

HO`OWAIWAI

The Hawai`i Asset Policy Initiative

**Asset Policy Roadmap:
A strategy for advancing financial
security and opportunity in Hawai`i**

The Hawai`i Alliance for Community-Based Economic Development
2008

OVERVIEW

The following report outlines four asset policy priorities that, taken together, would significantly help working families build wealth and assets. Building financial assets is a means to an end that allows families to exercise more choice and control over their lives. Stronger families build stronger communities.

The policies detailed in this report are part of a larger agenda that recognizes that all of us who live in this unique island community of Hawai`i have a mutual responsibility to each other. Ho`owaiwai is a Hawaiian word meaning “to enrich.” Wai means “water.” In old Hawai`i, it was everyone’s kuleana, or “responsibility,” to malama i ka wai, or “to take care of the water,” because it affected the livelihood of the entire village. If you had a sufficient supply of wai, you were considered “wealthy.” While economic security is fundamental to wealth creation, asset-building strategies must give equal consideration to building natural, human, cultural, and social assets that are the foundation of a community.

In this context, the policy recommendations in this report are only a starting point. These recommendations include:

- 1. enhancing financial skills of low- and moderate-income families in Hawai`i;**
- 2. removing the disincentives to save resulting from asset limits in public benefit programs;**
- 3. enacting a state Earned Income Tax Credit to help make work pay; and**
- 4. providing state support for matched savings to help people save for a home, business or education.**

These priorities are guided by the experience of the Family Independence Initiative-Hawai`i (FII-HI). FII-HI partnered with 21 families over a two-year period to explore the application of a set of principles designed by Maurice Lim Miller in Oakland, Calif., in 2003. A summary of the powerful experience of these families is included in this report.

ACKNOWLEDGEMENTS

This report was funded by the Hawai`i Community Foundation, the Kosasa Family Fund, the Harold K.L. Castle Foundation and the Case Foundation through their investment in FII-HI. We thank them for their support, but acknowledge that the findings and conclusions presented in this report are those of HACBED and the authors alone, and do not necessarily reflect the opinions of these foundations.

This document was prepared by the Hawai`i Alliance for Community-Based Economic Development (HACBED). HACBED is a statewide, tax-exempt, nonprofit organization established in 1992 to encourage increased investments in sustainable and community-based approaches to economic development.

We are indebted to Jennifer Brooks, who is the main author of this report. Jennifer is the Policy Director for the Corporation for Enterprise Development (CFED), where she directs their state and federal policy work and manages CFED’s Policy Team. Prior to joining CFED, Jennifer held a variety of policy positions including as staff for U.S. Senator Maria Cantwell (D-WA) and directing the policy efforts for Wider Opportunities for Women. CFED is a national intermediary that publishes a semi-annual *Assets and Opportunity Scorecard* and is a recognized “do” tank that advances asset-building policies and programs.

ALL RIGHTS RESERVED

©Hawai`i Alliance for Community-Based Economic Development, 2007. No part of this document is to be reproduced or adapted to other works without written permission from the Hawai`i Alliance for Community-Based Economic Development except in the case of brief quotations embodied in articles or reviews.

Table of Contents

- Introduction 1
 - The Family Independence Initiative: Experience Informing Policy 2
- Financial Skills and Education 6
 - Overview: Why Financial Education Matters 6
 - What Hawai'i Should Do 6
 - State Precedents 8
- Asset Limits 9
 - Overview: Why Asset Limits Matter 9
 - What Hawai'i Should Do 9
 - State Precedents 11
- State Earned Income Tax Credit 13
 - Overview: Why a Hawai'i EITC Matters 13
 - What Hawai'i Should Do 14
 - State Precedents 14
- State Support for Matched Savings Accounts 16
 - Overview: Why State Support for Matched Savings Accounts Matters 16
 - What Hawai'i Should Do 16
 - State Precedents 19
- Appendix: 30 Policy Ideas for Helping Families in Hawai'i Build And Protect Assets 20

Asset Policy Roadmap:

A strategy for advancing financial security and opportunity in Hawai`i

INTRODUCTION

In 2006, the Hawai`i Alliance for Community-Based Economic Development (HACBED) published *Asset-Building Policy for Hawai`i*, on behalf of the Ho`owaiwai Asset Policy Initiative. That report laid out a rationale for an asset-building approach in Hawai`i and provided six goals and 30 concrete policy ideas for helping families in Hawai`i build and protect assets (see Appendix). The six goals were to:

- make work pay;
- teach asset-building;
- break down barriers to asset-building;
- help people save;
- help people start and own businesses; and
- help people buy homes.

HACBED shared these concepts and specific policy ideas with policymakers, advocates and families that would be or are affected by the policies, and others. A resulting consensus is now developing that an assets-based approach to financial security and opportunity makes sense in Hawai`i, and that there are several policy priorities that would have significant statewide impact if implemented.

This report focuses on four critical asset policies that were identified as priorities. They are:

1. enhancing financial skills of low- and moderate-income families in Hawai`i;
2. removing the disincentives to save resulting from asset limits in public benefit programs;
3. enacting a state Earned Income Tax Credit to help make work pay; and
4. providing state support for matched savings to help people save for a home, business or education.

Not only are these policies important on their own, they also complement and build on one another. Teaching financial skills is a priority in its own right, but it is also woven through the other three priorities. For example, financial education is an integral part of individual development account (IDA) programs; and volunteer tax preparation assistance sites – in addition to helping low-income families claim the EITC – can connect families to financial education and asset-building resources. The power of financial education is fully realized in the context of providing multiple asset-building opportunities through coordinated support programs.

Each of the four policies focuses on giving individuals the tools to make the best financial decisions possible – whether teaching the value of saving through financial education; removing disincentives to save by eliminating asset limits; instituting a state EITC so there's some money to save; or matching an individual's savings so he or she can purchase a home, start a business or go to school. Each is informed by HACBED's direct experience with families participating in the Family Independence Initiative, a new approach to empowering families to become self-sufficient.

This *Asset Policy Roadmap* lays out why these issues matter, what policy changes Hawai`i has the authority to make, and what precedents for action exist across the country. It also includes real-life stories of individuals who could benefit from these changes in state policy.

THE FAMILY INDEPENDENCE INITIATIVE: EXPERIENCE INFORMING POLICY

In 1999, Maurice Lim Miller designed a new approach to helping families and communities become self-sufficient. The approach, called the Family Independence Initiative (FII), features direct investments in low-income families who make measurable progress toward building their social and economic assets. It also provides additional support for those who are successful and willing to help their peers.

Building on initial work in Oakland, California, the Case Foundation, Harold K. L. Castle Foundation, and Hawai'i Community Foundation provided funding to apply the FII approach to families in Hawai'i. In 2005, a pilot was launched on the island of O'ahu to test the following ideas that underlie the FII approach:

- *A Strengths-Based Model* – Families and communities have inherent strengths that can be leveraged to create pathways out of poverty.
- *Monetary Awards and New Connections* – As families change their lives, providing access to flexible resources through monetary awards and connections to opportunities in response to the actions that families take will help increase their self-sufficiency.
- *Lessons for Programs and Policy* – There are significant lessons to be learned from the actions that families take to help themselves and others that must inform the public, private, and philanthropic sectors to improve programs and policies aimed at low-income communities.

The primary supports provided to families included the following:

- *Monetary Awards* – up to \$6,000 for each family for self-reporting, participation and documented progress;
- *Individual Development Accounts* – up to \$4,000 in matched savings to meet family goals for building assets;
- *Personal Computer* – one computer per family for self-reporting and family use;
- *Match for Group Projects* – up to a \$5,000 match for group projects that benefit others in the community;
- *Connections to Opportunities* – referrals and connections to social and economic resources and opportunities; and
- *Individual and Group Meetings* – quarterly meetings with individual families and monthly meetings of families as a group.

These supports were meant to encourage the following characteristics of self-sufficient families and communities – that is, families and communities that are able to exercise choice and control in their lives:

- *Community Ties* – the connection to others within the community;
- *External Ties* – the ability to effectively bridge to external communities;
- *Role Models* – existence of strong positive role models and leaders;
- *Flexible Capital* – access to flexible financial capital;
- *Shaping Viable Goals* – opportunities and skills to take abstract dreams and shape them into tangible and viable goals; and
- *Supportive Environment* – living and working in a family and community environment that nurtures hope for the future.

FII-Hawai'i financial results for families

Families in the O`ahu pilot self-reported data on income, net worth, savings, assets and liabilities. Families reported impressive gains in monthly income; however, even more impressive were the increases in savings and individual development account (IDA) balances: average household savings increased 377.5%. Even though most families were low-income,¹ savings increased an average of \$2,138, from \$566 to \$2,705.² Families contributed a total of \$9,952 to their IDAs. Those dollars were matched with \$14,696 in funds from FII-Hawai'i (FII-HI). Families used these funds to acquire a total of \$268,148 in new assets, including education, business capital, homes and automobiles. On average, household liabilities fell by 14.6%. Debts, however, remained high, with the average household debt of FII-HI families equaling \$29,279.

Additional results

Out of a total of 21 families, there were a substantial number of family accomplishments and celebrations:

- 7 families moved into less crowded or more stable housing
- 7 developed or expanded their small businesses
- 2 babies were born
- 1 family purchased a new home
- 16 individuals found higher paying jobs
- 5 assumed leadership positions in their churches
- 5 accrued savings account balances over \$5,000
- 2 accrued savings account balances over \$10,000
- 2 musicians are recording albums
- 6 enrolled in community college
- 3 youth represented Hawai'i in leadership activities in France, Boston, and Los Angeles

Through interviews and group dialogue, families shared their perspectives on the social and psychosocial changes they experienced as a result of the FII-HI experience. These changes did not occur independent of each other, but rather, were interactive and interdependent. For example, for some of the families, learning financial management skills affected their self-confidence, which then produced better relations with their family, which in turn led to more confidence and initiative.

Self-Efficacy and Confidence

The majority of families expressed a greater sense of self-efficacy, defined as the belief in one's capabilities to organize and execute the courses of action required to produce given attainments.³ Words families used to describe themselves included being more: independent, confident, focused, motivated, empowered, and responsible. One single mother of three who works full-time said, "I can do more than I thought I could. I was doing a lot of things, but it wasn't enough. Now I feel like I am accomplishing things. Overall I'm moving forward, I don't need to worry about pawning my jewelry." Self-efficacy is closely related to the idea of control, which is part of FII-HI's definition of self-sufficiency.

¹ Defined as earning less than 80% of area median income.

² The average savings increase does not include matching funds provided by FII-Hawai'i.

³ Bandura, A. (2001). Social cognitive theory: An agentic perspective. *Annual Review of Psychology*, 52, 1-26.

Demonstrating Initiative/Taking Action

In addition to feeling more control, some families shared stories about being more assertive and taking action/initiative towards their goals. One single mother of two who moved to less crowded housing and found a better-paying job stated, “I’m more positive, now I want more for my life, my children, I’m more aggressive now, I call around, use the Internet, talk to people. Before I was more afraid ... I learned how to focus on my goals, and [am] learning to eliminate the non-essential things.”

A single mother of four who had also found a better-paying job with more benefits told us, “I’m more aggressive, I want to make more to save more. When I went for my current position I knew there would be a raise and that I could save. I knew that income relates to qualifying for down payments on homes.” One example of her action was exploring homeownership. Prior to her FII-HI experience, homeownership had been an intangible dream to her, but now she was taking action. After discussion in a monthly group meeting, she contacted a former classmate who was a real estate agent to explore options for home ownership. “I wouldn’t have gone to look for a real estate agent. I would’ve expected a home to just come to me.”

Improved Relationships

As a family takes action, exerts more control, and feels more positive about their situation, it is not surprising that their relationships with friends and family can improve. Seven families spoke about the positive changes that they experienced in their relationships with friends and family. Examples include: family members being “proud of our progress”; “better and more frequent communication”; increased “respect”; and helping each other “with money and resources in times of need.” For the families, social capital was clearly a critical support and stabilizing factor.

Knowledge and Skills

Through the major supports of FII-HI – individual and group meetings, access to a computer and the Internet, connections to opportunities (informational/instructional sessions) – knowledge and skills were developed. Seven families specifically reported that FII-HI helped them in the areas of time management, goal setting, organizational skills, and financial management. Many of the families who attended the financial education training noted the important skills they learned. Examples of skills that families felt they acquired included savings strategies, debt management techniques, and how to keep a balanced budget.

Sense of Community

Families shared that despite their various existing social bonds, monthly meetings were rewarding because they created a sense of community. Families indicated that they learned from each other, formed and gained strength from a group identity, and reduced their feelings of isolation.

Three families specifically shared that group meetings were especially important to them. The head of household of one family of five explained the importance of her group this way: “Communicating with other families lets us know we aren’t alone. We learn from what they’re going through. They went through that so you know we still have hope.” A working grandparent said, “The gatherings of the group are so important, you could really air things out in the meetings. I met more people and knowing you have someone you can go to is important.”

LESSONS FOR POLICY DESIGN

The experience of the FII-HI families provides lessons for designing policies that will encourage families to move towards self-sufficiency. These lessons are informed by several themes:

- *An appropriate benefits structure* – Policies should eliminate disincentives to family initiative in asset building and provide incentives that encourage asset-building decisions and action.
- *Flexibility with accountability* – Given the dynamic nature and complexity of the challenges faced by families, policies should allow for flexibility in application. Policies should respond to the range of contextual factors that impact the lives of families; they should make operational the idea of “starting where people are” (not just at the beginning of an initiative). Flexibility should also be linked to accountability. In FII-HI, accountability was demonstrated through self-reporting; peer support (and peer pressure); coaching support from peers and staff; expectations from the community; and the tone and expectations (both said and unsaid) set by FII-HI throughout the Initiative.
- *An attitude of investing in people* – Policies should provide resources and opportunities for families to shape their dreams and goals, build their skills, develop relationships, and create their own opportunities when they are appropriately ready to take action on them and as the need or opportunity arises.

I. Financial Skills and Education

OVERVIEW: WHY FINANCIAL EDUCATION MATTERS

Financial education helps families acquire the information and skills necessary to take control of their personal finances. Possessing this information and these skills allows families to plan for the future and interact with the financial system armed with sufficient knowledge to allow them to build their assets and avoid asset-stripping pitfalls. Without an adequate background in how the financial system works and how it can be used to their benefit, families may never begin saving and building assets, and may find it harder to protect and retain the assets they already own.

Lessons from FII-HI: Access to skill-building opportunities and good information matters

For families participating in FII-HI, developing knowledge and skills was important. Through monthly meetings and on-going dialogue, families and FII-HI staff shared information on opportunities to build skills through classes, workshops and other community-based activities. Families also connected each other to resources such as real estate agents, mortgage brokers and employment opportunities. Families accessed the opportunity to improve their financial management skills, and as a result, many reported improvements in budgeting and savings. With new information, skills and connections, families shared that they had more choices and opportunities and a greater sense of hope. A key factor was timely and easy access to information – the families having the ability to get the information they needed to address challenges and opportunities.

Awareness of financial standing is empowering for families to improve their finances

According to families, documenting their experience as part of FII-HI helped them reflect on their progress and informed their decisions and actions. As they reported on the status of their income, assets, and liabilities, families felt their level of financial awareness increased, whether or not they were making progress. Reflection on financial status was a motivating factor for some who were struggling financially. For others, the “hard evidence” of where they stood gave them a sense of accomplishment. For all, “active listening” and coaching support from their peers and FII-HI staff contributed greatly to the self-reflection and learning process.

WHAT HAWAI`I SHOULD DO⁴

Hawai`i should integrate financial education into the K-12 public education system as well as in public welfare and skill-building programs; partner with the private sector to deliver financial education and encourage employers to offer financial education in the workplace.

States can help build the financial skills of their residents in a number of ways. They can integrate financial education into the K-12 public education system as well as into public welfare and skill-building programs. States can also partner with the private sector to deliver financial education and encourage employers to offer financial education in the workplace. States can also play an important role in raising public awareness of the importance of financial skills and available options for financial education.

Based on research by a number of national organizations,⁵ a strong state policy to teach financial skills includes the following elements and should be adopted by Hawai`i.

⁴ This section draws from reports by the National Conference of State Legislatures, the National Council on Economic Education, and the New America Foundation, all cited below.

⁵ Including the National Conference of State Legislatures, the National Council on Economic Education and the New America Foundation.

Hawai`i should **integrate financial education in its K-12 public education system**. Specifically, it should:

- incorporate financial education into state standards;
- require that standards be implemented; and
- test students on skills mastery.

Financial education should begin as early as possible. In the lower grades, it should be integrated into existing subjects (e.g., math and social studies); in high school, it should be delivered as a stand-alone course – ideally taught during the first two years of high school – that is a requirement for graduation. State standardized tests should also incorporate personal finance subject matter.⁶

In addition, Hawai`i should invest in professional development for teachers to help K-12 educators receive training in how to teach financial literacy and assist them in incorporating financial education into their lesson plans.⁷

Hawai`i should **integrate financial education in its public welfare and skill-building programs**. Specifically, it should:

- allow financial literacy training to count as an allowable work activity under the Temporary Assistance for Needy Families (TANF) program;
- use TANF funds to support financial education for TANF-eligible families;
- expand the use of federal Workforce Investment Act funds to provide financial literacy opportunities to workforce development customers;⁸ and
- inform participants in all public benefit and skill-building programs about available financial education opportunities.

Currently in Hawai`i, youth service providers that are supported by federal WIA funds must provide financial education to their participants.⁹ The state's Workforce Development Council has also included increased financial education offerings to all workforce participants as a recommendation in its annual reports to the governor.¹⁰

Following the lead of the federal government, Hawai`i should **encourage financial education in the workplace**. Specifically, it should set an example for private employers across the state by providing workplace-based financial education for all state employees.¹¹

Hawai`i should **create public-private partnerships**. Specifically, it should create a state-level office to coordinate and promote financial education programs and policies across the state in the public, private and nonprofit sectors.

⁶ Parrish, L., McCulloch, H., Edwards, K. & Gunn, G. (2006). State Policy Options for Building Assets. Washington, DC: New America Foundation. Retrieved November 7, 2007 from www.newamerica.net/files/Doc_File_3134_1.pdf.

⁷ Morton, H. (2005) Financial Literacy: A Primer for Policymakers. Washington, DC: National Conference of State Legislatures.

⁸ States may use discretionary Workforce Investment Act dollars (15% of their federal allocation) to fund innovative programs and state priorities, such as financial education.

⁹ Hawai`i's Workforce Development in 2005: Stepping Stones to 2006: 2006 Report to the Governor. (2005, December). Honolulu, HI: Hawai`i Workforce Development Council. Retrieved November 16, 2007 from <http://.gov/labor/wdc/pdf/2006ReportToGovernor.pdf>.

¹⁰ Hawai`i's Workforce Development for 2007: 2007 Report to the Governor. (2006, December). Honolulu, HI: Hawai`i Workforce Development Council. Retrieved November 16, 2007 from www.gov/labor/wdc/pdf/WDC_2007_GOV_REPORT_final_122906.pdf.

¹¹ Parrish et al. (2006).

STATE PRECEDENTS

K-12 education

Financial education is currently included in the educational standards of 40 states (up from 34 in 2004 and 21 in 1998). Twenty-eight states (up from 20 in 2004 and 14 in 1998), now require these standards to be implemented. Seven states require students to take a financial education course as a high-school graduation requirement, and nine states require testing student knowledge in personal finance.¹² In Pennsylvania, the state's Office of Financial Education offers training institutes for teachers, which are designed to help them integrate financial education into existing courses.

Public welfare and skill-building programs

Incorporating financial education into public benefit and skill-development programs is a relatively new innovation. Perhaps the most prominent and successful example to date comes from Illinois, where the state Department of Human Services has partnered with Financial Links for Low-Income People and the University of Illinois Cooperative Extension to provide a 12-hour financial education course for TANF recipients. The course counts toward the fulfillment of TANF work requirements. Nearly 80% of participants reported improved success in saving, managing debt, budgeting and tracking expenses after completing the program.¹³ Other states have considered similar initiatives for other public programs. For example, the Maryland State Department of Education and the Maryland Correctional Education Program have developed a curriculum to incorporate financial literacy into coursework for adult prison inmates who are studying for their general equivalency diploma.¹⁴

In the workplace

Employees whose financial situations are stable demonstrate reduced absenteeism and turnover, increased productivity, and earn higher job performance ratings.¹⁵ Some employers are beginning to take notice of this trend and investing in financial education for their workers. In 2005, the federal government began implementing a retirement financial education strategy to improve the financial literacy of federal employees, help them plan for retirement, assist them in setting savings goals, and encourage them to take advantage of retirement savings benefits offered as part of their jobs.¹⁶ The Federal Reserve Board also developed a financial education series for its own employees.¹⁷

Public-private partnerships

States can encourage workplace financial education, school-based financial education, and other efforts by developing partnerships with the private and nonprofit sectors and serving as an informational resource. Pennsylvania and Wisconsin have led the way by creating offices of financial education under the states' banking divisions. These offices work with other state agencies and with community-based and private-sector partners to connect existing financial education resources and create new ones; provide training and resource materials to educators; expand employer-based financial education; and serve as a central repository of information, publications, and other materials. Similarly, New Jersey created the Financial Literacy Awareness Network through the state Department of Banking and Insurance. The Network is a statewide distribution clearinghouse that provides online and hard-copy access to existing financial education programs, materials, and resource guides.¹⁸

¹² Survey of the States: Economic and Personal Finance Education In Our Nation's Schools in 2007: A Report Card. (2007). New York: National Council on Economic Education. Retrieved November 7, 2007 from www.ncee.net/news/story.php?story_id=108.

¹³ Illinois Best Practices: Financial Education and Asset-Building for Low-Income People. Chicago, IL: Sargent Shriver National Center on Poverty Law. Retrieved November 7, 2007 from www.povertylaw.org/advocacy/community-investment/illinois-best-practices_-_financial-education-and-asset-building-for-low-income-people.pdf.

¹⁴ Morton (2005).

¹⁵ Kratzer, C. Y., Brunson, B. H., Garman, E. T., Kim, J., & Joo, S. (1998, November/December). Financial education in the workplace: Results of a research study. *Journal of Compensation and Benefits*, Volume 14, Number 3, pp. 24-27.

¹⁶ Retirement Financial Literacy and Education Strategy. Washington, DC: U.S. Office of Personnel Management. Retrieved November 8, 2007 from www.opm.gov/benefits/literacy_education.asp.

¹⁷ Fox, L. (2004). Federal Reserve Personal Financial Education Initiatives. *Federal Reserve Bulletin*. Washington, DC: Federal Reserve Board of Governors, pp.449-450.

¹⁸ Morton (2005).

II. Asset Limits¹⁹

OVERVIEW: WHY ASSET LIMITS MATTER

Many public benefits programs – like cash welfare or Medicaid – limit eligibility to those with few or no assets. If a family has assets over the state’s limit, it must “spend down” longer-term savings in order to receive what is often short-term public assistance. These asset limits, which were originally intended to ensure that public resources did not go to “asset-rich” individuals, are a relic of entitlement policies that largely no longer exist.

Cash welfare programs, for example, now focus on quickly moving families to self-sufficiency, rather than allowing them to receive benefits indefinitely. Personal savings and assets are precisely the kind of resources that allow families to move off – and stay off – public benefit programs. Yet asset limits can discourage anyone considering or receiving public benefits from saving for the future.

Lessons from FII-HI: An attitude of investing in people

Over the course of FII-HI, average net worth for families increased 75.3% – an average of \$10,658 per household, median of \$6,791. The average increase in net worth in the last 10 months of the Initiative was nearly five times greater than its increase in the first 10 months. This pattern demonstrated that the process of building net worth took time for families; they needed to identify goals, believe they’re achievable, and learn new skills. They also needed the positive reinforcement from FII-HI that saving was a positive rather than a negative. Policies such as asset limits are contrary to the attitude of investing in families and the belief in the ability of the families to shape their own pathways to self-sufficiency.

WHAT HAWAI‘I SHOULD DO

Hawai‘i should remove the disincentive to save for low-income families by eliminating asset tests in TANF, Medicaid and Food Stamps.

States determine many key policies related to families receiving benefits. States have full discretion in setting or eliminating asset limits for Temporary Assistance to Needy Families (TANF), Medicaid, and the State Children’s Health Insurance Program (SCHIP).²⁰ In addition, states have some flexibility to address asset limits for Food Stamps.²¹

The best option

Based on extensive research by many national and state organizations,²² the best option for removing disincentives to save is to entirely eliminate the asset limits in all public assistance programs.²³ For the Food Stamp program, in which states do not have the authority to explicitly remove asset limits, states should extend categorical eligibility to households that participate in a program, receive a service or are authorized to receive a service funded by TANF block grant or maintenance of effort (MOE) dollars; furthermore, in seeking to confer categorical eligibility, states are encouraged to select a TANF/MOE-funded program or service that has no asset limit and that will allow the greatest

¹⁹ This section draws heavily from Resource Guide: Asset Limits in Public Benefit Programs. (2007) Washington, DC: CFED. Available at http://www.cfed.org/institute/rg/01_rg_assetlimits.pdf.

²⁰ Only Oregon and Texas have asset limits in their SCHIP programs.

²¹ Dean, S. (2002). The Food Stamp Program. 2002 Federal IDA Briefing Book: How IDAs Affect Eligibility for Federal Programs. Washington, DC: CFED and the Center on Budget and Policy Priorities.

²² CFED, the Center on Budget and Policy Priorities, the Center for Law and Social Policy, the New America Foundation, the Urban Institute, and the Sargent Shriver National Center on Poverty Law and others have examined this issue.

²³ Recommendations are from 2007-2008 *Assets & Opportunity Scorecard*. (2007, September). Washington, DC: CFED. Available at www.cfed.org/go/scorecard.

number of household members to benefit.²⁴

Incremental improvements

It is important to note that the existence of an asset limit, no matter how high, sends a signal to program applicants and participants that asset-building should be avoided. However, if a state has not yet eliminated asset limits entirely, it can take several intermediate steps.

- For TANF and family Medicaid, Hawai`i could increase its asset limits and index them to inflation, thereby lessening the disincentives to save. Hawai`i's current asset limit for TANF is \$5,000; \$3,250 for Medicaid.
- For TANF and family Medicaid, Hawai`i could also exempt certain classes of assets from its asset tests. While most programs exclude some "illiquid" assets, such as a home or defined benefit pension, many other liquid holdings – such as defined contribution retirement accounts (e.g., 401(k)s, IRAs), health savings accounts, education savings accounts (529s and Coverdells), or individual development accounts – often count against the asset limit. Hawai`i should exempt these types of assets. In addition, vehicles, which are vital for many to find and maintain employment, should be exempted. States also should exempt Earned Income Tax Credit refunds for at least a year to offer protection from emergencies and unexpected expenses.^{25,26}
- For Food Stamps, Hawai`i could eliminate or increase its asset limits for TANF or Medicaid and then align its Food Stamps asset limit rules with one of those programs. Note that, for this rule alignment to be meaningful, Hawai`i must eliminate or raise asset limits in the TANF or Medicaid program to which it is aligning its Food Stamp policy. Furthermore, any household assets that are deemed "readily accessible" will still count against the federal asset limit of \$2,000 (\$3,000 for households with a disabled or elderly member).

Program	Hawai`i's Asset Limits	What Hawai`i can do
TANF	\$5,000	<ul style="list-style-type: none"> ■ Eliminate limits entirely as Ohio and Virginia have done ■ Substantially increase limits so they do not affect most recipients ■ Exclude classes of assets, such as individual development, retirement, and college savings accounts
Food Stamps	\$2,000 (\$3,000 if disabled or elderly)	<ul style="list-style-type: none"> ■ Define what counts as assets and which assets count as "readily available" ■ Determine Food Stamps applicants and recipients "categorically eligible" if they also receive any TANF-funded assistance ■ Exclude assets not counted by the state's TANF or Medicaid program
Medicaid	\$3,250	<ul style="list-style-type: none"> ■ Eliminate limits entirely as more than 20 states have done ■ Substantially increase limits so they do not effect most recipients ■ Exclude classes of assets, such as individual development, retirement, and college savings accounts

²⁴ Dean, S. (2006, August). States Have the Flexibility to Set Their Own Food Stamp Asset Test. Washington, DC: Center on Budget and Policy Priorities.

²⁵ Parrish, L. (2005, May). To Save, or Not to Save? Reforming Asset Limits in Public Assistance Programs to Encourage Low-income Americans to Save and Build Assets. Washington, DC: New America Foundation.

²⁶ Hawai`i currently excludes educational assistance from TANF and all vehicles and tax deferred income in a fund available only upon termination of employment, hardship or retirement from Family Medicaid determinations. In addition, all or nearly all states exclude the following resources: funeral agreements, burial agreements, and burial plots; equity value of a life estate interest in real property; primary residence and surrounding contiguous land; restitution payments; disaster relief funds and similar federal payments; earned income tax credit in the month received and the following month; public assistance payments; real property that the family is making a good faith effort to sell; Indian lands and payments; household goods and personal effects; inaccessible trust funds; vehicles used as the family's home; vehicles used for subsistence hunting and fishing; vehicles used to carry the household's primary source of heating fuel or primary source of water; and vehicles with fair market value under \$4,650 or equity value under \$1,500.

STATE PRECEDENTS

Since 1996, 22 states have eliminated Medicaid asset limits entirely and, thus far, two states have eliminated TANF asset limits. Three states have substantially increased the asset limits in their Medicaid or TANF programs and 16 states have excluded important categories of assets from these limits.²⁷ Twelve states have essentially eliminated Food Stamp asset limits through “categorical eligibility” since 1999, and 28 states have improved their Food Stamp rules by aligning them with TANF or Medicaid.²⁸

Eliminating TANF Asset Limits in Ohio and Virginia²⁹

Ohio was the first state to abolish asset limits in TANF; it did so in 1997.³⁰ One of Ohio’s most conservative and longest-serving legislators, Rep. Bob Netzley (a Republican), proposed the abolition. Proponents argued that:

- in light of welfare reform’s emphasis on work, caseworkers should focus on helping people find employment and maintain their connection to the labor force;
- workers need cars and savings to obtain and retain jobs, deal with emergencies, and advance in the labor market; and
- the state’s responsibility is to support work efforts through policies such as work requirements, earned income disregards, and car ownership programs.³¹

Although Ohio budget analysts predicted a small increase in the TANF caseload as a result of eliminating the asset test, no caseload increase or political fallout occurred. In fact, Ohio caseloads remained at record low levels (70% below 1992 peak levels) as of late 2005, despite increases in the TANF benefit level in both 1997 and 2005. Ohio received federal TANF high-performance bonuses (\$28.1 million in 2004 and \$14.7 million in 2005) for labor force attachment.³²

In 2003, the Virginia State Board of Social Services adopted administrative rules that eliminated asset limits in its TANF and family and child medical programs, evaluated only liquid assets in its Food Stamp Program, and eliminated the TANF lump-sum rule, which made recipients ineligible for cash assistance after receiving a lump-sum payment such as retroactive Supplemental Security Income (SSI) benefits or a personal injury settlement.³³ The Virginia Department of Social Services proposed the TANF changes during Gov. Mark Warner’s Democratic administration. The state board of the Department of Medical Assistance Services promulgated the regulatory changes relating to Medicaid for families and children.

Like Ohio’s, Virginia’s elimination of asset tests was part of a broader state welfare reform package that simplified earned income disregards, disregarded student earnings, simplified the determination of self-employment, and aligned processing time with other assistance programs. When these rules were proposed, Virginia provided cash assistance to families with countable resources of up to \$1,000, one vehicle, and up to \$5,000 in an account for the purposes of “self-sufficiency.” The Department of Social Services estimated that eliminating the asset test would “increase the assistance provided by \$127,200 for 40 families and provide \$323,050 savings in administrative staff time annually.”³⁴

²⁷ Personal Responsibility and Work Opportunity Reconciliation Act of 1996, better known as the Welfare Reform Bill, gave states the flexibility to eliminate or raise asset limits for TANF and Medicaid and to exclude certain types of assets from eligibility determination.

²⁸ In 1999, USDA issued guidance on categorical eligibility.

²⁹ This section is from: Rand, D. (2007, March-April). Reforming State Rules on Asset Limits: How to Remove Barriers to Saving and Asset Accumulation in Public Benefit Programs. *Clearinghouse Review Journal of Poverty Law and Policy*. Chicago, IL: Sargent Shriver National Center on Poverty Law.

³⁰ Ohio Rev. Code Ann. § 5107.10(C). Available at <http://onlinedocs.andersonpublishing.com/oh/1pExt.dll?f=templates&fn=main-h.htm&cp=PORC>.

³¹ Rabb, J., Bureau Chief for Program Integrations and Coordination, Ohio Department of Job and Family Services (2005, Nov. 8). Interview.

³² 2005 Annual Report. (2005). Columbus, OH: Ohio Department of Job and Family Services. Available at http://jfs.ohio.gov/ocomm_root/2005AnnualReport.pdf.

³³ 22 Va. Admin. Code § 40-295-50 (2003). Available at <http://leg1.state.va.us/cgi-bin/legp504.exe?000+reg+22VAC40-295-50>.

³⁴ Virginia Department of Planning and Budget, Economic Impact Analysis, Code of Virginia, Volume 22, Section 40-295-50 (2003).

The department argued that asset-test elimination would streamline and simplify program rules, align TANF with other assistance programs, improve service delivery, and reduce the administrative burden on the agency, applicants, and recipients.³⁵ Mark Golden, the department's manager of economic assistance and employment, explained that asset tests were no longer necessary because:

- welfare reform's time limits and work requirements made them obsolete;
- people use their resources before applying for benefits;
- making people get rid of resources, only to encourage them to build resources back up, is counterproductive;
- allowing asset development puts greater emphasis on employment and self-sufficiency; and
- eliminating the asset tests has little impact on the caseload (only 1,200 of 60,000 applications, or 0.5%, were denied due to excess assets).³⁶

The Virginia Department of Planning and Budget believed that the proposed change posed a fiscal risk and suggested that the state retain the asset test but achieve administrative savings by enforcing the test only through random verification.³⁷ Nonetheless, the rules were adopted as proposed, and all eligibility workers attended training sessions on the new rules.

Since enactment of the new rules, Virginia has not seen a significant caseload increase.³⁸ Virginia's TANF caseload declined by 36 percent between 1997 and 2005.³⁹

35 Proposed Regulation Agency Background Document (amendments to Code of Virginia, Volume 22, Section 40-295-50) 2 (2003).

36 Golden, M. (2005, April 21). Asset Policy in Virginia. Presentation at Center for Social Development State Policy Conference.

37 Virginia Department of Planning and Budget, *supra* note 14.

38 Golden, *supra* note 16.

39 Review of State Spending. (2006). Richmond, VA: Joint Legislative Audit and Review Commission. Available at <http://jlarc.state.va.us/Meetings/December06/Spendbrf.pdf>.

III. State Earned Income Tax Credit⁴⁰

OVERVIEW: WHY A HAWAII EITC MATTERS

In 2004, 12.7% of the population had incomes below the federal poverty level, and 22.4% were asset poor – meaning that they could not survive at the poverty level for three months if their income were interrupted.

One of the largest and most effective wage support programs for low- and moderate-income families is the federal Earned Income Tax Credit (EITC). It lifts over 4.4 million Americans out of poverty every year, half of whom are children.⁴¹ The EITC is also a means of reducing asset poverty. Studies have shown that some families use EITC payments for significant purchases – such as a house – and to pay off debts.⁴² Families can also use the credit they receive each year to start saving for the future.

The EITC supplements the earnings of workers by reducing their tax burdens. When the EITC is greater than the amount of taxes owed, the taxpayer receives a refund. As a result of its success, the federal credit has been dramatically expanded (from \$1.25 billion in 1975 – the year the EITC was created – to \$42 billion in 2007),⁴³ and many states have enacted EITCs that piggyback on the federal credit.⁴⁴

Lessons from FII-HI: Access to flexible capital helps families meet long-term and day-to-day needs

As part of FII-HI, families had access to monetary awards of up to \$3,000 per year. They used the funds in two ways. The first was for day to day needs that helped them stabilize their home life. A father in a family of four said, “You give us help sometimes when we’re short, we saved here and there, but also used it for emergencies, like buying diapers.” A mother of three from a different community commented, “Yeah, [money helped] big time, it helped us from not having the water shut off. Now all my kids have beds.” Using the monetary awards to meet basic needs suggests that families faced real and considerable economic challenges. Other day-to-day applications of the funds included medical bills, automobile registration, insurance and maintenance, school field trips, and rent. The second use of monetary awards was for savings. The fact that many families saved, despite low incomes, demonstrated their commitment to long-term financial planning. The father of a young family of three reported, “We saved and now we have an emergency fund.”

The important aspect of the monetary awards, however, was that families had the flexibility to use the funds according to what they felt was critical for addressing and advancing their situation. In some instances, the funds helped families stabilize and prevented them from “sliding backwards.” In other instances, families were stable enough to use the funds to invest in their future plans and goals through savings.

A state EITC would provide a flexible source of funds that families could use to both meet day-to-day needs and save for the future.

⁴⁰ This section draws heavily from Resource Guide: State Earned Income Tax Credit. (2007). Washington, DC: CFED. Available at http://www.cfed.org/institute/rg/07_rg_stateEITC.pdf.

⁴¹ Greenstein, R. (2005, August 17). The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor. Washington, DC: Center on Budget and Policy Priorities. Retrieved on 11/18/06 from: http://www.cbpp.org/7-19-05eic.htm#_edn7.

⁴² Holt, S. (2006, February). The Earned Income Tax Credit at 30: What We Know. Washington, DC: The Brookings Institution, p.17. Retrieved on 11/18/06 from http://www.brook.edu/metro/pubs/20060209_Holt.pdf.

⁴³ O'Brien, M., IRS Program Analyst for EITC. (2007, March 9). Personal communication.

⁴⁴ Nagle, A. and Johnson, N. (2006, March 8). A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006. Washington, DC: Center on Budget and Policy Priorities, p.29. Retrieved on 11/18/06 from <http://www.cbpp.org/3-8-06sfp.htm>.

WHAT HAWAII SHOULD DO

Hawaii should enact a state EITC to help make work pay. The credit should be refundable, equal to at least 15% of the federal credit, available to childless workers, and linked to asset-building opportunities.

States can enact their own EITCs that build on the federal credit. Each state can determine the amount of the credit, its coverage and family size adjustments, as well as whether it will be refundable.⁴⁵ States can also provide a bonus to families if they save all or part of their refund in a product such as an individual development account or individual retirement account. This flexibility gives states the opportunity to design the credit according to their individual population needs and available resources. It also gives states the opportunity to improve upon an already effective federal program.

The best option

An effective state EITC has the following essential components:⁴⁶

1. **Refundability:** Refundability is the single most important component of the EITC. Because families with low earnings are likely to have little or no state income tax liability, only a refundable credit reaches them, giving them an added incentive to work and helping to offset the other state taxes they pay.
2. **Setting credit to at least 15% of federal EITC:**⁴⁷ Credit levels should be large enough to ensure that working poor families receive adequate support to benefit from the program. Primary considerations in setting a state credit level include the affordability of the program for the state, the level of tax relief desired, and the size of the desired income boost for poor families.
3. **Bonus for EITC funds deposited into a savings or investment account:** The majority of EITC refunds are used to meet immediate needs.⁴⁸ However, refund checks are frequently the largest lump-sum, discretionary funds that these taxpayers receive all year. Their potential to further long-term asset development is significant. Providing an incentive that encourages savings, either through individual development accounts or other savings instruments, can improve the asset development prospects of many working families.⁴⁹
4. **Qualification of workers without children:**⁵⁰ Workers without children are eligible for the federal EITC. Although the credit to workers without qualifying children is relatively small (about one-tenth of the maximum credit that a household with two children can receive), including these workers keeps state EITC qualifications in line with federal ones and bears relatively low costs.

STATE PRECEDENTS

To date, 23 states (including the District of Columbia) have enacted EITCs, including three new states in 2007 alone. Once the new ones and a number of recent expansions take effect, state EITCs will collectively provide about \$1.8 billion per year to 5.7 million low-income families.⁵¹ Twenty of the 23 state EITCs are or will soon be refundable.⁵²

⁴⁵ Nagle and Johnson (2006).

⁴⁶ Recommendations from 2007-2008 Assets and Opportunity Scorecard. (2007, September). Washington, DC: CFED. Available at www.cfed.org/go/scorecard.

⁴⁷ Nagle and Johnson (2006), p.25.

⁴⁸ Holt (2006), p.16.

⁴⁹ Holt (2006), pp. 16-17.

⁵⁰ Nagle and Johnson (2006), pp.26-27.

⁵¹ Center on Budget and Policy Priorities.

⁵² This number includes Maryland's and Rhode Island's EITCs, which are partially refundable. Only Delaware, Maine and Virginia are on track to continue with completely nonrefundable EITCs.

Existing state EITCs range from 3.5% to 35% of the federal credit. Only two states (Maryland and Wisconsin) exclude childless workers from receiving their EITC.

Linking EITC to financial education and asset-building opportunities

Many programs across the country have worked to connect free tax preparation assistance with opportunities to increase incomes through public benefits, build financial skills through financial education, and build assets through IDAs and other asset-building products.

For example, some of the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) sites are "super sites," meaning that they not only help individuals complete their tax forms and receive the EITC, they also offer an array of services including enrolling individuals in public benefit programs (like Food Stamps); providing financial education, credit repair and asset preservation classes; and recruiting and enrolling individuals in IDA programs. Hawai'i should maximize the potential of its approximately 75 VITA sites⁵³ and encourage that they also offer access to public benefits, financial education and asset-building opportunities.

As another example, Virginia has aligned its EITC and VITA programs with its IDA program. It offers a 2:1 match for EITC refunds deposited into these matched savings accounts – that is, the state contributes \$2 for every \$1 of EITC refund deposited into a taxpayer's IDA.⁵⁴

In 2005, Hawai'i allocated funding to Aloha United Way to support the statewide network of organizations providing free tax preparation services. This modest investment has led to a significant increase in the number of recipients and amount of the federal EITC.

⁵³ Hawai'i Site Listings for Tax Season 2007. (2007). Flyer. Available at http://www2.hawaii.edu/~kamida/Index_files/vita/Hawaii%20Site%20Listings%202007%20Rev012607%204PMgb.pdf.

⁵⁴ Brumgard, L. Associate Director, Virginia Department of Housing and Community Development. (2007, March 12). Personal communication.

IV. State Support for Matched Savings Accounts⁵⁵

OVERVIEW: WHY STATE SUPPORT FOR MATCHED SAVINGS ACCOUNTS MATTERS

One in five Americans has zero or negative net worth. Twenty-two percent have so few assets that they could not stay above the poverty level for three months if their earnings were interrupted. Government policy decisions influence these outcomes. Through tax and spending decisions, government can create incentives for people to save and build assets. For example, the federal government spent \$367 billion in fiscal year 2005 to support asset building for Americans. Unfortunately, most of that support went to those with very high incomes and little to those who need it most.⁵⁶

There are, however, some policies that help low- and moderate-income people build assets. One example is a state-supported IDA program. IDAs are special savings accounts that match the deposits of low- and moderate-income savers, provided that they participate in financial education and use the savings for targeted purposes – most commonly postsecondary education, homeownership, or capitalizing a small business. Extensive research on IDAs has demonstrated that these accounts are important tools that make families more financially secure and communities more stable.⁵⁷ The American Dream Demonstration (ADD), which ran from 1997-2003, was the first systematic study of IDAs. It proved that, with the proper incentives and support, the poor can and do save. The average monthly net deposit per participant was \$19, and – with an average match rate of \$2 for every \$1 saved – participants accumulated about \$700 per year.⁵⁸

Lessons from FII-HI: Families find value in goal-setting within a supportive structure

Families in FII-HI discussed the importance of setting goals themselves. Throughout their participation, families developed and refined their goals. The goals they envisioned for themselves included homeownership, business development and education, as well as being able to address family necessities. Four families spoke poignantly about their goals in interviews. One working, married mother of two shared that, “our goals before weren’t the right priority, like getting cars, they just moved us from point A to point B. We were focused on just making it, we now aspire more for our kids, having savings accounts for them, having a college fund, having a retirement fund for us and having more security.”

WHAT HAWAII SHOULD DO

Hawai`i should provide state support for IDAs to help people save for a home, business or education. Funding for the program should be sufficient to help all those who qualify and should come from a stable source. The state program should have a state agency steward and be designed so that community-based organizations can provide effective asset-building opportunities.

Funding for IDA programs often comes from a combination of federal and state governments, foundations and the private sector. State funding, in addition to directly helping low- and moderate-income savers, can also leverage federal Assets for Independence Act funds, which require a one-to-one non-federal match.

⁵⁵ This section draws heavily from Resource Guide: Individual Development Accounts. (2007). Washington, DC: CFED. Available at http://www.cfed.org/institute/rg/11_rg_IDAs.pdf.

⁵⁶ Woo, L. and Buchholz, D. (2007). Return on Investment? Getting More from Federal Asset-building Policies. Washington, DC: CFED, p.1. Retrieved 2/22/07 from http://www.cfed.org/imageManager/documents/publications/hips2/return_on_investment.pdf.

⁵⁷ The Center for Social Development at Washington University in St. Louis (<http://gwbweb.wustl.edu/csd/>) and CFED (www.cfed.org/go/idas) have each published numerous papers on IDAs, effective and innovative IDA policy design, and IDA uses.

⁵⁸ Schreiner, M., Clancy, M. & Sherraden, M. (2002). Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts. St. Louis, MO: Center for Social Development. Retrieved 8/3/07 from <http://gwbweb.wustl.edu/csd/Publications/2002/ADDreport2002.pdf>.

Generally, state-supported IDA programs involve a partnership between a state agency, nonprofit service providers, and financial institutions. Once a state authorizes an IDA program through a legislative or regulatory process, it designates a state agency or non-governmental entity to serve as the program administrator and steward. At least half of the state programs surveyed in a recent study⁵⁹ were administered jointly by a state agency and a nonprofit.

The program administrator sets up accounts with the financial institution partner; provides fiscal management, administration, and overall marketing; and reports results to a state auditor or evaluator. The administrator also partners with nonprofit service providers to interface with accountholders. Service providers manage outreach and recruitment, data collection, and individual accounts, and also provide financial education training, budget and credit counseling, and asset-specific classes.

A strong state IDA policy has the following essential characteristics, which Hawai'i should include in its design of a state program:⁶⁰

- **Sufficient funding.** The state's annual commitment to IDAs should be no less than \$200 per low-income resident.⁶¹ This rate of funding covers the administrative and operating costs of the IDA program as well as the matching funds for savers.
- **State agency stewardship.** It is important for the IDA program to have a steward within state government, and for the stewarding agency to be committed to all uses for IDA savings. The choice of agency to run the program is often based on the funding source. In some cases, however, the result has been that the IDA program is pigeonholed for one use or for one population. To avoid this drawback and to allow for a more broad-based asset-building strategy, a state could designate a department such as economic development or banking as the IDA program administrator. Assigned to a department with a broader focus, IDAs are more likely to be perceived for what they are: asset-building tools that cross programmatic areas.
- **State funding for all types of program costs.** IDA providers currently cobble together federal, private, and – if the state has established an IDA program – state funding. Restrictions on the uses of these monies are numerous and often force IDA providers to subsidize the operating and administrative costs of the program. In addition to matching deposits for IDA program participants, states should allow funds to be used to cover program administration and operating costs, as well as technical assistance to providers.
- **Stable state funding.** While state budgets grow and shrink with fluctuations in the economy, and annual appropriations negotiations can be protracted, it is important for state funding for IDAs to come from a stable and protected source. Depending on a state's budget process and how the funding mechanism is structured, stability can come in a number of forms: for example, through a permanent line item in an agency's budget, a dedicated funding source such as a trust fund, or through a tax credit.⁶²

⁵⁹ Warren, N. and Edwards, K. (2005). Status of State Supported IDA Programs in 2005. St. Louis, MO: Center for Social Development, p.8. Retrieved 3/7/07 from <http://gwbweb.wustl.edu/csd/Publications/2005/PR05-03.pdf>.

⁶⁰ Recommendations are from 2007-2008 *Assets & Opportunity Scorecard*. (2007, September). Washington, DC: CFED. Available at www.cfed.org/go/scorecard.

⁶¹ This amount assumes \$2,000 per IDA and a 10% participation rate among eligible residents. Low-income is defined as having adjusted gross income no more than 200% of the federal poverty level, consistent with AFIA eligibility standards. It should be noted, however, that standards based on area median income are often stronger and more meaningful since they take into account differences in cost of living, especially in high-cost areas.

⁶² Some state tax credits are poorly structured and, as a result, may be underutilized or ineffective. However, experience in states with successful credits, such as Oregon, suggests that it is critical to structure credits so that they produce sufficient funding for IDAs, are large enough so that taxpayers have an incentive to contribute, and the tax credit program includes marketing. Oregon's tax credit, for example, is a credit against personal and corporate income tax – a tax where taxpayers have substantial tax liability. The credit is also set at a meaningful percentage for taxpayers: they receive a 75% credit against contributions to IDA programs. Oregon also has centralized marketing and communications for maximum visibility.

Whether in law or via administrative rule, Hawai'i could also opt to include other highly desirable elements of strong state IDA policy, such as:

- **Flexibility of uses.** While most IDA programs permit savers to purchase a home, finance a higher education or start a small business, a state may also allow accountholders to use their savings for other uses deemed appropriate, such as a computer, a car, home repairs, retirement, or assistive technologies for people with disabilities.
- **Protecting savers' eligibility for means-tested programs.** The accountholder's savings and matching funds should not affect his or her eligibility for any means-tested public benefits, including Medicaid, TANF, Food Stamps, Supplemental Security Income (SSI), subsidized child care, or housing programs.
- **Financial education.** Most IDA programs mandate that participants must complete financial education in order to access their matching funds. This training may encompass both general financial education and asset-specific training.

A Longer-Term Vision: Universal, progressively-matched accounts for all children in Hawai'i

The "matched savings" concept implicit in IDAs is a powerful one. Imagine if all children in Hawai'i were given an account at birth that was endowed with an initial deposit and had subsequent deposits progressively matched, based on the income of the family.

Creation of universal, progressive accounts at birth is a longer-term policy priority. For the approximately 18,000 resident births per year in Hawai'i,⁶³ the state should open an account and provide an initial deposit (which could be larger for low-income families). The account would grow tax-free and be used for college, a home, retirement, or other specific purposes.

The initial deposit, with compounding interest and additional deposits, such as from the EITC, Child Tax Credit and other sources, would provide a significant foundation for every child in Hawai'i, particularly those with no other assets. It would provide a vehicle for savings and a tool for children and parents to learn the value of saving and investment.

Legislation to create such accounts has been introduced in Hawai'i⁶⁴ and California.⁶⁵ Congress is also considering a national version of the universal children's account.⁶⁶ In addition, seven states⁶⁷ currently match the deposits of low- and moderate-income savers into 529 college savings accounts, and several others have recently enacted legislation to create similar programs.⁶⁸

As a first step, Hawai'i should create a government-sponsored, time-limited task force to examine the options and feasibility for creating universal, progressive accounts at birth.

⁶³ 2005 State of Hawai'i Data Book. (2006). Honolulu, HI: Hawai'i State Department of Business Economic Development & Tourism.

⁶⁴ SB 1936, 24th Legislature (2007). http://capitol.hawaii.gov/sessioncurrent/Bills/SB1936_.htm

⁶⁵ The California Kids Investment and Development Savings (KIDS) Account Act. SB 752, 2007-2008 Legislature (2007). www.leginfo.ca.gov/pub/07-08/bill/sen/sb_0751-0800/sb_752_bill_20070223_introduced.html

⁶⁶ ASPIRE Act of 2007. HR 3740, 110th Congress (2007). <http://thomas.loc.gov/cgi-bin/query/D?c110:1:./temp/~c1103s2M4G>

⁶⁷ Colorado, Louisiana, Maine, Michigan, Minnesota, Rhode Island and Utah.

⁶⁸ In the 2007 legislative session, Arkansas and Texas enacted legislation to create programs to match the deposits of low- and moderate-income savers into 529 education savings accounts and prepaid tuition plans, respectively.

STATE PRECEDENTS

To date, 39 states⁶⁹ have enacted or administratively created state-supported IDA programs, though not all are currently active. States that at one point or another have had a state-supported IDA program are: Arizona, Arkansas, California, Colorado, Connecticut, District of Columbia, Florida, Georgia, Hawai'i, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia and Washington.⁷⁰

⁶⁹ The total of 39 includes two non-state jurisdictions: the District of Columbia and Puerto Rico.

⁷⁰ Warren and Edwards (2005); and additional CFED research.

Appendix

30 POLICY IDEAS FOR HELPING FAMILIES IN HAWAII BUILD AND PROTECT ASSETS⁷¹

1. MAKE WORK PAY

1.1 Maintain and utilize the self-sufficiency standard as a benchmark

The self-sufficiency standard – the actual amount needed to afford basic needs such as food, housing, and healthcare – is a more realistic measure of economic struggle than the Federal Poverty Level. A current self-sufficiency standard would be a useful tool for evaluating programs, designing new policies, and setting benchmarks for measuring economic success.

1.2 Increase access to the federal EITC

The federal earned income tax credit (EITC) provides a refundable tax credit to low-income wage earners that can result in significant refunds for people who stay in the workforce. The EITC is the largest anti-poverty program in the United States and the state should continue to support outreach efforts to allow all those who are eligible to claim their credit.

1.3 Establish a refundable state EITC

Hawaii can join this national trend by enacting a refundable state EITC equal to at least 20% of the federal EITC. To claim the credit, a low-income taxpayer would simply multiply their federal EITC claim by the percentage amount and enter the result on their state tax returns

1.4 Increase the income tax threshold

The income tax threshold is the level at which earned income is subject to the income tax. Hawaii continues to have one of the lowest income tax thresholds among the states that tax income. The goal could be to eliminate income taxes on low-income earners without eroding overall tax revenues.

2. TEACH ASSET-BUILDING

2.1 Maximize financial education opportunities for youth

The No Child Left Behind era for public schools has created challenges for all “peripheral” content areas vying for valuable instructional time. Nevertheless, public and private funding can support efforts to effectively teach financial skills to youth – whether woven into classroom lessons, taught in after-school programs and community assemblies, integrated into club and athletic activities, or led by partner organizations.

2.2 Encourage partnerships between financial institutions and schools

Hawaii's banks and credit unions could explore partnerships that increase financial understanding and make banking services more familiar and accessible, while simultaneously cultivating new customers.

2.3 Create public awareness of financial education

There are many resources to help Hawaii's people understand financial matters, but there is limited demand for them. The symbolic designation of April as “Financial Literacy Month” is a start. The next step is expending public and private resources to raise awareness, teach simple lessons, and point people to those resources.

⁷¹ For a full description of these policies see Aoki, A. et al. (2006, December). Ho'owaiwai: Asset Building Policy for Hawaii. Honolulu, HI: HACBED.

2.4 Integrate financial education into Department of Human Services programs

2.5 Encourage financial education in the workplace

Financial education offered at the workplace can help employees avoid personal financial problems that can lower their productivity and cause higher absenteeism, turnover, and stress-related illnesses. The federal government has implemented a retirement financial education program for their employees. State and local governments can do the same. Private businesses can provide financial education as an employee benefit. Likewise, unions can provide financial education programs as a member benefit. State government could create incentives, or provide resources, to support all of these efforts.

3. BREAK DOWN BARRIERS TO ASSET-BUILDING

3.1 Decrease or eliminate work and savings disincentives in government benefits programs

3.2 Adopt federal anti-predatory mortgage lending standards

Predatory lending, which strips families of their hard-earned assets, is harmful to families and the state economy. Predatory practices include excessive fees, equity stripping (scams where the homeowner loses the equity in their home), risk-rate disparities (in which borrowers are charged a higher interest rate than risk can justify for a loan) and excess foreclosures. Hawai'i is among the 23 states that have no anti-predatory lending policies to curb these and other abuses in the mortgage industry.

3.3 Enact State Auditor's recommendations on payday lending

Many check cashers and payday lenders charge unscrupulously high fees to their primarily low-income customer base. In her December 2005 Sunrise Analysis, which looked at whether to add new regulations for check cashers and payday lenders, the Hawai'i State Auditor had three recommendations: 1) require payday lenders to post fees and annual percentage rates, 2) reduce the maximum allowable fee for a loan, and 3) institute mandatory registration with the Department of Commerce and Consumer Affairs (Hawai'i is one of three states that does not require special licensing). Given the Auditor's analysis of this issue, the next logical step is for Hawai'i to enact these recommendations into law.

3.4 Free up trapped equity on Hawaiian Home Lands

The trust status of Hawaiian Home Lands is a major barrier in efforts to direct capital to Native Hawaiian consumers and business owners. The Council for Native Hawaiian Advancement estimates \$500 million of equity is "trapped" due to these policies. Two steps could be taken to free up this trapped equity: 1) the state could offer and publicize a loan guarantee to lenders who make home equity loans to homesteaders, and 2) the viability of serving this market could be tested by an alternative lender specializing in these loans.

3.5 Ensure health coverage for all

Lack of access to health care creates some of the most significant and formidable challenges to building assets. Unexpected medical problems and their costs are a leading cause of personal bankruptcy. Medical bills can quickly erode savings, particularly for someone who is just starting to build assets. Since 2000, The Hawai'i Uninsured Project has kept a diverse group of stakeholders focused on the many different aspects of health coverage issues in Hawai'i, including enrollment of all people eligible for government-sponsored insurance, and getting health insurance to the self-

employed and others not covered by Hawai'i's Prepaid Health Care Act. New policies based on this research and dialogue could give Hawai'i's families peace of mind that their hard-earned assets will be better protected against misfortune.

4. HELP PEOPLE SAVE

4.1 Improve and greatly expand Hawai'i's IDA programs

4.2 Promote and facilitate the use of EITC refunds for savings

The EITC refund presents a great opportunity for low-income earners to fund an IDA, retirement plan, or other savings account. States can make this easier by encouraging people to directly deposit refunds, and allowing "refund splitting" – allowing the taxpayer to deposit at least a portion of their refund directly into a savings vehicle. This simple accommodation can spark savings.

4.3 Encourage "opt out" rather than "opt in" retirement accounts

Research shows that employees – particularly those with lower incomes – are much more likely to participate in employer-based retirement savings programs when they are automatically enrolled upon employment; i.e. when the employee's choice is whether or not to opt out of the program.

4.4 State matches for college savings plans for low- and moderate-income families

Since qualified withdrawals from state college savings plans (529 plans) have become tax-exempt, many middle- and higher-income families have shown greater interest in them. Like other asset policies that seek to encourage taxpayer behavior through the tax code, low- and moderate-income families – with limited tax liability and/or disposable income – have less incentive to participate. The state should consider expanding access to 529 Plans for low and moderate income families.

4.5 Create Universal Children's Savings Accounts

5. HELP PEOPLE START BUSINESSES

5.1 Effectively utilize federal funding streams to support microenterprise

Eight states use Workforce Investment Act and TANF funds for microenterprise training, and fourteen states support microenterprise with Community Development Block Grant (CDBG) funds. In Hawai'i, CDBG funds have been used for microenterprise training with varying degrees of success. A more coordinated, more comprehensive, and better resourced approach could greatly improve results.

5.2 Support for Community Development Financial Institutions (CDFIs)

CDFIs provide financial services to underserved populations and markets. The state can improve the health of Hawai'i's few CDFIs with tax credits to stimulate private funding or direct funding. Twelve states currently provide similar support.

5.3 Leverage opportunities to support new Native Hawaiian businesses

A 2006 study by the U.S. Census found 7,580 Native Hawaiian-owned firms in Hawai'i – 7.6% of all firms in Hawai'i accounting for over a billion dollars in revenues. Significantly, the number of Native Hawaiian-owned businesses has been growing at a faster pace than businesses as a whole, creating new opportunities for many Hawai'i residents. The state government and others should continue to

look for ways to leverage current and unique funding opportunities to spur continued creation and growth of Native Hawaiian-owned businesses.

5.4 Allow unemployment benefits for time-specific self-employment allowances

Eight states have programs to help unemployed persons start their own businesses with the help of unemployment benefits. Participants in these Self-Employment Assistance (SEA) programs receive weekly payments while they work full-time on starting their businesses.

5.5 Create and support an employee ownership center

Hawai'i could follow the lead of several states that support employee ownership centers, which offer education, technical assistance and other resources to cooperatively owned businesses.

6. HELP PEOPLE BUY HOMES

6.1 Support homeownership education and counseling

Counseling is very important to help first-time homebuyers successfully resolve credit issues, sort through lending and down payment products and opportunities, and defend against predatory practices. Hawai'i has a number of organizations helping people move toward homeownership. These include the Hawai'i HomeOwnership Center, Hawaiian Community Assets, The Department Of Hawaiian Home Lands' Home Ownership Assistance Program, and others. Support for these efforts could be multiplied many times over.

6.2 Increase government funded first-time homebuyer assistance

Following the lead of other states, Hawai'i could provide grants for down payment assistance (as 24 other states do), and/or expand current mortgage assistance programs. Many states outdo Hawai'i's efforts to support first-time homebuyers despite the fact that the homeownership challenge in Hawai'i has no equal.

6.3 Provide extra support for IDAs intended for homeownership

6.4 Develop and encourage employer-assisted housing programs

Employers can play an important role in helping their employees become homeowners through forgivable, deferred, or repayable second loans, grants, matched savings plans, or homebuyer education programs. Hawai'i could follow other states that encourage employer-assisted housing (EAH) programs.

6.5 Promote federal programs that support homeownership opportunities

6.6 Alternative approaches to increasing the supply of housing

The free market in Hawai'i will not produce enough affordable housing for residents. There are too many more profitable uses of land in Hawai'i. The unavailability of land, a lack of infrastructure, and permitting processes further hinder timely solutions. Developer requirements and incentives alone may not provide a satisfactory solution. The Department of Hawaiian Home Lands is helping the overall situation by accelerating the construction of homes for qualifying Native Hawaiians on Hawaiian homestead lands. Other approaches that could be supported are: 1) community land trusts for housing where a nonprofit landowner creates a situation where families need only come up with the price of the house; 2) housing cooperatives where resident-members purchase a share in a corporation that owns the building where they live; and 3) self-help housing where a low-income family can invest with "sweat equity."



Hawai'i Alliance for Community-Based Economic Development
677 Ala Moana Blvd., Suite 702 Honolulu, HI 96813
Ph. 808.550.2661 Fax 808.534.1199
www.hacbed.org