



## Center for Public Policy Priorities

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### PROJECT

## Family Asset Building Project: Making Economic Success a Reality for Low-Income Families in Texas

Making a difference in what happens to at-risk kids means improving their parents' chances for economic success. In Texas, working families with children are at a disadvantage. They work more but earn less compared to states with similar population and socioeconomic features, according to KIDS COUNT, a national and state-by-state effort of the Annie E. Casey Foundation to track the status of children in the United States. For the children in these families to thrive, Texas must help low-income working families build financial security through assets, savings, and financial literacy.

The *Family Asset Building Project* is an effort by the Center for Public Policy Priorities (CPPP) to make lasting economic success a reality for low-income Texas families by promoting policies and practices that encourage asset building. Project goals are to 1) build support for state policies and programs that encourage low-income families to save for their future while allowing them to meet their short-term needs; and 2) develop an asset building campaign in partnership with low-wage employers in Texas to help them promote the Earned Income Tax and Child Tax Credits, educate low-wage workers about using these tax refunds to improve their chance for lasting economic success, and assist their employees in setting up restricted savings accounts.

### Policy Context

In a recent debate on the best way to help families off of welfare and along the path to self-sufficiency, a member of the Texas legislature made the following suggestion: What we need to do, he said, is help families who have just entered the workforce to save a little of their money for the future, so they can build a better life for themselves and their children and stay off welfare for good. With this remark came one solution to the central challenge facing policymakers: What practical help do (low-income) families need to become stronger and more economically successful?

Of the 1.2 million families living below 200% of the poverty level, 80% are headed by a worker. These families include approximately 3.9 million Texans; over 2 million are children.

Helping people accumulate enough savings for a home, higher education and training, or a business can provide the stability families need to escape the cycle of poverty permanently. This endeavor is particularly relevant in Texas, where poverty—in particular, child poverty—is more pronounced than in the nation as a whole. Too many families with children in Texas live on the economic edge despite working hard, sometimes even at full-time, year-round employment.

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Texas has a higher share of working poor than other states. Low wages in many of the growth sectors of the state's economy contribute to Texas' large working-poor population, as do limited public assistance benefits. For these families the promise of a better future for themselves and their children is an elusive one: in a constant juggling act to make ends meet, often just one crisis away from economic ruin, opportunities are scarce and saving for a home, an education, or a business is out of the question.

The economic vulnerability of these Texas families has serious consequences for our children's future and through them, for the future of our state. The well-being of these children is tied to their families' economic stability and prospects. If we want the children of low-income working families to succeed, our limited safety net is not nearly enough. Texas must build policies and programs that help working parents establish lasting economic security through assets, savings, and financial literacy.

Following welfare reform in the mid-1990s, Texas made some advances in helping low-income families along the path to lasting self-sufficiency. In 1997 an Earned Income Disregard was created, allowing welfare recipients who find work to continue receiving some assistance for four months. In 1999 an Individual Development Account (IDA) pilot project was launched for welfare recipients and recent welfare "leavers." In 1999 the legislature set up the Children's Health Insurance Program (CHIP) with no asset test, and in 2001 increased the food stamp asset limit to \$5,000 and provided a more realistic allowance for vehicles.

Texas also has made progress in increasing the number of people who receive the Earned Income Tax Credit, which provides an integral tool for low-wage workers to save for the future. In tax year 2003, over two million workers received the EITC, bringing over \$4 billion into the state of Texas—more than the value of benefits delivered by the food stamp program and welfare program combined. The average refund was \$2,002, although families with two or more children can receive as much as \$4,300. As a result of outreach by the Internal Revenue Service's VITA (Volunteer Income Tax Assistance) program and other organized outreach and assistance efforts, the amount of EITC refunds increased almost 10% between 2001 and 2002.

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There is room for improvement however. The IRS estimates that over 580,000 families in Texas were eligible for the EITC in 2003, but did not claim it. The value of these unclaimed refunds is estimated to be \$1.2 billion.

Last year, unfortunately, Texas took a giant step backwards in efforts to help low-income families build lasting economic security. Despite a House committee interim study to identify ways that state policies could *improve* asset building among low-income families, lawmakers actually imposed stricter asset policies in several safety net programs. As a budget cutting measure the legislature authorized a new asset test in CHIP and reduced the amount of assets welfare recipients could have back to pre-welfare reform levels. Because little data exist on the assets of Texas families at the CHIP income level, it is impossible to predict accurately the impact of this change on enrollment. In 2003, 700 welfare recipients lost their benefits as a result of the stricter asset limit, with enrollment expected to fall by a total of 2,388 clients in Texas' 2004-2005 budget cycle.

In addition to more restrictive asset policies in the safety net programs, low-income Texans face other obstacles to ensuring their financial security through asset development. Few meaningful financial vehicles exist for them to save their money, and many low-income Texans know nothing about the options that are available. Many do not possess the financial literacy skills to take advantage of these options, or do not recognize the value of saving for the future. The IDA pilot program mentioned above has struggled with inadequate funding and is currently only available to welfare recipients in Austin, El Paso, Dallas, Houston, San Antonio, and Waco, which leaves rural Texans and Texans in the Rio Grande Valley along the U.S.-Mexico border with even fewer options for asset development than low-income people in urban, metropolitan areas of the state. Further, IDAs (as currently configured in Texas) are often restricted to certain populations or limited to specific purposes that may not meet every family's individual needs. Additional types of restricted savings accounts are needed to make sure the needs of all low-income families are met. Finally, although EITC outreach groups have joined forces with financial literacy and asset development groups to encourage people to bank their refunds, because of the way assets are defined and treated in the state's major safety net programs, many families are justifiably hesitant to apply for the EITC or Child Tax Credit for fear the refund will make them ineligible for certain public benefits, which they rely on to meet more urgent, short-term needs or, in the case of Social Security Income, long-term support.

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At the federal level, the EITC faces cuts in Congress because of concerns over "overclaims" and also to make room for the tax breaks going to wealthier Americans. A Senate budget resolution, if enacted, could reduce EITC spending by \$3 billion over five years. On a positive note, a number of bills dealing with the EITC have been introduced in the House and Senate that would increase awareness about the programs and accelerate "marriage penalty relief." A successful expansion of the EITC in Texas, coupled with better education and training to reduce the number of overclaims, would help to fend off these cuts and shore up support for the proposed improvements.

CPPP has been involved for over a decade in promoting policies that support asset development among low-income individuals, families, and communities and has worked toward full implementation of a state Individual Development Account (IDA) program to ensure that families have the resources they need to lift themselves out of poverty. Through this project we will expand our work in this area and bring EITC outreach, financial literacy, and asset building efforts and policies together under the broad rubric of building lasting economic and family success for low-income Texans.

## **Project Objectives**

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### ***Advance Federal and State Policies and Programs that Support Asset Development***

Staff will research and develop educational materials about the benefits of asset policies in safety net programs that allow recipients to meet their short-term needs while saving for the future, and explain the negative impact to both low-income individuals and the state of currently restrictive asset limits that force families to choose between short-term assistance and long-term savings. To support this effort we will work with state agencies to collect data on the kind of assets held by families at different income levels. We will monitor the impact of recent restrictions on asset limits in the CHIP and TANF programs and explore the positive outcomes of

**Promote safe and affordable options to low-income Texans wanting to accumulate the necessary savings to purchase assets.**

more generous asset policies for food stamp recipients. Through our ongoing work to collect stories from persons and organizations affected by the 2004-2005 state budget cuts, we will attempt to document the hardship to families and children caused by the loss of benefits as a result of more punitive asset policies. Staff will research specific proposals for positive asset policy changes in the safety net programs, expansion of the state's IDA program, and other possible changes in banking laws that would provide safe and affordable options to low-income Texans wanting to accumulate the necessary savings to purchase assets.

CPPP staff also will provide policy and research support to our partners in the government, nonprofit, philanthropic, and financial literacy communities through the **Family Asset Building Statewide Coalition**, a statewide network formed in early 2004 to identify family asset building challenges and needs and develop and implement policy initiatives to address these issues. Members of this coalition include a variety of organizations involved in efforts to increase EITC filings, educate low-income Texans about how to save for the future, make Individual Development Accounts more available and accessible, and enlist financial services institutions to offer other simple, low-cost investment accounts to low-income individuals and families who want to save for an education, buy a home, or start a business. Members include child advocacy groups, organizations involved in outreach for public benefits and the EITC, community development corporations, academic researchers, financial literacy groups, organizations working to stop predatory lending and other corrupt banking practices, the Internal Revenue Service, and the statewide United Way.

***Promote the Earned Income Tax Credit under the Broader Goal of Family Economic Security***

In preparation for and during the 2004 tax filing season CPPP will provide technical assistance and training to Earned Income Tax Credit and asset development coalitions to ensure that providers understand the potential negative impact that tax credit refunds can have on a family's eligibility for certain safety net programs and encourage the use of savings accounts that do not jeopardize receipt of public benefits. We will develop training materials that explain the asset policies in each safety net program and the specific treatment of EITC and Child Tax Credit refunds by these programs. CPPP will conduct these trainings at meetings and conferences sponsored by the Family Asset Building Statewide Coalition. CPPP staff also will conduct regional trainings for government and non-profit tax assistance workers to explain the interactions between tax refunds and safety net programs.

**Develop a tax credit assistance and asset development campaign that encourages the use of savings accounts that do not jeopardize receipt of public benefits.**

CPPP staff will explore with state officials the possibility of developing a tax credit assistance and asset development campaign for use by health and human services workers. Presently, state health and human services workers are charged with informing their clients about the EITC and Child Tax Credits, and the Comptroller of Public Accounts disseminates EITC outreach materials via their web site and through mass mailings. CPPP envisions a campaign in which human services workers would assist clients in filing an EITC return at the same time they apply for public benefits, at which time they would also explain to clients the potential impact on their benefits of a tax refund, educate clients about IDAs and other restricted savings accounts, and assist interested clients in opening an account and beginning the process of saving for a home, higher education, or small business.

***Partner with Low-Wage Employers to Promote the Earned Income Tax Credit***

CPPP will develop a model EITC outreach and asset building campaign for use by low-wage employers to educate their employees about the Earned Income Tax Credit and the Child Tax Credit and

encourage them to use their refunds to accumulate savings and purchase long-term assets. This initiative involves a three-step approach: First, we will develop materials and meet with employers to help them understand the benefit to them of offering EITC assistance and educating their employees about long-term savings options. Second, we will use the EITC toolkits developed by Corporate Voices for Working Families and the Center on Budget and Policy Priorities, with Texas-specific modifications if necessary, to help employers provide EITC assistance to their employees. In addition to the EITC toolkit CPPP will develop materials to help employers educate their employees about IDAs and other restricted savings accounts and assist them in opening an account and beginning the process of saving for a home, higher education, or small business. Third, CPPP will build on long-standing relationships by targeting employers in the food and grocery industries and assisting them in implementing a tax credit and asset building campaign that uses this approach. This final step also will allow us to test the effectiveness of such an approach and revise the model for use by other employers and in other states.

**Partner with employers in the food and grocery industries to assist them in conducting a tax credit and asset building campaign with their employees.**



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The Center for Public Policy Priorities is a 501(c)(3) non-partisan, non-profit policy research organization that works on issues affecting low-income Texans.