ARKANSAS Working Families PROJECT

Self-sufficiency: Assets as Critical as Income

July 2000 Issue 2

A Project of the Good Faith Fund, Arkansas Advocates for Children & Families, and the Arkansas Public Policy Panel

Income inequality receives a great deal of attention by researchers, advocates, and the press. In fact, a recent report found that the top 20 percent of Arkansans had incomes nine times that of people in the bottom 20 percent.[1]

But financial well-being is about much more than income. Families also need wealth; assets such as homes, savings accounts, and retirement accounts make up a family's wealth. It is these assets that help families move ahead to and stay in the middle class.

For example, a family needs savings to weather emergencies like getting laid off from a job, having a car break down, or paying the health insurance deductible when a child breaks an arm or a leg (or the entire bill if the family does not have health insurance). Too many families are forced to use debt to finance such emergencies. Families also need savings to send their children to college. Another example is retirement. Many adults work their entire lives and retire with only Social Security upon which to depend. Current projections for the Social Security Trust Fund's solvency are not comforting to younger families with no other potential retirement income.

Table 1

Family Net Worth

Income Level	1989 Net Worth	1998 Net Worth
Less than $10,000	$1,900	$3,600
$10,000-$24,999	$22,800	$24,800
$25,000-$49,999	$58,100	$60,300
$50,000-$99,999	$131,400	$152,000
$100,000 and higher	$542,100	$510,800

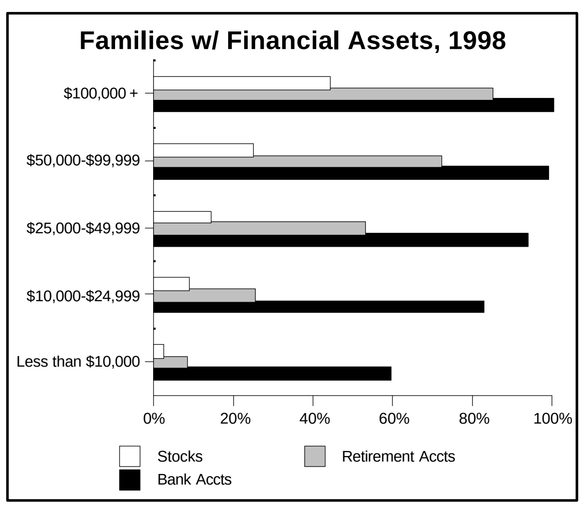
NET WORTH IS INCREASING BUT THE WEALTH GAP IS STILL LARGE

What do we know about the distribution of assets in this country? A recent report released by the Federal Reserve is one source of this data.[2] In 1998, the median net worth for all families was $71,600. Net worth is the measure of everything a family owns (assets) minus everything they owe (liabilities). While the typical family has seen an increase in their net worth since 1989, the net worth of the wealthiest families is still 142 times the net worth of the lowest income families. As Table 1 shows, for families with incomes greater than $100,000, their median net worth was $510,800. However, for families with incomes less than $10,000, their median net worth was only $3,600.

HIGHER-INCOME FAMILIES MORE LIKELY TO OWN FINANCIAL ASSETS

A major component of net worth is financial assets, which include bank accounts, certificates of deposit, bonds, stocks, mutual funds, retirement accounts, and life insurance. Ownership of these financial assets is directly related to income. Only 59

Chart 1



percent of families with incomes below $10,000 have bank accounts (checking, savings, or money market) compared to 99.8 percent of families with incomes greater than $100,000. The gap between those same families in terms of stock and retirement account ownership is even greater. (See Chart 1.)

VALUE OF ASSETS LESS FOR LOWER INCOME FAMILIES

There are also large gaps in the values of those financial assets across income groups. The median value of a bank account for families with less than $10,000 in income is only $700 compared to a median value of $15,900 for families with incomes greater than $100,000. The gaps in stock and retirement account values are similar. (See Table 2.)

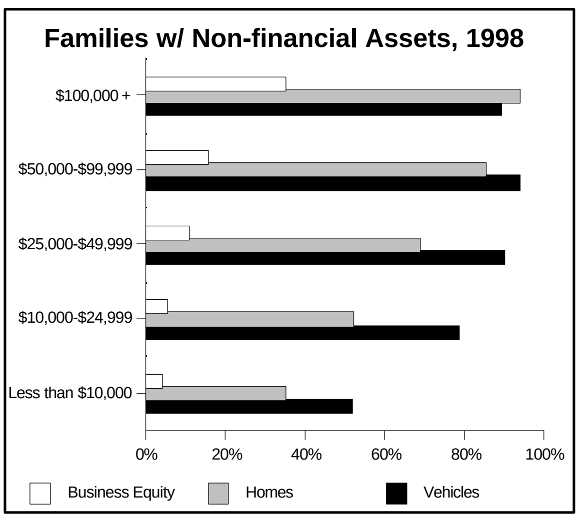
Table 2

Median Value of Financial Assets, 1998			
Income Level	**Bank Accts**	**Stocks**	**Retirement Accts**
Less than $10,000	$700	$1,600	$5,300
$10,000-$24,999	$1,300	$6,400	$11,100
$25,000-$49,999	$2,000	$6,400	$10,600
$50,000-$99,999	$4,400	$7,400	$24,600
$100,000 and higher	$15,900	$23,400	$88,200

HOMEOWNERSHIP DECREASING AMONG LOWEST INCOME FAMILIES

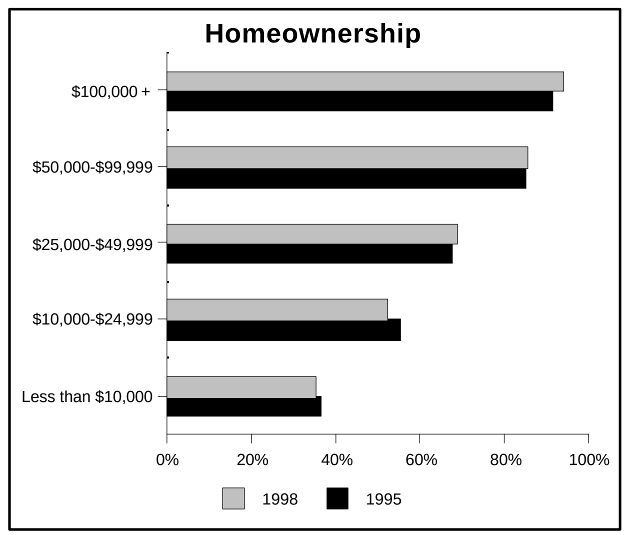
Another component of net worth is non-financial assets, such as vehicles, homes, other property, and business equity. Again, possession of these assets is directly associated with income level. As Chart 2 shows, only 52 percent of families with income between $10,000-$25,000 owned their own home in 1998. And only 35 percent of families with income below $10,000 owned their own homes.

Chart 2



According to Chart 3, rates of homeownership for the lowest-income families have actually decreased since 1995 despite, or perhaps as a result of, the booming economy. Home values have increased, pricing more low-income families out of the market

Chart 3



MOST CAPITAL GAINS INCOME HELD BY THOSE WITH INCOMES OVER $100,000

Most data on assets is gathered at the national level; the surveys are not large enough to make state-level projections. However, Arkansas does gather information on capital gains through income tax records. A realized capital gain is income from the sale of stocks and bonds or the appreciation in the value of a house or other property that is sold.

Higher-income families are more likely to hold assets that appreciate and to own larger amounts of those assets as has been discussed above. As shown in Table 2, those Arkansas taxpayers with incomes over $100,000 (3% of all income tax returns filed) had 63 percent of all capital gains income. Those with incomes below $50,000 (84% of all returns filed) had only 19 percent of capital gains income.

Table 3

Arkansas Realized Capital Gains Income (Estimated), 1998				
Income Level	**Returns Filed**	**% of All Returns**	**Capital Gains Income**	**% of Capital Gains Income**
Less than $15,000	401,057	39%	$50,712,200	5%
$15,000-$30,000	275,247	27%	$64,491,800	6%
$30,000-$50,000	184,930	18%	$84,374,400	8%
$50,000-$75,000	100,284	10%	$110,907,500	10%
$75,000-$100,000	32,873	3%	$80,144,900	8%
$100,000-$200,000	24,221	2%	$164,928,500	15%
More than $200,000	8,910	1%	$510,565,000	48%
Total	**1,027,522**		**$1,066,124,300**	

Source: Arkansas Department of Finance and Administration, April 1999.

Current Policies Affecting Asset Accumulation

In general, state and federal policies designed to encourage asset accumulation have overwhelmingly benefited middle- and upper-income Americans. For the federal fiscal year 2000, tax expenditures to individuals that support asset accumulation totaled $288.5 billion (for housing, retirement, and investments/business development.)[3] In the 1998 fiscal year, households with incomes over $50,000 received 91 percent of homeownership tax expenditures and 93 percent of retirement tax expenditures. At the same time, public policy has largely penalized low-income families who try to save and build assets, and tax code incentives for those purposes are beyond their reach. [4]

This paper covers some of the major programs and policies that could help lower income families to build their assets. Two types of policies are examined:

1) policies for benefits programs that have traditionally prevented more than a minimal level of assets from being accumulated; and
2) policies for programs that are designed to help low-income families build assets.

ASSET LIMITS ON PROGRAMS THAT HELP LOW-INCOME FAMILIES

There is a range of programs that have been designed to assist and support those families with low incomes so they can meet their basic needs. These programs include Temporary Assistance for Needy Families (TANF, or TEA as it is called in Arkansas), Food Stamps, Medicaid, and Public Housing.

Eligibility guidelines for each of these programs have been designed in such a way that accumulation of more than a minimal level of assets has been prohibited. Such program guidelines have prevented families from building savings, purchasing decent automobiles, and developing other assets that would help them make the transition from the need for public assistance to becoming economically self-sufficient middle class families.

The unintended consequence of asset limits has been to keep families dependent on the programs because they could never get far enough ahead financially to become self-sufficient. Low asset limits serve as a disincentive to saving. They force families to choose between planning for the future and getting the short-term assistance they need to support their families. The short-term assistance becomes long-term support because they have not been able to save enough to move forward. Financial planners advise individuals and families to have anywhere from 3 to 6 months of gross income saved for emergencies such as a car breaking down, a washing machine needing to be replaced, or being laid off from a job. Such emergencies are more likely for lower income families, yet they are penalized when they try to prepare by saving. In recent years, there has been a move to change these policies, but there is still much room for improvement.

TANF

Federal welfare reform legislation passed in 1996 made it possible for states to relax asset rules for TANF eligibility. Under TANF, each state has the ability to set its own asset rules. As a result, the new state TEA policy on assets is more generous than the previous rules. In general, a family can have no more than $3,000 in "resources." The following items are the major items excluded when the resources are calculated:

- a home
- 1 car
- household and personal goods
- income-producing real or personal property
- earmarked resources, such as student loans and grants
- tax refunds
- life insurance
- 1 burial plot per family member
- Individual Development Accounts.

Some of the items which are included in determining eligibility are the following

- proceeds from the sale of a home if a new home is not purchased within 18 months
- the market value of any other automobiles (the car with the highest value is the one that is not counted)
- cash on hand or in the bank (less the amount of income received that month)
- trusts which are accessible to meet the family's needs
- U.S. Savings Bonds, stocks and bonds
- other types of personal property.[5]

Food Stamps

Food Stamps resource limits are set at the federal level by the United States Department of Agriculture (USDA). Elderly applicants can have $3,000 in resources. All other households can have $2,000. Households composed entirely of SSI recipients or households that have at least one member receiving one of several TEA benefits are automatically eligible for Food Stamps; and therefore, do not need to go through a separate resource test to qualify for Food Stamps. The TEA benefits, which have to be provided through the DHS county office, include cash assistance, child care assistance, mentoring, case management, employment bonus payments, transportation or job retention payments.

For families who do have to meet the Food Stamps resource test, the following resources are excluded from the calculation:

- a home
- household and personal goods

Limits on Programs that Assist Low-income Families

Program	Resource Limits	Cars	Excluded from Resource Limits	Counted Toward Resource Limits
TEA	$3,000	1 car excluded Market value of second counted	! A home ! Household/personal goods ! Income-producing property ! Student loans and grants ! Tax refunds ! Life Insurance ! 1 burial plot per family member ! IDAs	! Cash on hand and in bank (less income received that month) ! Stocks and bonds ! Accessible trusts ! U.S. Savings Bonds ! Proceeds from sale of house if new house not bought in 18 months ! Other personal property
Food Stamps	Elderly: $3,000 Others: $2,000	Value over $4,650 counted Excluded if income-producing; used as part of work (but not to get to work); as the primary residence; to transport disabled family members; or to carry fuel	! A home ! Household/personal goods ! Income-producing property ! Student loans and grants ! Earned Income Tax Credits ! Life insurance ! 1 burial plot per family member ! Pension and employer-sponsored retirement ! Resources of an SSI recipient in a mixed household ! Federal energy assistance ! WIC ! Federal disaster assistance ! School lunch and child nutrition ! Victim assistance ! Most payments to Indian tribes ! Resources of any household with a TEA benefit recipient ! Money set aside in a SSI Pass Plan	! Cash on hand and in bank (less income received that month) ! Stocks and bonds ! IRAs ! Keogh Plans ! Mutual Funds ! Money market accounts and CDs ! Equity value of real property that is not the home or is not income-producing property ! Funds that can be withdrawn from prepaid burial plans (less $1,500 per person)
Medicaid – Elderly, Blind, Disabled and Long Term Care	Individual- $2,000 Couple - $3,000 When one spouse is institutionalized, the other spouse can keep $16,824-$84,120, based on a complicated calculation.	1 car excluded Market value of 2nd car over $4,500 is counted Excluded if used for getting to doctor or work or is disability equipped	! A home ! Some non-home income producing properties ! Life insurance w/o a cash surrender value ! Burial spaces	! Cash on hand and in bank (less income received that month) ! Stocks and bonds ! Real property other than home ! Personal property ! Life insurance with a cash surrender value (less $1,500 exclusion) ! Household goods (less $2,000 exclusion) ! Burial funds (less $1,500 exclusion per spouse
ARKids A	Individual - $2,000 Family of 2 - $3,000 $100 increase for each additional person	Equity value in excess of $1,500 is counted for 1 car Full equity value is counted for other cars	! A home ! Household/personal goods ! Student loans and grants ! Other bona fide loans ! 1 burial plot per family member	! Cash on hand and in the bank (less income received that month) ! Stocks and bonds ! Accessible trust funds ! Cash surrender value of life insurance policies ! U.S. Savings Bonds ! Other personal property
ARKids	No resource limit			
TEA Medicaid/ Transitional Medicaid	Same as ARKids A	Same as TEA	Same as TEA	Same as TEA

- life insurance policies
- pension funds and other employer-sponsored retirement plans
- some vehicles
- property essential for the maintenance of those vehicles
- income-producing property
- the resources of an SSI recipient in a mixed household
- earmarked resources, such as student loans or grants
- 1 burial lot per household member
- most payments to Indian tribes
- resources of any household with a TEA benefit recipient
- money set aside in an SSI Pass Plan.

Other excluded resources include payments made under Federal law for energy assistance, WIC benefits, federal disaster or emergency payments, school lunch and child nutrition assistance, financial assistance for higher education, Earned Income Tax Credit payments (if receiving Food Stamps when credit received and if received Food Stamps for 12 months), and victim assistance payments.

The following items are included:
- bonds
- IRAs
- Keogh Plans
- cash (less any current income)
- mutual funds
- money market accounts and certificates of deposit
- stocks
- funds that may be withdrawn from prepaid burial plans without an obligation to repay (less $1,500 per person)
- equity value of real property that is not the home or is not income-producing property.

Automobiles are also counted as resources unless they are income-producing vehicles or vehicles used as part of work (but not for getting to work), are used as the household's residence, are used for the transportation of disabled house members, or are used to carry the primary source of fuel for heating or water for home use. All vehicles must be included, whether they are licensed or not and whether or not they are running. The car is valued in one of two ways:

1) the fair market value less $4,650; or
2) the equity value.

The fair market value less $4,650 is used to value the vehicle when the vehicle is used as the household's family car or for transportation to work. The valuation method that results in the higher value will be used for all other licensed vehicles. Equity value will be assigned to all unlicensed vehicles.[6]

In February, USDA issued new proposed regulations for the Food Stamps program. While there are many issues with these proposed regulations in terms of access for low-income families, there is at least one aspect of the regulations that would help those families. Cars with very little equity would be excluded. If the household's equity in the car is less than half of the resource standard, the car would not be counted. Equity would be determined by subtracting outstanding loan balances from the fair market value.[7]

The Hunger Relief Act, currently being debated in Congress, would change the asset limits for the Food Stamp program as they apply to cars. The $4,650 fair market value figure discussed above was set 20 years ago when that actually bought a pretty decent car. The proposed legislation would essentially waive the $4,650 value limit, allowing states to set higher figures. It allows states the option of using the same rules to count the value of a vehicle under both the TANF and Food Stamps programs.

Medicaid

In Arkansas, there are many different eligibility categories under the Medicaid program. For simplicity, this report covers the resource limits in just a few of these categories -- elderly, blind and disabled and long-term care, and the categories that cover most of the children.

Elderly, Blind, and Disabled and Long-Term Care

Individuals eligible under this category include elderly, blind or disabled individuals and those who need long-term care. Generally, under this category, resources cannot exceed $2,000 for an individual and $3,000 for a couple. For Medicare recipients who qualify for Medicaid because their incomes are below 120 percent of the poverty line, these standards are doubled.

The following items are counted as resources:
- real property other than the home
- personal property including cash, bank accounts (less income for the month), stocks and bonds
- the current market value of a second automobile in excess of $4,500
- life insurance policies with a cash surrender value (less a $1,500 exclusion)
- household goods (less a $2,000 exclusion)
- burial funds (less a $1,500 exclusion per spouse).

The following resources are excluded:
- a home
- some non-home income-producing properties
- 1 automobile (the one with the highest value)
- a second automobile that is used to get medical treatment, get to work, or is equipped for use by a handicapped individual
- life insurance without a cash surrender value
- burial spaces.

There are strong restrictions on the transfer of assets. If an individual or spouse transfers assets without compensation for less than fair market value, they will be ineligible for payments to a nursing facility or, for some individuals, all Medicaid benefits.

This rule applies to all transfers made in the 36 months prior to application. If a trust is formed from the assets of the individual, it must have been established 60 months prior to application. If not, funds in the trust may be able to be counted as resources.

There are special considerations for treatment of income and assets of institutionalized individuals when their spouses are living in the community. The total countable resources shared by the two are divided in half. Each spouse's resources are then equal to his or her half of shared resources plus any resources held solely by the individual. Two standards are used to decide if the couple can keep the resources - a minimum standard, set at $16,824 for 2000, and a maximum standard set at $84,120 for 2000.

If total resources for the couple are less than the minimum, then the community spouse can keep it all. If total resources are between the minimum and two times the minimum, then the community spouse can keep an amount equal to the minimum. If total resources are between twice the minimum and twice the maximum, the community spouse can keep half of all resources. If total resources are greater than twice the maximum, the community spouse can keep an amount equal to the maximum.

All other resources are considered available to the institutionalized spouse to cover the costs of care. To receive Medicaid assistance, the institutionalized spouse's resources cannot exceed $2,000, the limit set for individuals as described above. That spouse can choose to transfer some of his resources to the other spouse but the total amount cannot put the community spouse over the maximum limit as described above.

> The unintended result of asset limits is families stay dependent on programs and never get far enough ahead to become self-sufficient.

Children's Health Care Coverage

Children can access Medicaid through one of several categories: ARKids First (A and B), TEA Medicaid and Transitional Medicaid.

Several federal laws passed in the late 1980s and early 1990s that substantially increased the number of low-income children eligible for Medicaid. Arkansas now calls this category of eligibility ARKids A. The largest number of children are served through this category. Pregnant women and their children are eligible if the family income is less than 133 percent of the federal poverty line (for children under 6) or less than 100 percent of the federal poverty line (for children ages 6-19).

These same new laws gave states the option to remove asset requirements for pregnant women and children. There are no resource limits for children's programs set by the federal government. Arkansas is one of only 12 states that has chosen to impose such limits.[8] Resource limits in Arkansas are based on household size. The limit is $2,000 for a household of 1 and $3,000 for a household of 2, with $100 increments for each additional household member after that.

The rules regarding countable and excludable assets are as follows: Countable resources include cash on hand and in the bank (less income received that month); anything over a $1,500 equity value in one car (trade-in value less amount owed on car); the equity value of any other cars; stocks and bonds; accessible trust funds; the cash surrender value of life insurance policies; U.S. Savings Bonds; and other personal property. Excludable resources include a home; household and personal goods; students loans and grants; other bona fide loans; and one burial plot per family member.

The ARKids B program is designed to provide health care coverage for those children who do not qualify for full benefits in Medicaid but whose family incomes are less than 200 percent of the federal poverty level. In contrast with most other programs, there is no resource test.

Another way for children to qualify for Medicaid is through TEA Medicaid and Transitional Medicaid. Transitional Medicaid is available for families up to one year after a family leaves TEA as long as their income does not exceed 185 percent of the federal poverty line. Resource limits for TEA Medicaid and Transitional Medicaid are the same as those under ARKids A. The rules for what is counted and what is excluded are the same as the rules for TEA.[9]

Public Housing

Assistance with rental housing is provided at the local level through public housing authorities. There are two options - apartments in a public housing facility or Section 8 vouchers that allow families to rent private housing. There are income guidelines for these programs, but there is no assets or resource test. The rental payment is 30 percent of gross income. Any increase in income results in an increase in rent.

The Family Self-Sufficiency (FSS) Program was created in 1992 by the National Affordable Housing Act, which mandates that all public housing authorities who wish to expand their services must develop an FSS program. FSS programs are designed to promote employment and increase savings among families receiving Section 8 vouchers or living in public housing. When participants in the FSS program increase their incomes, they can put the difference between the current and new rent amounts into an escrow account. Participants must sign a five-year contract with training and service plans and specific education and employment goals. Withdrawals during the program are allowed to cover education and work-related expenses, including car repairs. At the completion of the program, participants receive the money that has been saved in their account. One drawback to the program is that funds in the escrow account may count against eligibility for some benefits programs.[10]

PROGRAMS TO BUILD ASSETS

While many benefits program have actually had the effect of preventing the accumulation of assets by low-income families, there are also programs for low-income families that have been designed to help them build assets. Some of the more notable programs include several housing programs designed to encourage homeownership, a new state program to encourage savings for higher education, and a demonstration Individual Development Account program.[11]

HomeToOwn Program

The Arkansas Development Finance Authority (ADFA) sells tax-exempt mortgage revenue bonds to make funding available for low and moderate income households to purchase homes. The funds are used to lower the interest rates that participating lending institutions are able to offer homebuyers. The current rate in the program is 7.5 percent, compared to the going market rate of between 7.5 percent and 8 percent. To be eligible, an applicant must be a first-time homebuyer or be from one of 31 counties specified by ADFA. These counties are primarily in lower income parts of South and East Arkansas. The borrower's income cannot exceed specific limits, which vary by county. The maximum limits range from $33,800 for a single person household to $59,920 for a family of three or more. The purchase price of the home cannot exceed $98,000 for new construction or $80,000 for existing housing.

In the past, ADFA issued bonds once a year, and the funds ran out fairly quickly. A couple of years ago, they decided to run a continuous lending program. Last year, ADFA served 2,747 families through $164 million in mortgages. All families who qualify for the program can now access it.[12]

ADFA's Down Payment Assistance Program

Many low-income families have difficulty saving for a down payment because they struggle just to meet their daily and monthly expenses. Through the Down Payment Assistance Program, a family can get from $1,000 - $3,000 in closing cost assistance. This assistance comes in the form of a loan or second mortgage. The current interest rate is 9 percent. The family makes one payment each month to cover both the first and second mortgages. To qualify for the down payment assistance, the borrower must invest the greater of 1 percent of the sales price or $500 into the mortgage. The borrower must also attend a Home Buyers Counseling Program where a certificate is issued on their behalf. In 1999, 856 families were helped through this program for a total of $2,441,978 worth of assistance.[12]

GIFT Program

During the 1999 legislative session, the Great Investment for Tomorrow (GIFT) program was created to help families save for college education for their children and grandchildren. An initial investment of $250 or a minimum monthly contribution of $50 is required. Total contributions cannot exceed $120,000 per beneficiary. Federal income taxes are deferred until the assets are withdrawn and are taxed at the student's income tax rate. Qualified withdrawals are not taxed by the state. The funds are invested in a portfolio of diversified mutual funds. As the beneficiary grows older, the asset mix of the portfolio becomes less risky. Funds can be used for tuition, room and board, and books and supplies at any accredited post-secondary institution in the United States.

Individual Development Accounts

Another bill passed during the 1999 legislative session, the Family Savings Initiative Act, was established to create an Individual Development Account (IDA) demonstration project. IDAs are matched savings accounts that help low-income and low-asset families to build assets such as buying a home, going to college, or starting a small business. Every dollar saved is matched with $3, up to a maximum match of $2,000 per individual or $4,000 per household. To be eligible for the program, the individual's household income must be less than 185 percent of the Federal poverty level, and their household net worth must be less than $10,000, disregarding their home and one car. Funds deposited in an IDA will not be counted as income, assets, or resources of the individual in determining eligibility for assistance or services from any federal, federally assisted, state, or municipal program based on need.

The demonstration, managed by the Department of Human Services (DHS), was established with $500,000 of funds from the state's Transitional Employment Assistance (TEA) program. The law also provides a tax credit to raise matching funds from individuals and private companies. A credit is allowed against income tax liability equal to 50 percent of the amount of matching funds contributed up to a maximum credit of $25,000 per year. The total amount of tax credits is capped at $100,000 per year. Nonprofit organizations manage the program at the local level.

Programs designed to help families build assets are often limited by funding or by rules that make it difficult for low-income families to access them.

Supporting Asset Accumulation for Families

The state could enact a range of policies that would help Arkansans build assets:

Change Medicaid Resource Limits to Allow Families to Build A Decent Level of Assets
Federal law sets no resource limits on Medicaid for children. All such limits have been set through state policy. The current limits should be eliminated or increased so that they actually allow working families to have enough savings and other assets to make a transition to the middle class. Homeownership, retirement accounts, and savings for emergencies are all important aspects of economic self-sufficiency. Current resource limits were set anywhere from 10 to 20 years ago and should be eliminated or increased to reflect current costs and needs.

Raise the Resource Limit in the TEA Program
The current resource limit minus exclusions is only $3,000. There is no federal policy mandating this limit. The same arguments for increasing the Medicaid resource limit apply to TEA.

Change Food Stamps Resource Limits to Allow Families to Own Decent, Reliable Cars
If the Hunger Relief Act passes in Congress, the state will have the option to make the Food Stamp asset rules for automobiles the same as they are in the TEA program. That would allow Food Stamp families to have one car of any value. The second car would count toward the resource limit. This would go a long way toward helping low-income working families get the assistance they need to feed their families. It would allow families to own decent cars that allow them to get to work so they can provide for their families and eventually move up the career ladder so they will no longer need Food Stamps. The state should choose to implement this option. Because Food Stamps are funded 100 percent with federal dollars, there would be limited costs to the state.

Make Resource Limits Consistent Across Programs
As this report has described and is quite evident in the table on Page 4, there is inconsistency in resource limits across programs. Families may be getting help from three different groups -- ARKids, TEA and Food Stamps -- and find themselves facing different resource limits for each one. And the assets that are included or excluded vary across the programs, as well.

As is argued above, where the state has discretion, it should eliminate the limits or raise them to levels that help families achieve economic self-sufficiency. The state should also work to make the limits consistent across programs. This will make the application process easier for families, and also make the process easier to administer at the state and county levels. The federal government should also take action to make Food Stamps limits consistent with other programs.

Fund More IDAs
At least 34 states around the country have authorized IDAs or have legislation pending. Various methods have been used to fund the accounts -- direct appropriations, tax credits for contributions to IDA programs, TANF (TEA) funds, Community Development Block Grant (CDBG) funds, refundable tax credits for IDA accountholders, and wage subsidies deposited into IDA-like accounts. Arkansas has employed two of these methods:

1) the use of $500,000 of TEA funds; and
2) $100,000 in tax credits for contributions to IDA programs.

Two states stand out in making direct appropriations -- Indiana has allocated $6.25 million and Pennsylvania has allocated $1.25 million. The refundable tax credit approach is being tried in Iowa. Individuals receive a 20 percent refundable tax credit on savings of up to $2,000 per year into an IDA. In Massachusetts, Mississippi and Oregon, employers who receive subsidies to employ individuals must contribute $1 for every hour worked into accounts that will be used by the employees for education and job training.

Make the GIFT Program More Accessible for Low-Income Families
The program is currently structured so that it requires an initial investment of $250 or a minimum monthly contribution of $50. For many low-income families, either of these requirements might be difficult to meet. There are several options for making the program more accessible. One is to lower the required initial deposit or monthly deposits. Another is to tie the GIFT programs to IDAs. IDAs would give low-income families the opportunity to save enough for the initial deposit and save enough to get a good base that can grow over the life of the account.

Make the Family Self-Sufficiency Program Available to More Families Who Live in Public Housing or Who Receive Section 8 Vouchers
Many Public Housing Authorities (PHAs) that are required to operate programs are not doing so or are enrolling fewer families than they are required to do. HUD data indicate that only about 40 percent of the number of families that should be enrolled are participating.[13] More families who live in public housing or who receive Section 8 vouchers ought to be allowed to participate in the Family Self-Sufficiency program.

This program rewards work and gives families a chance to get ahead financially and build some assets.

Collect Asset Data at the State Level
The only sources of information available about assets are federal surveys -- the Survey of Income and Program Participation (SIPP) and the Federal Reserve's Survey of Consumer Finances. Neither survey is large enough to allow for state-level estimates. To get accurate data on the state of assets in Arkansas, the state needs its own survey.

CONCLUSION

For families, the accumulation of assets is a very important part of getting to and staying in the middle class. This paper has shown that many programs designed to help low-income families meet their basic needs actually keep them from achieving economic self-sufficiency by preventing them from accumulating more than a minimal level of assets. And programs designed to help families build assets are limited to serving only a certain number of families because of program design or the funding available.

Medicaid and TANF give states some latitude in setting assets limits, and there is an effort in Congress to loosen the limits for the Food Stamps program. Arkansas should take advantage of the power it has to make assets limits more reasonable. If the state does not help families to build savings for emergencies and own reliable cars, those families will have a much more difficult time moving ahead financially and will be more likely to remain dependent on assistance programs for longer periods of time.

In addition, we need to invest resources in helping families to achieve assets more quickly. Increased funding for homeownership programs and IDAs as well as improved access for lower-income families to the GIFT program would help lower income families achieve the assets that middle and upper income families have. They will also be able to tap into the tax benefits that accrue as a result of owning such assets.

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ENDNOTES

Unless otherwise noted, data represented in all the charts and tables are from the Federal Reserve System, January 2000.

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8. Schneider, Andy, Kristen Fennel, and Peter Long. " Medicaid Eligibility for Families and Children," Kaiser Commission on Medicaid and the Uninsured, September 1998.

9. Medical Services Program, Arkansas Department of Human Services.

10. "The Family Self-Sufficiency Program," The Center on Budget and Policy Priorities, September 22, 1999.

11. Equity in a business is another form of assets that is not discussed in this paper. A future publication by the Arkansas Working Families Project on the state's economic development policies will include a discussion of support for the development of small and micro businesses.

12. ADFA Web site at www.state.ar.us/adfa and conversation with Sara Moore, Vice President for Housing, ADFA.

13. "The Family Self-Sufficiency Program," The Center on Budget and Policy Priorities, September 22, 1999.

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