

## **Building Assets for Low-Income Families**

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Since national welfare reform in the mid-90s, much progress has been made to bring low-income people towards economic self-sufficiency, but the job is not done. In order to be successful in today's economy and sustain personal security, people need to develop assets. Assets are considered any appreciating investment such as savings, retirement savings, or ownership of a house or business, and can also include personal investments such as education that can increase income.

The asset poor are very vulnerable to economic shock because they do not have savings to carry them through difficult financial times. They often lack financial education, an understanding of the value of savings, and incentives to look beyond short-term economic hardships to their long-term economic self sufficiency. It has been reported that 25.5% of all American households are asset poor, and that more than 1/3 of all American households (and 60% of African American households) have zero or negative net financial assets. It also is estimated that 40-70 million low income Americans are not currently saving toward asset accumulation.

A comprehensive set of strategies are necessary to reinforce asset development among all Americans, especially the asset poor. Strategies that support asset development include financial literacy education and the Earned Income Tax Credit. The core strategy for wealth building and asset development is Individual Development Accounts.

### **ISED Ventures and Asset Development in Iowa**

In the mid-1990s, the State of Iowa began to shape its welfare policy from maintaining families on welfare to a program that emphasized exiting welfare and supporting the movement to self-sufficiency. The goal was to create more flexibility and incentives in the system. Policymakers then and now know leaving welfare does not equate to self-sufficiency, so the challenge is to close the gap.

Individual Development Accounts have become a crucial tool in closing the gap. From the beginning Iowa chose to include IDAs in its welfare reform legislation. In 1999, the Institute for Social and Economic Development began an IDA program still in existence today.

The Institute for Social and Economic Development (ISED) has been dedicated to creating opportunities for low-income families and communities through a variety of programs, technical assistance, and training services since its incorporation in 1987. In 2003, the Board of Directors of ISED decided to restructure the organization with two

subsidiaries – ISED Ventures in Iowa and ISED Solutions in Washington, D.C. ISED Solutions specializes in consulting and research nationally and internationally.

ISED Ventures was organized in 2004 by the Institute for Social and Economic Development (ISED) as the successor organization to the Economic Development Division of ISED. ISED Ventures continues ISED's 18-year mission as a statewide Community Development Corporation dedicated to strengthening the social and economic well-being of individuals and communities in Iowa. More specifically, the purpose of the CDC is "to assist individuals, families, and communities to reach long-term positive social and economic outcomes; and to plan, develop, and implement/manage community development initiatives, including business development, asset development, housing development, and other economic and community development in low-income communities."

ISED Ventures began in 1987 as a microenterprise or small business development agency, focusing on persons below 200 percent of poverty who could pursue self-employment as a welfare-to-work strategy to escape poverty. Today, it has expanded its services and is now providing asset development at a level of scale greater than many other service providers in the nonprofit field. ISED Ventures' target audience remains those who are at or below 200 percent of poverty, including women, minorities, refugees, and persons formerly incarcerated. ISED was the winner of the 1998 Presidential Award for Microenterprise Development in the area of poverty alleviation. In 2003, ISED was named one of eight recipients of the Families Count: National Honors Program of the Annie E. Casey Foundation. This award recognizes organizations that are making a difference in the lives of families struggling to survive in low-income neighborhoods and disadvantaged communities.

ISED Ventures has managed two IDA programs, one for low-income citizens and the other for refugees. Project partners include the United Way of Central Iowa, the State of Iowa and the federal Assets for Independence Act. In the citizen program, nearly 300 Iowans saved a total of \$676,000 as of December 2004. Of those 300 account holders, 114 saved to buy their first home. Another 50 saved to open a small business, and 72 saved toward post-secondary education. Over \$3.4 million was added back to the state's economy in home purchases.

The refugee program grew to become the fifth largest refugee IDA program in the country in which 962 account holders saved more than \$926,000 as of December 2004. The vast majority of refugees chose to save for a vehicle, which was permitted in the refugee program. Ventures found refugees were very concerned about having reliable transportation for employment. Approximately 67 percent of refugees chose to save for a vehicle, which added nearly \$3 million to the economy. Another 22 percent saved for their first home, adding nearly \$7 million to the local economy. Funding for the program ended in September 2004.

Ventures knows the national impact of IDA programs as well. Its sister organization, ISED Solutions, is a leading provider of training and technical assistance to IDA

programs. It also creates resource materials, operates peer listservs, and collects and compiles data on program outcomes. ISED Solutions' experience is that poor people across the nation **are** saving, and those savings are being leveraged to purchase assets that are increasing their sense of belonging and ownership within their communities.

In fact, ISED Solutions has been working with 49 refugee service agencies whose refugee IDA programs were funded by the Office of Refugee Resettlement. Outcomes as of December 31, 2004 are truly amazing:

- 18,000 enrolled savers
- Total savings goals of \$30 million
- \$25 million already saved
- The nearly 14,000 (77 percent) who have made matched withdrawals to purchase assets have saved over \$20 million.
- Participants purchased assets valued at \$238 million, of which more than \$150 million (63 percent) was for home ownership.
- This represents a leverage of 1,172% on participant savings and 418% on their savings plus match funds.

Another essential asset development strategy is the Earned Income Tax Credit (EITC). ISED Ventures has promoted EITC throughout the Des Moines area, focusing on the eligible working low-income population. In the recently-completed 2005 campaign, approximately 1,378 returns were filed with the Internal Revenue Service, with a median EITC of \$1,574, and approximately \$1.7 million in refunds returned to working, low-income families. The EITC represents a significant start for a low-income family to open an IDA, pay off debt, or move the refund into retirement savings. Working with local financial institutions that are present at the tax sites, ISED Ventures gives unbanked filers the opportunity to become banked.

The EITC campaign represents Ventures' largest outreach activity in an urban community. However, the organization wants to continue to strengthen asset development across Iowa, with a focus on rural areas. Joining forces with the Evangelical Lutheran Church in America, Lutheran Services in Iowa, and rural hospitals and clinics in Iowa Health Systems, ISED Ventures provides asset development services in an initiative called Barnabas Uplift. The name is meant to signify "uplifting" and encouraging low-income individuals and families to achieve economic self-sufficiency. The effort is a faith- and community-based inclusive strategy with economic development, health care and asset development components. Along with 518 churches and hospitals, the involvement of key community leaders gives Barnabas strong community ties.

### **Developing a Culture of Saving**

ISED Ventures has continually proved that low-income populations are very capable of attaining economic self-sufficiency when given the proper incentives and support. Through longstanding experience within the asset development field ISED Ventures has learned very important lessons about how to effectively develop assets among the poor.

These lessons help to better formulate strategies to begin to move people from asset poverty to saving. It is crucial to continue to move from a culture of dependence on welfare to a culture of saving and economic self-sufficiency.

ISED Ventures' experience with the previous ORR program demonstrated the value of additional asset choices. Whereas the AFIA funded citizen IDA program limits the asset choices to the purchase of a home, small-business start-up or expansion, or post-secondary education, the refugee IDA program expanded the asset choices to include the purchase of a vehicle, computer, and home renovation. Additional asset choices increase the scope of asset development and allows for more individuality.

Adopting a hybrid system where nonprofits and financial institutions better complement each other is an important policy consideration. In this system the accounts could be run through the financial institution while the support services would remain the responsibility of the non-profit. This could lower program costs and allow the potential for accounts to be run more like traditional financial investments without time restrictions. A culture of saving will take a long time to create and requiring people to save enough to buy a significant asset within two or three years does not maximize desired outcomes. The hybrid model could also help the transition away from the one-size-fits-all model of IDA delivery to a more individually tailored IDA where match rates, and amount of financial education and support services are determined by the accountholders income and financial awareness.

One of the most important lessons learned by ISED Ventures over the years is that a culture of savers cannot be created quickly or without significant programmatic support. This has led ISED Ventures to start to focus part of the IDA program on youth. An excellent strategy to develop long-term asset development habits is to reach people when they are young to begin to build strong saving habits.

ISED Ventures has positioned itself to provide a comprehensive set of asset development strategies to help low-income Iowans build assets and achieve economic self-sufficiency. The support of the government and financial sectors will strengthen this strategy and more flexibility will increase the scale of IDA programs.

In order to sustain IDA programs and achieve the scale that is necessary to serve more income people, many changes and modifications to the program will be needed. The program in many ways is still in its beginning stages and there is much yet to be learned from practice and experimentation in a fast-changing field.

Some recommendations to consider from ISED Ventures' and Solutions' experience are as follows:

- Increase the range of asset choices in an IDA, including vehicles.
- Allow more flexibility in the IDA program to increase points of access, and the length of time available to save.
- Provide an option to waive some current AFIA program requirements, specifically not everyone in a matched savings program needs financial education.

- Create incentives for banks and other corporations to contribute match funds to help the IDA program grow in scope and impact.
- Provide an appropriation to sustain the previous Office of Refugee Resettlement IDA program.
- Continue to provide quality technical assistance to help local agencies increase the effectiveness and impact of their programs.
- Increase investment in youth IDAs, supporting the culture of saving in young Americans.

Thank you for the opportunity to provide testimony to the subcommittee.