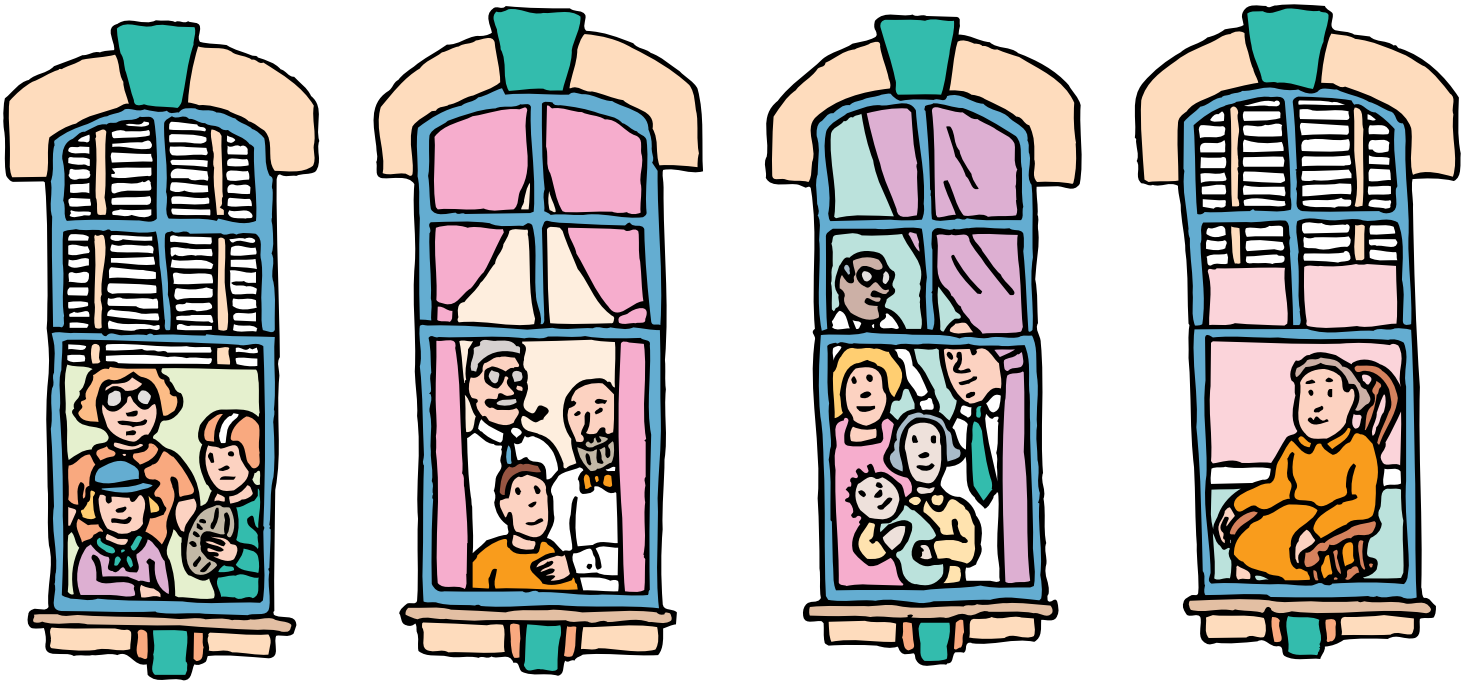


GROWING A MIDDLE CLASS

Lawmakers are promoting financial stability and success for working families.



BY JOSH LOHMER

Facing ballooning health care costs and climbing gas prices, more and more families are vulnerable to serious financial hardship. On top of rising costs and diminished savings, a job loss or health emergency can spell financial ruin for a family already scrambling to keep up.

Financial fragility is becoming commonplace: one-third of families in this country have no net worth, or are in debt. Twenty-five percent are asset poor, meaning they lack the resources to live at the federal poverty level for more than three months after losing their income. These are unnerving statistics.

“As a legislator, you’re always cognizant of working families and the problems they face. You want to help the husband and wife working and struggling to raise their kids. But you’re also limited for resources—these are

some of the toughest times I’ve seen in years. So we’re looking for more efficient ways to help families help themselves,” says Iowa Representative Dave Heaton.

Using a variety of relatively new tactics, legislators are creating incentives that encourage smart choices and reward hard work. They have set up outreach campaigns to spread the word about the federal Earned Income Tax Credit (EITC), alerting millions of workers—some who don’t earn enough to pay income tax—that they qualify for this refundable credit.

Lawmakers also are talking banks and businesses into investing in Individual Development Accounts (IDAs) that can double or triple the money a low-income family can set aside. Others are focusing on teaching financial literacy or adopting the idea of asset-building, which usually incorporates most if not all of these tools. Whatever their tack, policymakers are not just trying to serve a growing group within their constituencies. They are also looking to benefit their local

economies and their state’s fiscal health, both now and in the future.

BI-PARTISAN EFFORT

In Iowa, Representative Heaton, a Republican, and his colleague Representative Ro Foege, a Democrat, recently launched an EITC outreach campaign to let working families know they are eligible for tax refunds through the federal Earned Income Tax Credit.

“This was a no-brainer for us,” says Representative Heaton. “It’s money these people have earned. It’s really an educational issue.”

Nationwide, an EITC refund averages \$1,765 for a low-income working family. Foege and Heaton acquired a \$100,000 appropriation to provide free tax consultation and preparation for EITC-eligible workers in the greater Des Moines area. Subsequently, EITC filings jumped 30 percent from the previous tax year and refunds increased by \$2.6 million. This year the General Assembly

Josh Lohmer tracks policies that affect working families for NCSL.



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doubled the appropriation to expand the program both within Des Moines and throughout Iowa.

“We’re putting money back into parents’ pockets,” says Representative Foege. “This really benefits young families in particular, and Iowa has trouble keeping its young families.”

“I don’t think that Republicans or Democrats have a corner on the market on these ideas,” says Foege, a former social

worker. “We’ve shown that we’re able to work in a very bi-partisan way.”

“How can you get anything done these days if everyone bitterly disagrees with each other?” asks Representative Heaton, a restaurateur. “Ro and I have our differences, don’t get me wrong, but when it comes to these issues we can sit down and talk. We’ve put together a budget here that we all can be proud of.”

Campaigns to promote the Earned Income Tax Credit are easy for both parties to support. Intended by Congress to reward work, the EITC lifts more families out of poverty each year than any other federal program. The key is figuring out how to get workers to apply for it. Although more than 21 million taxpayers collected over \$36 billion in EITC payments in 2003, another \$9 billion still goes unclaimed each year.

Initiatives like the one in Iowa are starting to pay off. During the 2005 tax season, 44 local EITC campaigns offered tax preparation services in 450 locations nationwide, filing more than 216,000 returns and generating more than \$310 million in refunds.

The added cash can make a world of difference for a working family, but EITC outreach

programs don’t just help put money back in people’s pockets. Many include financial counseling to help families figure out how to spend their refunds. The two dovetail nicely. In 2005, EITC campaigns across the country helped participants set up more than 2,700 new bank accounts.

INVESTING IN WORKING FAMILIES

Because so many working families live paycheck to paycheck, finding extra money to put away is tricky if not impossible. This lack of a nest egg hamstrings families hoping to get ahead or trying to cope with an emergency. Seeing the important link between assets and financial well-being, the federal government in 1996 started to encourage Individual Development Accounts (IDAs).

IDAs are special savings accounts. Deposits made by the account holder are matched—usually at a rate of two to one or higher—by public and private funds. Currently, more than 400 IDA projects are operating nationwide.

Utah Representative David Clark, a banker by trade, goes out of his way to support Utah’s Individual Development Account Network (UIDAN). He stumps for the program at community events and forums. Clark also draws on his business contacts and experience to drum up financial support.

“I’m a numbers guy,” he says. “This is a wise investment that will pay dividends in the future for Utah.”

He tells the story of Heather Hunter, a single mother who works full-time in customer service for a public utility and who very much wants to own a home. Over a year ago, she and her son paged through magazines and found a picture of a modest house. They carefully cut it into 36 small squares. Each month, Heather saves \$41.66 to set aside toward a down payment. As of last month, she had more than \$700. With every deposit, month by month, square by square, she and her son patch together their future home.

After three years of saving, Heather will have \$1,500: an impressive sum considering her situation, but not necessarily sufficient for her purpose. However, because Heather is saving through the program, which matches deposits three to one, she will have \$6,000 for her down payment.

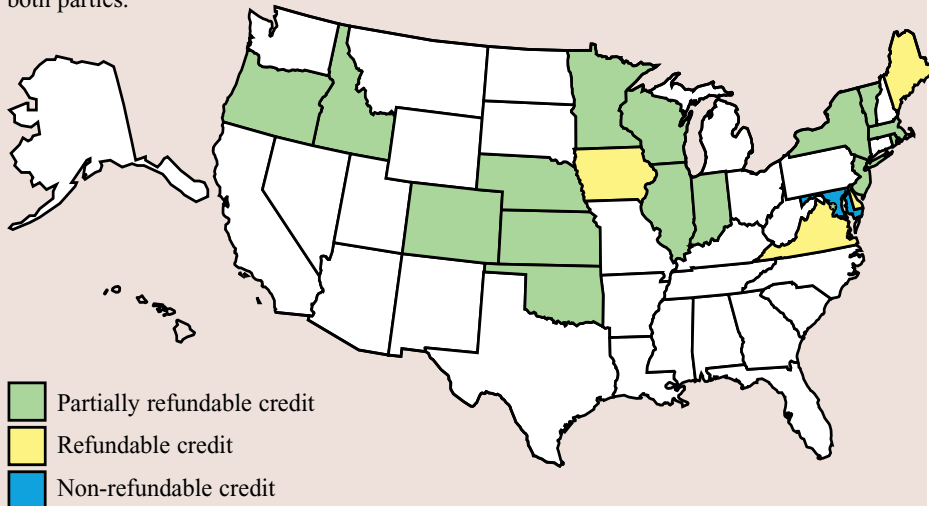
“This is such an opportunity for my son,” she says. “To know that he may have something if anything happens to me is a great feeling of security,” says Heather. “I almost

States Also Offer Earned Income Tax Credits

At least 19 states offer an income tax credit in addition to the federal Earned Income Tax Credit (EITC). The state credit is often calculated as a percentage of the federal credit.

The federal EITC is refundable. Sixteen states and the District of Columbia also have refundable tax credits. A refundable tax credit allows families to receive the entire amount of the credit even if it exceeds their income tax liability. In three states, the credit is non-refundable. Non-refundable credits only reduce a family’s state tax liability. In one state, Maryland, the credit is partially refundable.

State income tax credits are a straight-forward way for lawmakers to act on behalf of working families. Like the federal EITC, state-level credits usually receive support from both parties.



A Look Ahead

While efforts to create opportunities for working families are popping up in states like Iowa, Utah and Washington, Pennsylvania is providing a glimpse at where states may be headed. A story in itself, Pennsylvania has established a statewide task force on working families. Chaired by Representative Dwight Evans and Secretary of Banking Bill Schneck, the task force has launched numerous initiatives aimed at building assets, decreasing expenses and increasing income for families struggling to make ends meet. Indicative of the group's work is Pennsylvania's new office of financial education which is dedicated to improving financial literacy across the state.

"This is not a question of adding new money. This is a question of how effectively we use the money we have," says Representative Evans. "The whole task is to grow a middle class. We have to be really creative and find a different way to do things."

have to laugh. I'm amazed. I'm going to have a house."

Capitalizing on a three-to-one savings match, UIDAN savers have accumulated nearly \$90,000 since the program's inception. Funds must be spent on first-time home-ownership, post-secondary education or small business start-up. In addition to basic financial management courses, participants are required to take specific training related to the asset they plan to purchase.

Heather says the required classes were a huge help. She learned how damaging and burdensome credit card debt can be. She also learned a good way to pay her bills. By arranging her monthly expenses in different manila folders, she stays on track. "When I stick to what I learned—those are the months when everything goes great. If not, things get tight," says Heather.

"The educational component and the matching component are making a substantial difference in people's lives," says Representative Clark, who likes the idea that Utah's account network offers a helping hand only to those willing to make sacrifices

to help themselves.

"Participants have to set forth a commitment that they're going to do all that they can, and then stick with it," he says.

When Utah passed legislation for individual development accounts in 1997, there was no money to fund them. Stepping around this hurdle with private funding, the Individual Development Account Network opened its doors in 2004. Since then, it has added 55 savers like Heather and raised more than \$500,000 in grants that come mainly from financial institutions and charitable foundations.

"Financial institutions believe they are creating a new customer base. In the case of some of the smaller banks, they know they're probably getting a new customer for life," says Martha Wunderli, network director. "Foundations like our model. We're not just handing out money—putting people on the dole—we're asking for a commitment. And we're creating educated consumers."

Interest in the program is skyrocketing. As of January, nearly 400 people had completed the financial management classes that are a program prerequisite. Over the next year, UIDAN expects to add 150 new IDA holders. Ten times that many people have asked to be in the program.

Representative Clark recently secured a \$50,000 appropriation from the Legislature. This is the first Utah state money dedicated to IDAs, and it will be matched by federal funds through the Assets for Independence Act.

"The private sector stepped forward first and gave us a track record. As a state, we thought we could support a proven program," Clark says.

According to the Center for Enterprise Development (CFED), every public dollar invested in IDAs generates \$5 for the community. This is measured in new businesses and jobs, increased earning and educational achievements, new and improved homes, higher tax receipts and reduced welfare expenditures.

WORKING ALL THE ANGLES

If these programs work so well independently, why not use them all? That's the philosophy of Washington Representative Jeannie Darneille who did everything but go door-to-door to manufacture an asset-build-

ing coalition in her home district of Pierce County. Her work is a model for legislators looking to act as community leaders.

The goal of asset-building is to look at everything including EITC outreach and IDAs to help working families find stability and hope. These programs often complement one another, and participants eligible for one



REPRESENTATIVE
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program are usually eligible for the others.

"At first, I had a few community meetings loosely organized around asset building, and each one grew in size," says Representative Darneille. "And what a broad cross-section of people: bankers, college people, nonprofit groups, veterans, church members—they all got excited about coming together."

What began for Representative Darneille with an Internet search on IDAs and some small get-togethers is now the Pierce County Asset Building Coalition. The organization is made up of a group of committees, staffed by volunteers with appropriate professional background and experience. Each committee examines one or two issues related to asset building, such as the Earned Income Tax Credit, Individual Development Accounts, financial literacy and predatory lending, to name a few.

Currently, more than 60 groups have signed on as coalition partners. Partners volunteer everything from staff, advice and information to meeting space.

"I just started pulling people together in my community," says Darneille. "I had the most phenomenal experience. I never heard the word no."

"This is a natural fit for us," says Robert Williams, a member of the coalition's steering committee who works in community development banking for Key Bank. "This is economic development. We're moving low- and moderate-income workers into the next strata," he says. "Community development banking is profitable for us, but at the end of the day we feel that we're making a better community. It's doubly good."