financial mainstream. Including alternative data in the current system, without fixing the current system, could prove to be harmful and further marginalize low-income families.[127] If families must choose between paying for groceries or paying the light bill to develop credit, for example, most families must choose groceries, perhaps further damaging their credit scores.[128] Since most states' Low Income Home Energy Assistance Programs (LIHEAP) require families to be overdue in their utility bills to qualify, if non-traditional utility data reporting were allowed under current regulations, families would be forced either to decline LIHEAP in order to protect their credit score or to apply for LIHEAP and ruin their credit. Thus, before permitting such reporting states would need, at a minimum, to revise their LIHEAP programs to ensure that low-income consumers are not forced to choose between improving their credit score and going without needed assistance. More fundamentally, instead of adding more data to an already broken credit reporting system, perhaps states should focus on the existing structural flaws as they relate to low-income and minority populations.

> There is much debate about whether the inclusion of such nontraditional credit information will be helpful or harmful to those with thin files or no score at all.

Since reforming the entire credit system to be more transparent, fair, and accurate might require a federal initiative, states could address the problematic issue of "mission creep." As mentioned earlier, more employers are

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[120] Karen Harris and Susan Ritacca, "Alternative Credit Data: To Report or Not to Report, That is the Question," *Clearinghouse Review Journal of Poverty Law and Policy* 44 (November-December 2010): 7-8.

[121] In addition to states' efforts, federal legislation has also been introduced. H.R. 6363 (112th Cong.)(Credit Access and Inclusion Act of 2012).

[122] Michael Turner et. al., *New to Credit from Alternative Data* (PERC, March 2009).

[123] Id.

[124] Id.

[125] Id.

[126] *Decision Adopting Rules To Protect The Privacy And Security Of The Electricity Usage Data Of The Customers Of Pacific Gas And Electric Company, Southern California Edison Company, And San Diego Gas & Electric Company,* California Public Utility Commission, Decision 11-07-056 July 28, 2011; N.J. Rev. Stat. §48:3-85(36)(b)(1); Ohio Administrative Code §4901:1-10-12; 4901:1-21-10; and Texas Utilities Code, §17152 (c)(2).

[127] *New to Credit from Alternative Data,* supra, note 116.

[128] Id.

using credit scores in the hiring process to screen applicants. A 2012 survey revealed that 47 percent of employers recently surveyed said they run credit checks on at least some job applicants, compared with 42 percent in a somewhat similar survey in 2006.[129] Over the last decade, a growing number of insurers have also reported using credit insurance scores to determine rates, including over 92 percent of auto insurers.[130] As a result, those with poor credit could be charged with insurance rates from 40 percent to several hundred percent more in premiums.[131] With respect to the use of credit information in employment decisions, as of December 2011, 61 bills in 29 states and the District of Columbia were introduced or pending and seven states now limit employers' use of credit information in employment decisions.[132] States have also begun enacting legislation to either ban or regulate the use of insurance scoring. As of December 2011, legislation had been introduced in 26 states, up from 16 states in 2009, regarding insurance scoring.[133]

For good or ill, credit is a fundamental part of our country's economic DNA and an essential part of asset building. A good credit score enables an individual to secure a loan for a home, school, or small business. Without a credit score, consumers are relegated to finding other ways of accessing credit such as borrowing from family or friends, or paying usuriously high interest rates to secure loans from the fringe financial sector. Since low-income consumers are less likely to have traditional sources of credit information they are particularly disadvantaged. Changes to the credit industry are necessary to eliminate this disadvantage. States need to ensure that alternative credit reporting, if permitted, does not require low-income consumers to make an untenable choice to forego needed assistance in favor of increasing their credit histories. States also need to ensure that credit histories are not used other than for their original purpose (i.e., credit repayment risk assessment) by banning the use of credit scores in employment, insurance and other decisions.

Protecting Consumers Against Predatory Financial Products

Once assets have been accumulated they must be protected and allowed to grow. Thus, the next step in the asset building process is consumer protection.

Payday Loan and Auto Title Reform

For years, consumer advocates have noted that payday and auto title loans are predatory products that impoverish those who can least afford it. With interest rates as high as 400 percent, 12 million Americans are caught in a long-term debt cycle created by payday loans each year.[134] It is estimated that 60 percent of payday lenders' revenue comes from repeat customers who continuously rollover their loans and rack up huge fees in the process.[135] Car title loans are similar high priced loans, sometimes with 300 percent interest rates, that also trap consumers in debt. Unlike payday loans, which require the borrower to secure financing like a paycheck, auto title loans use the borrower's vehicle as collateral. The average car title loan is renewed 8 times[136] and over a third of car title borrowers have their cars repossessed, even though they have usually only borrowed 40 percent to 50 percent of the car's value.[137]

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129 "SHRM Survey: Background Checking: The Use of Credit Background Checks in Hiring Decisions," Society for Human Resource Management, July 19, 2012.

"States May Ban Credit Checks on Job Applicants," *USA Today*, March 5, 2010.

130 *Credit Scoring and Insurance: Costing Consumers Billions and Perpetuating the Economic Racial Divide* (National Consumer Law Center and Center for Economic Justice, June 2007).

131 Id.

132 See, "States' Credit Checks in Employment Law" in the online appendix at newamerica.net/stateassetsagenda.

133 Id. See also, Use of Credit Information in Insurance 2011 Legislation (National Conference of State Legislators).

134 See, Center for Responsible Lending website.

135 Jacob Goldstein, "Inside a Payday Loan Shop," *Planet Money*, National Public Radio, May 18, 2010.

136 Affidavit of John Robinson, President of TitleMax Holdings LLC, U.S. Bankruptcy Court for Southern District of Georgia, Savannah Division (April 20, 2009). In Re: TitleMax Holdings, LLC, Case No. 09-40805.

137 Nathalie Martin and Ozymandias Adams, "Grand Theft Auto Loans: Repossession and Demographic Realities in Title Lending," Missouri Law Review 77 (April 17, 2012).

Congress recognized the potential problems associated with such loans in 2006 and imposed a 36 percent interest rate cap on payday and auto title loans for military families.[138] More recently, Congress created the Consumer Financial Protection Bureau (CFPB)[139] which has the ability to regulate payday and car title loans, including non-bank payday and car title lenders.[140]

In January 2012 the CFPB published its Short-Term, Small Dollar Lending Procedures, a field guide which CFPB examiners will use to ensure that payday lenders are compliant with federal consumer protection laws.[141] In March the CFPB launched a complaint system for vehicle title loans by large banks and will be extending this complaint system to non-bank auto lenders.[142]

States have sought, with different levels of success, to enact consumer protections against payday and car title loans. As of 2011, 17 states have either banned payday lending or imposed interest rate caps.

States have sought, with different levels of success, to enact consumer protections against payday and car title loans. As of 2012, 19 states have either banned payday lending or imposed interest rate caps.[143] As an example of recent reforms, Illinois passed payday loan legislation reform in 2010.[144] Under the new Illinois law loans with terms of less than six months were capped at $15.50 per $100 borrowed every two weeks.[145] Longer-term loans over six months were capped at 99 percent APR for loans less than $4,000 and at 36 percent APR for loans more than $4,000.[146]

Even though payday and auto title lenders are primarily regulated at the state level, local governments have increasingly begun enacting their own ordinances restricting these fringe financial services providers.[147] While some ordinances have focused on lending restrictions and other consumer protections, most municipal payday lender regulations are found in zoning and other land use laws. Zoning has long been used to restrict the siting of undesirable land uses – ranging from junkyards and landfills to tattoo shops and adult businesses – making it an ideal method for local governments to regulate payday lenders. Such zoning techniques include separation and dispersal requirements, nonconforming use limitations, special permit procedures, and partial or total exclusions. There are at least 60 municipal payday lender ordinances across the country.[148]

States have also begun tackling car title loans by introducing bills which would limit the number of loans a borrower would could take out in a year or require better disclosure of loan terms, including monthly interest rates and APR. At least half of all states have banned car title loans; however, at least 14 states have passed legislation supportive of auto title lenders.[149]

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138 *John Warner National Defense Reauthorization Act for Fiscal Year 2007*, Public Law 109-364, 120 STAT. 2083 (October 17, 2006).

139 *Dodd Frank Wall Street Reform and Consumer Protection Act of 2010*, Title XII, Public Law 111 – 203, 124 STAT. 1376 (July 21, 2010).

140 The CFPB's authority with respect to car title loans excludes vehicle dealerships and retailers and merchants. Supra, note 133 at §1029 (dealership exception) and §1027(a) (merchant and retailer exception).

141 *CFPB Examination Procedures: Short Term, Small Dollar Lending*, (CFPB 2012).

142 "*Who is going to help with your complaint about an auto or installment loan?*," Sartaj Alag, CFPB, March 12, 2012.

143 See, "State Payday Lending Legislation 2012" in the online appendix at newamerica.net/stateassetsagenda.

144 HB 537, 97th General Assembly, Regular Session (Illinois 2010).

145 Id.

146 Id.

147 See generally, *Controlling the Growth of Payday Lending Through Local Ordinances and Resolutions: A Guide for Advocacy Groups and Government Officials*, (Southwest Center for Economic Integrity, Crossroads Urban Center, Jacksonville Area Legal Aid, November 2007).

148 Id. See also, "Examples of Local Payday Loan and Auto Title Loan Ordinances" in "State Car Title Loan Laws" in the online appendix at newamerica.net/stateassetsagenda.

149 *Policy Innovation: Curbing Predatory Car Title Lending* (CFED, 2009).

Given that several million people use payday and auto title lenders, the CFPB's and states' continuing efforts to address these predatory products will help tens of thousands of financially-stressed households raise their standards of living by reducing their dependence on high-cost sources of credit thereby offering them a measure of financial security. Yet, merely regulating such loans is not the sole solution. The size and success of the payday and auto title lending market attests to the fundamental demand for small-dollar, short-term loans. States must also ensure that other sources of credit, such as the affordable small dollar loans discussed below, are available on reasonable terms, giving struggling families the opportunity to save and begin on a path to a more secure financial future.

Promote Small Dollar Loans

For years, the FDIC and other federal banking regulators have encouraged small dollar lending as a tool for replacing other forms of predatory loans. In June 2007, for instance, the FDIC issued Affordable Small Dollar Loan Guidelines to promote small-dollar credit products that are affordable, yet safe and sound, and consistent with all applicable federal and state laws.[150] In 2008 the FDIC conducted a Small Dollar Loan Pilot Program, a two-year case study designed to illustrate how banks could profitably offer such loans.[151] Thirty-one banks participated in the pilot program and at the end of the pilot period they had made 34,400 small-dollar loans with a principal balance of $40.2 million.[152] The pilot provided evidence that banks can offer reasonably priced alternatives to high-cost, short-term credit. Only a few banks focused on the profitability of such loans, while the majority saw such loans as an opportunity to build long-term relationships that would ultimately be profitable, to create goodwill in the community and to generate positive Community Reinvestment Act (CRA) consideration.[153]

Bankers cited a number of common factors that contributed to the success of their loan programs, including strong senior management and board support; an engaged and empowered "champion" in charge of the program; proximity to large populations of consumers with demand for small-dollar loans; and, in some rural markets, limited competition.[154]

At the pilot's conclusion in 2009, the FDIC designed a template of product design and delivery elements for safe, affordable, and feasible small-dollar loans. Under this template, loans should be: (1) $2,500 or less; (2) have terms of 90 days or more; (3) have an APR of 36 percent including fees; (4) have streamlined underwriting with proof of identity and income; and (5) include a credit report (but not necessarily score) to determine loan amount and repayment ability.[155]

Despite these years of encouragement by regulators to provide small-dollar loans to people without access to traditional forms of credit, banks largely remained reluctant to enter the field.[156] Recent federal legislation may, however, assist in finally gaining their buy-in. The Dodd-Frank Wall Street Reform Act and Consumer Protection Act of 2010 included a provision to encourage "initiatives for financial products and services that are appropriate and

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150 "Affordable Small-Dollar Loan Guidelines," FDIC Press Release, June 19, 2007.

151 "A Template for Success: The FDIC's Small Dollar Loan Pilot Program," *FDIC Quarterly* 4, (2010). See also, "An Introduction to the FDIC's Small-Dollar Loan Pilot Program," *FDIC Quarterly* 2 (2008).

152 "A Template for Success," supra note 145. The pilot featured two types of loans: (1) small-dollar loans (SDLs) up to $1,000, and (2) nearly small-dollar loans (NSDLs) over $1,000 and up to $2,500. The average loan amount for SDLs was approximately $700, and the average term was 10 to 12 months. The average loan amount for NSDLs was approximately $1,700, and the average term was 14 to 16 months.

153 Id.

154 Id.

155 Id.

156 Kevin Wack, "For Banks, Little Progress on Loans to the Unbanked," *American Banker*, September 22, 2011. See, also, *An Examination of the Availability of Credit for Consumers*, Hearing before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, U.S. House of Representatives, September 22, 2011.

accessible for millions of Americans who are not fully incorporated into the financial mainstream."[157] Specifically, it authorized the Secretary of the U.S. Treasury Department to provide grants to eligible entities to provide low-cost small dollar loans to consumers as an alternative to more costly payday and other types of loans, as well as establish loan loss reserve funds to mitigate potential losses a financial institution might face due to its small dollar loan program.[158] Since states are considered eligible entities they could utilize such grants to establish small dollar lending programs either directly or indirectly in partnership with financial institutions or community groups.[159]

States can play an important role in helping financial institutions develop alternative small dollar loan programs that will help bring financial stability and asset building opportunities to low- and moderate-income households and neighborhoods.

Alternatively, states can create their own small dollar loan programs. For example, the Illinois State Treasurer's Office established the Illinois Community Invest: Small Dollar Loan Program which provides capital so credit unions and community banks can offer such loans.[160] Under the program the Illinois State Treasurer's office opens accounts of up to $250,000 at financial institutions to encourage them to participate in the program.[161] While the state account money cannot be used to provide the loans, by capitalizing financial institutions the state is providing at least a small incentive for them to offer small dollar loans.

In sum, a robust small-dollar loan market ultimately depends upon viable market alternatives. As more mainstream lenders recognize the market potential for offering easily accessible, affordable, small-dollar loans, whole communities can be transformed. States can play an important role in helping financial institutions develop alternative small dollar loan programs that will help bring financial stability and asset building opportunities to low- and moderate-income households and neighborhoods.

Protect Electronic Benefit Payment Cards from Fees and Ensure Equal Protections

Over the past twenty years electronic benefit transfers (EBTs) have replaced paper checks for the delivery of public assistance benefits. In general EBT systems allow recipients of government benefits to use a plastic card to access their benefits. Since the first demonstration project of EBTs in 1984 the delivery of public assistance benefits via EBTs has become widespread. The passage of federal legislation in 1996 expanded EBT use by requiring states to implement EBT systems for their Supplemental Nutrition Assistance Benefit programs (SNAP) by October 1, 2002.[162] By the end of 1998 more than forty states operated EBT systems to deliver SNAP benefits.[163] Since then, states have extended EBT systems to other types of public benefit payments such as TANF, child support, unemployment, and WIC (Special Supplemental Nutrition Program for Women, Infants, and Children).[164] Recently there has been a move away from EBT systems in favor of electronic payment card (EPC) systems that use commercial brand (Visa or MasterCard) prepaid debit cards to send public benefits to recipients. Under EPC systems personalized branded cards (Visa or MasterCard), which are funded with the individual's

[157] *Dodd Frank Wall Street Reform and Consumer Protection Act of 2010*, supra, note 133.
[158] The extent to which an institution's small-dollar loan program may be subject to positive CRA consideration is described in the FDIC's *Affordable Small-Dollar Loan Guidelines*, FDIC, June 19, 2007. In order to receive the grant, the loan provider must offer financial education programs to each small-dollar loan consumer.
[159] *Dodd Frank Wall Street Reform and Consumer Protection Act of 2010*, supra, note 133.
[160] *Small Dollar Loans* (Illinois State Treasurer's Office Website, April 6, 2012).
[161] Id.
[162] 7 U.S.C. § 2016(i)(1).
[163] *Food Stamp Electronic Benefit Transfer Systems: A Report to Congress* 17 (U.S. Department of Agriculture, October 2003).
[164] Id.

benefits, are issued to aid recipients. A 2008 report found that thirty-four of forty-two federal programs used one or more electronic payment methods.[165] At least eleven states have switched to EPC systems for one or more public benefit programs, and other states are preparing to do so.

Although EBT and EPC systems are similar in that they distribute public benefits efficiently and economically, the systems have different advantages and disadvantages. Both EBT and EPC systems are preferable to mailed checks because benefits can be received more quickly, theft and fraud are reduced, and the need to pay check cashing fees is eliminated. However, EBT systems continue the stigma associated with public benefits. When public benefit checks were issued, once cashed, the proceeds of these paper checks could no longer be identified as public benefit payments. EBT cards, however, are clearly marked and easily identifiable as public benefit payments. EPC cards, by contrast, look just like a Visa or MasterCard, thereby reducing stigma. Additionally, unlike an EBT card, which can only be used, where such cards are accepted, EPC cards can be used wherever MasterCard or VISA is accepted thereby providing significantly increased access to retail markets.

From states' perspectives the primary benefit of EPC systems are administrative cost savings. EPC systems cost states little or nothing compared to EBT systems. Under EPC systems card issuers offer their cards to states either for free or at a reduced cost because card issuers can recoup their costs through the interchange or "swipe" fees they charge to retailers for using their card networks. Through such fees, which are typically 1 percent to 2 percent of the transaction amount, card issuers charged an estimated $48 billion in 2008. By issuing cards to public benefit recipients, thereby expanding the pool of people using them, issuers reaped more interchange revenues. Unfortunately for card issuers, recent Wall Street reform legislation granted the Federal Reserve the authority to regulate the amount of swipe fees to ensure that they are "reasonable and proportional" to card issuers' costs.[166] As a result, as of October 2011, the maximum permissible interchange fee that a card issuer could receive for an electronic debit transaction was limited to the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction.[167]

As a result of this cap, it is expected that card issuers will attempt to either increase fees that public benefit recipients are charged and/or charge states more to administer their EPC programs. For example, most EPC systems already charge activation fees, monthly fees, point-of-sale transaction fees, ATM cash-withdrawal balance inquiry and statement fees, customer-service call fees, bill-pay fees, reloading funds fees, inactivity fees, account closing fees, overdraft fees, and other fees.[168] Card issuers could increase any of these fees to try to make up lost profits. Yet, public aid beneficiaries need their entire benefit amounts for bare subsistence and cannot afford to pay extraneous fees. States must, therefore, be vigilant in protecting public aid recipients by revising their contracts with their EPC card issuers to ensure that they do cannot try to recoup their lost interchange rate profits from beneficiaries.

[165] U.S. Government Accountability Office, GAO-08-645, Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use 8 (June 2008). Additionally, in early 2011 the Treasury Department issued rules requiring all federal public benefit payments to be delivered via direct deposit or Direct Express Debit MasterCard, a form of EPC. Management of Federal Agency Disbursements, 75 Fed. Reg. 80315 (Dec. 22, 2010), amending 31 C.F.R.§208.3. Social Security and Supplemental Security Income recipients who do not have bank accounts will receive their benefits on a Direct Express debit card. Id. Additionally, Treasury also launched an EPC pilot program, the MyAccountCard Visa Prepaid Debit Card program, to deliver federal tax refunds electronically onto prepaid VISA cards. Press Release, U.S. Department of the Treasury, Treasury Launches Pilot Program of Prepaid Debit and Payroll Cards for Fast, Safe and Convenient Tax Refunds (Jan. 13, 2011). Under this pilot program, taxpayers without a bank account will receive their refunds on a MyAccountCard debit card.

[166] *Dodd Frank Wall Street Reform and Consumer Protection Act of 2010*, supra, note 133 at § 1075.

[167] 12 C.F.R. §235 et. seq.

[168] *The Check Is Not in the Mail: How Our EPC Solutions Save Government Agencies Money—and Still Get Benefits to Program Recipients Faster* (Affiliated Computer Services, July 2008).

A final problem with EPC (and to be fair, EBT) systems is that they represent a missed opportunity for the unbanked. Simply providing an EPC—basically a debit card without a bank account linkage — does not help unbanked Americans enter the mainstream financial sector. Thus, when adopting an EPC system states need to ensure that unbanked public aid recipients are also provided the opportunity to open bank accounts through programs such as the Bank On program discussed earlier.

In sum, as states contemplate EPC systems they must be considerate of the benefits and risks associated with such systems. Low-income public benefit recipients are more likely than other consumers to need protection but less likely to receive it. To ensure that beneficiaries who are required to use EPC systems are also protected legislation that requires these same protections for government-sponsored EPCs is critical. Only when these measures are accomplished will an EPC system truly benefit the most vulnerable populations.

Improving and Increasing Financial Education

Financial literacy is essential in promoting financial success and stability for individuals and families. The recession was a wakeup call for both consumers and the American government and an increased emphasis is being placed on financial education and training.

Maximizing financial capability and good financial outcomes depends of the combination of ensuring access to high-quality financial products and sufficient levels of information to make good choices. While there are limits in what can be achieved through the provision of financial education in isolation, states should be looking for ways to augment consumer protections with the delivery of basic financial education that helps people navigate the financial services landscape.

Incorporate Financial Education in School Curricula

Teaching children the fundamentals of financial capability early in life means that they will have a chance to build healthy financial habits and enjoy financial success later on in life.[169] Unfortunately, national surveys indicate that teenagers consistently lack financial knowledge. In the 2011 National Financial Capability Challenge for high school students, for instance, the national average score was only 69 percent. [170] Only one in three teens nationally know how to read a bank statement, balance a checkbook or pay bills.[171]

While some may argue that these skills should be taught at home, the reality is that they are not. A 2007 survey by the Charles Schwab investment company, for instance, found that while 70 percent of American parents taught their teens to do laundry, a mere 34 percent had showed them how to balance a checkbook and only 29 percent had schooled them on the intricacies of credit card fees and interest.[172]

Schools are the logical place for children to learn financial education principles and research indicates that providing classroom based financial education can provide students with the tools necessary for future financial success. For instance, college students from states that require a mandatory financial education course as a condition of high school graduation are more likely to create and adhere to a budget and less likely to engage in risky credit behaviors.[173] They are also more likely to save, pay off credit cards in full each month and less likely to max out credit cards, make late payments or be compulsive buyers.[174] Students who have taken mandated financial education programs in high school, according to research, also ultimately have higher

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[169] Margaret S. Sherraden, *Financial Capability in Children: Effects of Participation in a School-Based Financial Education and Savings Program* (St. Louis, MO: Center for Social Development, 2009).
[170] U.S. Department of Education and U.S. Treasury Department National Financial Capability Challenge 2011 Report, April 2011 (accessed January 23, 2012).
[171] Id.
[172] *Charles Schwab 2008 Parents and Money Survey Findings: Insights into Money Attitudes, Behaviors and Concerns of Parents with Teens*, (Charles Schwab, 2008).
[173] *Financial Capability of College Students from States with Varying Financial Education Policies*, supra, note 165.
[174] Id.

savings and net worth than those students who did not participate in such classes.

Although a 2008 report by the President's Advisory Council on Financial Literacy recommended that Congress or state legislatures mandate financial education for K-12,[175] neither Congress nor many states have done so. As a result, states' school-based financial education requirements vary tremendously. Some states have relatively weak requirements such as merely encouraging school districts to include personal finance in K-12 curriculum standards, while others have strong requirements such as testing students' personal finance knowledge and including the completion of a personal finance course as a high school graduation requirement.

Teaching children the fundamentals of financial capability early in life means that they will have a chance to build healthy financial habits and enjoy financial success later on in life.

Recently there has been a growing commitment among policymakers to promoting personal finance in schools.[176] Forty-four states included personal finance as part of the state's education standards at the beginning of 2012, up from 40 states in 2007 and 21 states in 1998.[177] Similarly, the number of states requiring students to take a personal finance course as a high school graduation requirement almost doubled between 2007 and 2009, from seven to 13 states.[178] Yet, the fact that only 13 states recognize that being well-versed in financial concepts is just as important as being well-versed in math and science, shows that states can still make significant improvements in this area.

In recognition of the low priority that schools have given to financial education, the federal government has created several initiatives to help states increase their focus on school-based financial education. In 2009, for instance, the National Financial Capability Challenge was launched.[179] A joint project created by the U.S. Department of the Treasury and the U.S. Department of Education, the challenge incentivizes educators to teach the basics of personal finance to their students by rewarding students, educators, schools, and states for their participation and their successes. Educators and top-scoring students receive award certificates, and schools and states with the highest participation rates earn special distinction.

In 2011, the Treasury Department's Financial Literacy and Education Commission (FLEC) developed a national strategy to promote financial literacy and education.[180] This strategy encourages partnerships to enhance the delivery and effectiveness of financial education in schools, colleges, and career and technical centers."[181] FLEC also developed five core financial education concepts -- (1) earning, (2) spending, (3) saving, (4) borrowing, and (5) protecting against risk – which define the concepts that consumers should know and be able to do to successfully understand and make informed decisions about their personal finances.

States should be encouraged to incorporate these concepts into their public education curriculums. For instance, over the last several years, the National Governors Association Center for Best Practices (NGA Center) and the Council of Chief State School Officers (CCSSO) have crafted a set of state-led education standards called the Common Core

175 *2008 Annual Report to the President: President's Advisory Council on Financial Literacy* (Department of the Treasury, January 16, 2009).
176 *With the Stroke of a Pen*, supra note 55.
177 *Survey of the States: Economic and Personal Finance Education in Our Nation's Schools 2011* (Council for Economic Education, 2011).
178 Id.

179 See, National Financial Capability Challenge website.
180 *Promoting Financial Success in the United States: National Strategy for Financial Literacy 2011* (Department of the Treasury, Financial Literacy and Education Commission, 2011).
181 Id.

State Standards.[182] These standards establish clear and consistent goals for learning for all students, regardless of where they live, and prepare America's children for success in college and work. So far standards for English and mathematics standards for grades K-12 have been developed and states should make developing financial education standards the next priority.[183]

The recent recession clearly demonstrated what happens when ordinary citizens are not equipped with sound financial knowledge. Additional opportunities for teaching sound financial concepts, including school-based financial education, should be seized to help today's youth prepare for their financial futures.

Include Financial Education as TANF Work Activity

Many welfare recipients entering the workforce for the first time lack the skills necessary to make sound financial decisions and build savings. To further complicate matters, as previously discussed, asset limits in public benefit programs discourage savings and asset building, thereby depriving individuals from developing these skills. Yet, if the goal of public benefit programs is to provide a temporary safety net for individuals while moving them toward self-sufficiency, financial education training is necessary.

One innovative way that states can provide such financial education is by incorporating it into their TANF programs. Currently TANF rules require that recipients must work as soon as job ready, or no later than two years after coming on assistance.[184] Specifically, single parents must participate in work activities for at least 30 hours per week and two-parent families must engage in work activities for at least 35 or 55 hours per week, depending upon the circumstances.[185] Failure to participate in TANF work requirements can result in a reduction or a termination of TANF benefits to the family. While there are a variety of educational activities, such as on-the-job training and education related directly to work that count as "work activities," financial education is not among them.[186]

In the early 2000s, recognizing its TANF recipients' need for financial education, the Illinois Department of Human Services — in partnership with a diverse, statewide coalition called Financial Links for Low-Income People (FLLIP) — used its TANF program to create innovative financial education and asset building programs for welfare recipients and low-income workers.[187] Since then, a few other states have undertaken similar initiatives.[188]

Under Illinois' program a financial education curriculum tailored specifically to low-income public benefit recipients was developed to teach money management skills and how to build savings. In addition to the financial education curriculum, participants were also given IDA accounts.[189] Prior to the program most participants had limited knowledge of the basic financial issues covered in the curriculum. After completing the course, however, most graduates gained significant knowledge across each category.[190] Graduates of the program reported significant behavioral changes. For instance, 84 percent of participants tracked expenditures better; 83.5 percent changed how they calculated their household budgets; 82.4 percent managed

[182] See, *Common Standards*, Common Core State Standards Initiative, available at www.corestandards.org.
[183] "National Governors Association and State Education Chiefs Launch Common State Academic Standards," Common Core State Standards Initiative Press Release, June 2, 2010.
[184] See generally, U.S. Department of Health and Human Services website.
[185] Id.
[186] Id.
[187] Dory Rand, "Financial Education and Asset building Programs for Welfare Recipients and Low-Income Workers: The Illinois Experience," Clearinghouse Review (May-June 2004).
[188] See, States' Initiatives to Incorporate Financial Education into TANF "Work Requirements" chart in Appendix O in the online appendix at newamerica.net/stateassetsagenda.
[189] Since financial institutions privately funded the IDA accounts, the traditional uses for IDA funds were expanded to include car purchases and repairs. See, Steve Anderson, *Financial Links for Low-Income People (FLLIP): An Evaluation of Implementation and Initial Training Activity FLLIP Evaluation Project* (School of Social Work University of Illinois at Urbana-Champaign, December 2002).
[190] Id.

credit card debt better; 74.7 percent increased their monthly savings; and 64.6 percent changed the way they paid bills.[191] Additionally, 55.7 percent and 40 percent, respectively, used currency exchanges and payday loans less; 37.8 percent and 33.6 percent of participants who were previously unbanked opened a checking or savings account, respectively, for the first time; and approximately 30 percent began saving toward a down payment, retirement, or other long-term investment.[192]

These extraordinary outcomes should be enough by themselves to encourage other states to duplicate this program, but this particular program also has the benefit of being inexpensive to implement. Moreover, by helping individuals develop these financial skills states are helping to ensure their future financial success thereby ultimately alleviating states' public program costs.

Conclusion

Government asset building policies and programs are not a new concept. Instead, they have a long history and have played an important role is individuals' and households' ability to achieve the American Dream. The current economic climate has increased the need for such asset building supports.

While the federal government may momentarily be unable, due to both financial and political reasons, to revamp its current asset building policy priorities and initiatives to better benefit the low-income populations who most need them, states have a number of opportunities to do so.

States frequently serve as the incubators of public policy solutions. By designing and testing various public policy concepts and initiatives states are able to provide the federal government with proven solutions. Despite their budget concerns, states remain in a position to guide government asset building policy in the coming decades.

The policy ideas discussed in this paper provide a framework for states to follow in expanding their asset building initiatives. In particular, states should focus on programs and initiatives that promote savings, expand access to affordable financial products and services, support consumer protection, and increase financial education. While some of the policy suggestions discussed above, such as removing asset limits, are proposals that have been suggested for quite some time, others, such as prize linked savings programs are relatively new. Additionally, many of these proposed policy solutions, such as creating Bank On programs, are low cost, and others, such as increasing 529 plan participation are easy to implement. Thus, depending on the state and its current situation, there are at least a few options available for it to evaluate and, more importantly, implement. Implementing positive asset building strategies will put states in the best position to help their residents achieve the American Dream of financial stability and economic mobility.

[191] Steve Anderson, Financial Links for Low-Income People (FLLIP): Final Evaluation Report (School of Social Work University of Illinois at Urbana-Champaign, June 2004).
[192] Id.

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