

Issue Brief From THE FAMILY BUDGET ESTIMATOR Project

SAVINGS & ASSET BUILDING



WHAT IS ASSET POVERTY?

Asset poverty measures the number of people who do not have enough cash reserves (banking accounts, stocks, bonds, or equity in retirement savings, homes, or businesses) to live at the poverty line for at least three months if their income is disrupted. Asset poverty is even more pronounced in Texas than *income* poverty—one-third (33.6%) of households are considered to be asset poor, while 16% of households live in poverty. The state ranks 43rd in asset poverty.¹

HOW DOES TEXAS COMPARE TO OTHER STATES?

Texas lags other states on most major asset measures. The Corporation for Enterprise Development, an organization that promotes economic sustainability, gave Texas a grade of “F” on the 2007 Assets and Opportunity Scorecard. Texas households have an average net worth of \$34,500, ranking 48th nationally. One-fifth of Texas households have zero net worth. Texas ranks 42nd in the percentage (50.7%) of residents without a savings account and 44th in the nation in the rate of homeownership.²

WHAT CHALLENGES DO LOW-INCOME FAMILIES FACE GETTING AHEAD?

The ability of Texas’ working families to save for the future and accumulate assets such as a home, education, or retirement investments is critical to their long-term financial security. Yet, many working families live on the economic edge, even with full-time, year-round employment, making it difficult to save. With no savings or assets, low-income families have no cushion against sudden unemployment, serious illness, or a family emergency. Having no savings to weather emergencies or accumulate assets can trap low-income Texans in a cycle of poverty that may increase their reliance on government assistance.

WHAT PROGRAMS ARE AVAILABLE TO HELP FAMILIES SAVE AND BUILD ASSETS?

- ***Individual Development Accounts (IDAs)***: These interest-bearing, tax-free savings accounts help low- and moderate-income families build assets and move into the middle class. Each dollar a participant saves in an IDA is matched by public or private sources (e.g., banks, foundations, etc.). IDAs reward work and saving, foster self-sufficiency, and increase financial literacy.
- ***Earned Income Tax Credit (EITC)***: The federal EITC helps low-income individuals and families meet their basic needs. It provides a federal income tax credit for those who qualify for and claim the credit, even if they pay no income taxes at all. Since its creation in 1975, the EITC has lifted more children out of poverty than any other government program.
- ***The Texas Tomorrow Fund II Save and Match Program***: In 2007, the Texas legislature authorized the *Texas Save and Match program*, which goes into effect in 2008. The program creates a mechanism to match contributions to the *Texas Tomorrow Fund II* (TTF II) made by families with incomes below the state median household income. TTF II is a pre-

¹ CFED *Assets and Opportunity Scorecard*, 2007.

² CFED *Assets and Opportunity Scorecard*, 2007.

paid tuition program that enables families to begin saving for future post-secondary education expenses by purchasing tuition units at current prices.

- *The Texas First Time Homebuyer Program:* The program offers below-market interest rates on mortgages for eligible first-time homebuyers or those who have not owned a home in the past three years.

WHAT MORE CAN TEXAS DO TO FOSTER SAVING AND ASSET-BUILDING OPPORTUNITIES?

- *Expand Education and Outreach:* Many low-income Texans are unaware of the savings options available to them, do not possess the financial literacy skills to take advantage of these options, or do not recognize the value of saving for the future. For example, hundreds of thousands of eligible Texas families do not claim the Earned Income Tax Credit, losing out on billions of dollars each year. The state should develop an asset-building campaign in partnership with low-wage employers to promote the Earned Income Tax and Child Tax Credits, and educate low-wage workers about using these tax refunds to improve their chance for lasting economic success.
- *Expand the IDA Program:* The IDA program is not widely available in Texas due to limited funding. Texas should establish and fund a statewide IDA program, using state dollars to draw down all available federal matching funds.

ASSET-BUILDING PROGRAMS AND RESOURCES

Texas Asset Building Coalition: A network of financial institutions, nonprofits, philanthropic institutions, and local government agencies committed to fostering the economic independence of low-income households through asset-based remedies to poverty. www.covenantcapital.org/html/publicpolicy/texasida.html

FDIC Alliance for Economic Inclusion: The FDIC Dallas Region has formed a coalition to increase banking services for underserved consumers in low- and moderate-income neighborhoods, minority and immigrant communities, and rural areas. This network includes financial institutions, community-based organizations, researchers, employers, faith-based organizations, state and local government agencies, federal bank regulators, and bank trade associations. www.fdic.gov/consumers/community/AEI/initiatives.html

EITC Publications, Forms, Brochures, and Resources: www.irs.gov/individuals/article/0,,id=118888,00.html

Volunteer Income Tax Assistance program: Trained community volunteers provide free income tax return preparation to low-income tax filers, helping them claim the Earned Income Tax Credit, Child Tax Credit, and Credit for the Elderly. www.irs.gov/individuals/article/0,,id=107626,00.html

IRS: Earned Income Tax Credit (EITC)—Should I Apply?: An EITC calculator that helps tax filers determine their eligibility for the EITC. www.irs.gov/individuals/article/0,,id=130102,00.html

Texas Comptroller of Public Accounts: Do You Qualify for the EITC? Answers frequently asked questions about the EITC. www.cpa.state.tx.us/taxinfo/eitc/96-540.pdf

Texas First Time Homebuyer Program: www.tdhca.state.tx.us/homeownership/ftfb/index.htm