

Helping Families Save for the Future

An Asset Development Strategy for DC

BY EMILY APPEL AND KATIE KERSTETTER

The DC economy often comes out looking pretty good when stacked up against other cities and states on measures like average income. But in a city as economically divided as the District, averages can be deceiving. The average net worth of DC residents, for example, puts us eighth in the country compared with other states, according to the Corporation for Enterprise Development's recent "Assets and Opportunity Scorecard." Yet one in four DC residents doesn't have enough in the bank to get by without income for three months.

The fact that a large share of DC residents live in poverty is no surprise. What's less well known, however, is that many low-income and minority residents don't have access to the kinds of opportunities that could get them out of poverty, things that the rest of us take for granted: a college education, homeownership and savings accounts.

For example, the District ranks first in the percentage of residents that hold a four-year degree, but it ranks dead last when looking at disparity in degree attainment by race. District residents who are white are three times more likely than minority residents to have a four-year degree.

The federal and DC governments have policies to help residents build wealth, such as homeownership subsidies and college savings incentives. But these tend to benefit just middle- and upper-income families.

What DC needs is an active set of policies to encourage low-income residents to prioritize saving and invest in their families' futures.

Nearly One in Four DC Residents Is 'Asset Poor'

If you suddenly lost your main source of income, could you get by for three months using just your savings and assets?

For many of us, the answer is yes.

But one in four or 24 percent of DC residents do not have enough saved up to get by even if they keep expenses at the federal poverty line — \$1,500 a month for a family of three. These people are "asset poor." Among families below \$45,000, more than half are asset poor.

The concept of "asset poverty" goes beyond income to measure disparities in wealth and assess a deeper level of financial stability. A family that has a relatively stable income but no assets is vulnerable to even a short-term disruption in income — from an illness, divorce or job loss.

Current Asset-Building Policies: Helping Those Who Need it Least

There are many policies in place to help DC residents achieve prosperity, but they tend to favor wealth-building by middle-income households and the rich, without doing much to help lower-income workers.

A prime example of this is the home-mortgage interest tax deduction. Over half of this \$73 billion federal tax subsidy goes to taxpayers earning more than \$100,000 a year, according to the President's Advisory Panel on Federal Tax Reform. Yet 46 percent of homeowners nationwide with a mortgage receive no benefit, because they do not owe taxes or because it makes more sense for them to claim the standard deduction, rather than itemizing.

DC offers a tax deduction to promote college savings, but the benefits

largely go to residents in the highest tax bracket (who are already more likely to save for college). And without a greater incentive, such as a match, a tax deduction alone is unlikely to help lower-income families save for college. While 40 percent of DC children live in Wards 7 and 8 — east of the Anacostia River — only 1 percent of the funds in DC's college savings program come from families in these wards.

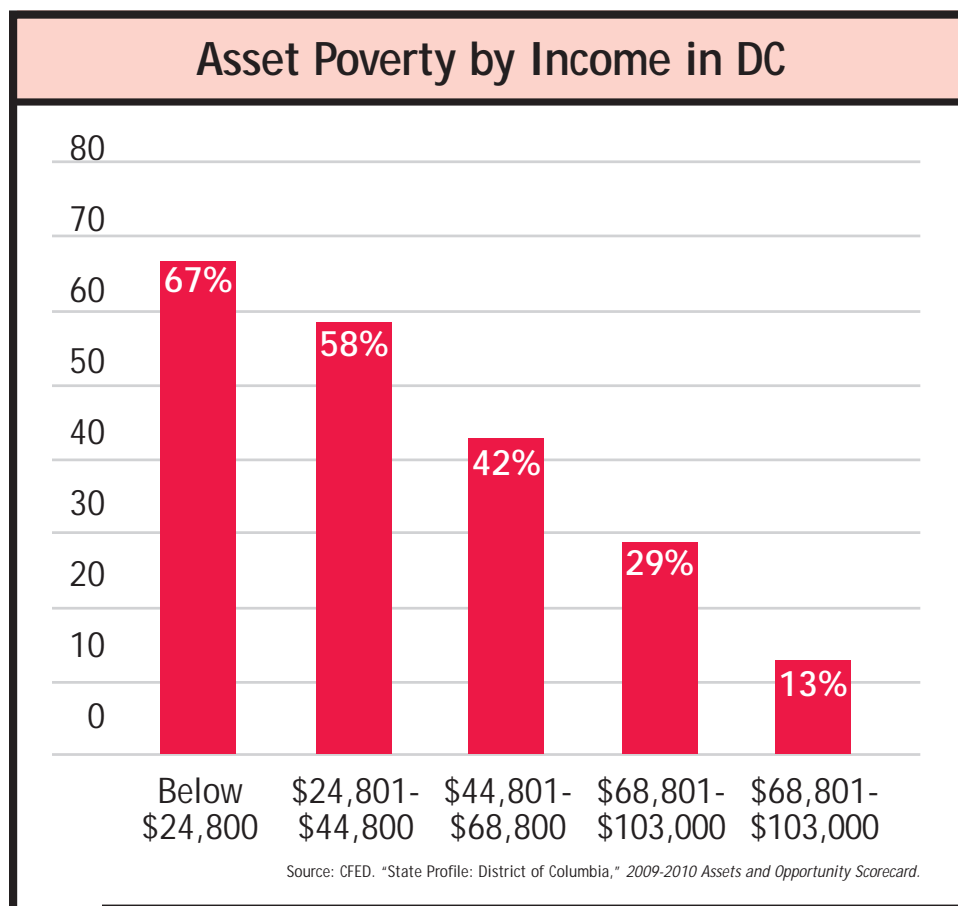
Eliminating Asset Poverty in the District

Capital Area Asset Builders, along with the DC Fiscal Policy Institute and other partners, is leading a campaign to expand opportunities for low-income residents to build wealth.

The campaign's initial recommendations include:

Expanding Affordable Homeownership Opportunities: DC's overall homeownership rate is on the low side, like many other cities with high housing costs and large numbers of rental properties. But the figures are especially dismal for low-income residents. District households earning over \$103,000 are seven times more likely to own a home as households making \$24,800 or less. Fully supporting DC's Home Purchase Assistance Program and Housing Production Trust Fund would give lower-income households more opportunities to build assets while remaining in the District.

Creating College Savings Incen-



tives for Low-Income Residents: The District should develop college savings incentives that help low-income residents, either through a refundable tax credit like the Earned Income Tax Credit (EITC) or by matching contributions to college savings plans. This could increase savings and make education more affordable for lower-income families.

Providing Financial Education and Matched Savings Accounts to Public Benefit Recipients: The city should offer both financial education and savings incentives to residents on public assistance. Helping low-income residents pay down debt, create a household budget, and save regularly could do a lot to address the factors that often trap families in poverty. The District has an Individual Development Account program, which provides a 3-to-1 match to low-income individuals when they save for higher education, buy a first home, or start a small business, but the city hasn't funded it since fiscal year 2007.

Coordinating DC's Economic Development and Job Training Efforts: The District should ensure that local funding for job training goes to programs targeted at high-growth industries that provide career-ladder opportunities. DC's Workforce Investment Council is responsible for coordinating the city's job training and economic development efforts. However, the council has spent the last two years without a full-time executive director, limiting its ability to fulfill this mission. Also, measuring the success of job training in DC needs to do more than simply count the number of people placed in a job. Policymakers should examine wage and benefit levels, whether the job is part-time or full-time, and whether there is room for advancement.

Implementing these policies is critical to ensuring that the District begins to eliminate its large disparities in wealth and guaranteeing that more residents have access to the tools they need to build a solid financial future for themselves and their families.

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