

MONEY MATTERS...\$...\$...\$

FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

POVERTY REPORT CARD: KENTUCKY GETS A “D” IN ASSET BUILDING FOR LOW-WAGE FAMILIES

A Fiscal and Budget Policy
Research Brief

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Special points of interest:

- Nearly one-fourth of all Kentucky households are asset poor.
- Persons defined as “asset poor” are those lacking sufficient net worth to subsist at the poverty level for three months without income.
- Kentucky ranks at the bottom of the class when it comes to asset building for the poor.
- Passage of IDA legislation will make a significant contribution toward raising Kentucky’s asset building score and helping people find a way out of the poverty cycle.



KENTUCKY YOUTH ADVOCATES

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Introduction

Public policies designed to fight poverty in the United States tend to focus almost exclusively on income. A growing body of evidence suggests, however, that public policies must balance the importance of both **income** and **assets** to meaningfully address issues associated with poverty and self-sufficiency. Unfortunately, Kentucky ranks at the bottom of the class when it comes to asset building for low-wage families

When it comes to fighting poverty from a public policy perspective, income is king. Indeed, the most influential measure in the history of American domestic policy has been the federal poverty level—which is based solely on income (Endnote 1).

Poverty is more complex than that, however. Income is certainly a key factor, as it creates the necessary cash flow to provide food, housing, health care, and other urgent needs. But while income is certainly a critical factor, low-income people need to build assets as well. Why? For the same reason middle and upper-income people do: to provide a cushion against disaster in times of job loss, divorce, long-term illness, economic downturns, or other factors that commonly disrupt income. Also, without asset building, there is no way get off the poverty “gerbil wheel,” or acquire

sufficient economic leverage to escape the paycheck-to-paycheck cycle of poverty.

“Assets” include savings accounts, home ownership, educational achievement, retirement savings and other wealth accumulation.

According to the Corporation for Enterprise Development in Washington, D.C., persons defined as “asset poor” are those lacking sufficient net worth to subsist at the poverty level for three months without income. Currently nearly *1/4th of all Kentucky households* meet this criteria. As a point of reference, just over 15% of KY households are currently identified as living below the federal poverty level, which is \$18,100 for a family of four (Endnote 2).

In short, assets matter. More Kentuckians are asset poor than income poor, and Kentucky is in the bottom group of states when it comes to asset-building. According to the Corporation for Enterprise Development, “Assets mean economic security. Assets mean mobility. Assets mean opportunity.”

A Bit of History

The United States has a strong record of promoting the accumulation of assets among its citizenry. The 19th Century Homestead Act, which provided land on

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the frontier to simulate economic growth, and the G.I. Bill, which subsidized college tuition for war veterans, are two prominent historical—and very successful—examples of asset-building programs (Endnote 3).

Today, the federal government subsidizes asset acquisition by over \$200 billion annually in the form of home mortgage deductions, 401(k) tax incentives, preferential capital gains, and pension fund exclusions. Most of the current asset building incentives are provided through the tax code and targeted toward middle- and upper-income households.

At the same time, current welfare policy penalizes asset acquisition by the poor through the denial of eligibility to welfare recipients who exceed the \$2000 asset limitation [the limit currently set for Kentucky under TANF] or work extra hours to acquire those savings.

Current national policies reinforce asset inequality, but states can play a key role in addressing the problem (Endnote 4).

Given the increasing importance and power of states, the time is right to examine asset-based policies and to encourage bold action that will lead to strong asset outcomes for low-income people (Endnote 5).

According to the CFED, “States face a unique opportunity to serve as leaders for a policy shift that could redefine poverty alleviation strategies in America.”

The State Asset Development Report Card

The *State Asset Development Report Card* (SADRC) is a tool developed by the Corporation for Enterprise Development [www.cfed.org] that captures the

most up-to-date data available on asset distribution and policy for each of the 50 states. The Report Card considers 68 socioeconomic and policy measures to compare states on how assets are accumulated, distributed, and protected among their citizens.

Key findings of the *State Asset Development Report Card* include the following:

- In all but one state, asset poverty is greater than income poverty.
- Asset poverty varies significantly by race, gender, and geography.
- No state can yet claim the right blend of policies at sufficient scope and scale to eliminate asset poverty.

Kentucky Scores Low

[CFED Press Release, Oct. 8, 2002] In the *Report Card*'s two main indices—Asset Outcomes and Asset Policy—Kentucky scores a **D** in each. CFED's analysis of Kentucky's strengths and weaknesses reveals:

Asset Outcomes: Kentucky ranks 37th in Asset Outcomes. As with most southern states, mean net worth of Kentucky's residents is quite low compared with other parts of the country (\$83,482 and ranking 42nd). Twenty-two percent of households in the states are asset poor—lacking sufficient net worth to subsist at the poverty level for three months without income—(ranking 26th), and 13.5% of households have zero or negative net worth (ranking 20th).

Kentucky's lowest scores are in the area of educational attainment. KY ranks 44th in overall college attainment. Worse yet, the gap in college attainment between the wealthiest and poorest KY residents is the largest in the nation! [49th, with the exception of Mississippi]

When it comes to educational achievement by race, however, KY scores 5th in the nation and outranks all other southern states in having one of the smallest gaps in college attainment between white- and non-white headed households.

Asset Policy

As with most southern states, Kentucky's policies on asset building are weak, ranking 38th nationally. The state does particularly well, however, in terms of using a solid set of policies to assist first-time homebuyers through the Kentucky Housing Corporation [see www.kyhousing.org]. Areas of concern include: 1) the state's lack of small business investment company financing (ranking 42nd in the number of companies that target financing to economically and socially disadvantaged entrepreneurs), and 2) the degree to which the state has equalized spending among its school districts [39th], which raises equity concerns.

Honor Roll

States that made the Honor Roll, or got an "A" in both main indices—Asset Outcomes and Asset Policy—are Maine, Minnesota, Oregon, Vermont, and Washington.

Individual Development Accounts: Key to Asset Building

Individual Development Accounts, or IDA's, provide special savings accounts that require the participant to make minimum monthly deposits. The program matches those funds with money provided by private donations. IDA participants, whose income must not exceed 200% of the federal poverty line, may use the money for investments such as

buying a home or paying for post-secondary education. They also must attend financial education classes and meet monthly with a financial counselor.

-As of September 2001, 23 states had passed IDA legislation and had a state-supported program in operation (Endnote 6).

-Nine used state general funds, eight provide state tax credits for IDA program contributors, six employ CDBG funds, and twelve use TANF funds to match IDA savings (Endnote 7).

-A tax incentive for donors could give IDA programs the support necessary to flourish across the state, particularly in rural areas where they are most needed.

-HB 454, proposed but not passed in the 2002 General Assembly, could make a significant contribution toward raising KY's asset building score.

-HB 454 would give donors a tax credit equal to 25% of their total contributions. The credit could not exceed \$10,000 or the amount of taxes owed each year and wouldn't kick in until 2003.

-The **long-term benefits** of IDAs to the state include an increase in homeownership, education levels, access to health-care, and job stability and income.

-There are more than 360 participants in IDA programs in Kentucky and more than 2,500 nationwide.

-There are seven IDA programs in Kentucky, including three in Jefferson County, and enrollment is increasing at a steady rate. More donations are needed to create the necessary "match" to induce saving and keep pace with demand for IDAs.

"Twenty-three states have passed IDA legislation and had a state-supported program in operation."

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Recommendations

-Kentucky lawmakers should pay attention to assets—not just the incomes—of low-wage families.

-Policymakers should act now to improve Kentucky's current package of public policies with regard to asset accumulation and protection for low-wage families, especially **passage of IDA legislation** and the re-examination of asset acquisition restrictions for welfare recipients.

Endnotes

1. 2002 State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty. **Corporation For Enterprise Development**, www.sadrc.cfed.org, October, 2002.
2. 1990 Census of Population and Housing, Summary Tape File 3, and 2000 Demographic Profiles from the 2000 Census of Population and Housing, **Kentucky State Data Center** 5/02. *Additional Federal Poverty Guidelines can be found at www.kyyouth.org
3. Policy Points: Individual Development Accounts, **Good Faith Fund**, Angela Duran, Volume 2, October 19, 1998.
4. *ibid.* See Also "One Year after Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997;" Gallagher, Perese, Schreiber, Watson; May 01, 1998
5. 2002 State Asset Development Report Card: Benchmarking Asset Development in Fighting Poverty. **Corporation For Enterprise Development**, www.sadrc.cfed.org.
6. The Promise of Asset-Development Policies, **Asset Development Institute (ADI)** Larry Beeferman, p. 6.
7. *ibid.*