Breaking the Cycle: From Poverty to Financial Security for All

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Executive Summary

Building financial security involves harnessing the array of resources, capabilities, and institutional supports that enable vulnerable families to sustain themselves, thrive, and move up the economic ladder. It also requires reform of the systems—finance, education, justice, health, and tax—that impact family financial well-being.

Today, pervasive financial insecurity among American households threatens the future of our families, communities, and the nation's economic prosperity. Almost half of all American households and two out of three households of color do not possess enough savings to sustain themselves for three months if their income is disrupted. One-third of African Americans and Latinos have no financial assets at all.

The ability to earn and accumulate assets determines whether families can leave poverty behind and achieve economic security. Assets include both tangible and intangible resources such as cash savings, a college education, stocks and bonds, or a home. Without assets, families may be able to subsist day-to-day, but will not be able to cope with a financial emergency, save for their children, or invest in a better future.[1]

The larger, interconnected systems and institutions that weave through our lives can support or inhibit a family's ability to improve their financial security. In fact, specific features of some systems actually strip assets and wealth from the most vulnerable families and communities, increasing their financial *insecurity* and deepening poverty.

This paper explores and provides examples of how key changes to components of the financial, education, justice, health, and tax systems can strengthen—rather than undermine—households' financial security, and increase economic inclusion. Reformed policies and practices within these systems would embody the following features:

- A financial system that enables all families to have access to the basic financial products and services—such as bank accounts, home mortgages, business loans, and retirement accounts—that are critical to building a secure future.
- An educational system that provides high-quality academic preparation—beginning with universal pre-school—integrated with school-based and community-based financial education programs that put all students on the road to career success and prosperity.
- A justice system that eliminates practices that result in debt and incarceration of lower-income people due to their inability to pay fines, fees, and court-ordered child support.
- A health system that strengthens and safeguards the financial security of vulnerable families through the integration of financial education into health services delivery, and the enhanced regulation of medical debt collectors.
- A national tax system that would improve the ability of lower-income individuals and families to build savings, invest in the future, and send their children to college by making tax benefits more equitable and accessible.

This paper describes innovative approaches that integrate a focus on building financial security across programs, while reforming the systems that most affect the balance sheets of lower-income families and families of color. The featured approaches run the gamut from small local programs to state and federal policy reforms and initiatives. These innovations and the changes that they represent to key systems may be adapted and expanded to strengthen the financial security of vulnerable people and communities nationwide.

As our nation becomes increasingly multiracial and multicultural—by 2044, people of color will be the majority—the principles of just and fair inclusion must be embedded in our systems and institutions so that we can build a future in which all can participate, prosper, and reach their full potential.

Introduction

Persistent poverty has complex roots and defies easy solutions. Approximately 46 million people in the United States live in poverty; of those, close to *a quarter* are in the labor force.[2] They, and the additional 54 million who earn just enough to subsist above the poverty line, demonstrate that employment alone is insufficient to achieve economic stability or prosperity. Anti-poverty experts and advocates have long understood that a variety of systems, policies, and practices exacerbate poverty. Even individuals working one or multiple jobs, as many do, are often unable to permanently change their economic status.

In fact, specific features of the larger systems that we interact with daily actually deepen poverty by stripping assets away from our nation's most vulnerable families and communities. These impacts are no doubt at the center of the popular saying that "the system" is rigged against the poor. The key to effectively addressing poverty is dismantling systemic barriers to economic mobility and financial security. This integrated "systems" approach requires a focus on increasing *assets* for low-income households, not just income.

Assets are economic resources such as cash savings, a college education, emergency savings, or a home.[3] A household's assets (what they own), minus what they owe, constitutes its wealth. Wealth is different from income in that wealth is the *stock* of items of economic value in a household, and income refers to the *inflow* of economic resources.

While the notion of building "wealth" may seem irrelevant to the circumstances of those at the bottom of the economic ladder, acquiring a basic level of savings (wealth) is a crucial first step for families to break the cycle of poverty. Without a savings safety net, even a small disruption—such as a child's illness or a vehicle breakdown—can push families into high-cost consequences that can unravel their financial lives. In short, income allows families to *get* out of poverty, assets are how they *stay* out.[4]

The persistence of poverty is intimately connected to the enormous wealth gap that divides our nation. The top 10 percent of households possesses three-quarters of all the wealth in America. The vast majority of all people in the United States, the bottom 80 percent, account for only 13 percent of the nation's wealth.[5] The racial wealth gap—the difference in net worth between households of color and that of their White counterparts—is even more acute. White households own 13 times the wealth of Black households and 10 times the wealth of Hispanic households. The loss of wealth that occurred during the Great Recession compounded the wealth gap. While wealthier families are recovering, many lower–income households and households of color continue to experience decreasing net worth.[6]

The impacts of wealth inequality are far reaching and contradict the core American values of equal opportunity, hard work, and upward mobility. While the wealthiest families accumulate disproportionate benefits from the expanding economy, millions of families at the middle and bottom of the economic ladder are living in a state of perpetual financial insecurity.

These families are surviving on a day-to-day level, but they cannot cope with a financial emergency or save for the future.[7] In fact, almost half of all American households, and two out of three households of color, do not possess sufficient savings to sustain themselves for a minimum of three months if their income is disrupted; and one-third of African Americans and Latinos do not own any financial assets.[8]

Building financial security for all

At PolicyLink, we use the phrase "building financial security" rather than "building assets" in order to convey the array of resources, capabilities, and institutional supports that enable vulnerable families to sustain themselves, thrive, and move up the economic ladder. Achieving financial security involves harnessing the full set of systems that impact a family's finances.

Empowering struggling families to contribute to and benefit from the economy requires a simultaneous commitment to *people* and *place*, because people and place outcomes are interdependent. Building the financial security of community residents helps create strong, stable neighborhoods—places with thriving businesses, good schools, secure and appealing housing, and a tax base that supports important amenities and services. Strong, stable places, in turn, are critical for building and maintaining the financial security of people—providing access to good schools, jobs that pay decent wages, affordable rental and homeownership opportunities, affordable financial products and services, and all the other resources that support a good standard of living and make it possible for families to plan for the future.

The United States is in the midst of an unprecedented demographic shift and, today, the majority of newborns are children of color. Because of their financially precarious circumstances, many lower-income households and people of color are not positioned to contribute to or reap the benefits of economic growth, a fact that is detrimental not just to struggling families and communities but to our nation as a whole.[9] Addressing wealth inequality and enabling lower-income families and families of color to build financial security—long a matter of social justice and morality—is now an economic imperative.

As the nation approaches its multiracial, multicultural future, equity—just and fair inclusion into a society in which all can participate, prosper, and reach their full potential—must be embedded in our interconnected systems and institutions as a guiding force. An equity-driven agenda, informed by a robust emphasis on building the financial security of individuals and families, would erase barriers and create real pathways for low-income people and people of color to permanently exit from poverty, shape the new economy, nurture opportunity-rich neighborhoods, and contribute to growth and democracy.

We must ensure that the broader systems with which all families interact serve to build, rather than erode, their financial security. A key step to building financial security is fixing policies and practices within the financial, education, health, justice, and tax systems that perpetuate financial *insecurity* and deepen poverty. For example, in large segments of impoverished communities, people lack access to the basic financial products and services that are critical to building a secure future such as bank accounts, home mortgages, business loans, and retirement accounts. Many lack access to the education they will need to secure the good jobs that lead to upward mobility.

Too often, lower-income people are forced to deplete their minimal savings to cover medical bills. These crises can result in credit that is ruined by medical debt, while also subjecting them to additional health consequences brought on by financial insecurity. Lower-income communities of color routinely face court fines, fees, and penalties for minor infractions that quickly bring about insurmountable debt and even incarceration when they cannot pay. The tax system also prevents lower-income people from benefiting from the wealth-building public subsidies in the form of tax deductions, credits, exclusions, and preferential rates that wealthier families use to offset the costs of homeownership, send their children to college, and save for retirement.

We can and must reverse the impacts of these systemic inequities—and the knowledge, experience, and tools already exist to make this a reality. Over the past two decades, the asset-building field has forged significant and innovative approaches to promote economic mobility among lower-income households. It has developed and tested a variety of strategies and public policies that help struggling families save, invest, and preserve financial assets. Yet, in the face of the widening racial wealth gap, there is a tremendous and urgent need to bring these efforts to scale by embedding financial security approaches into the larger systems that affect the household budgets of low-income people of color. An integrated systems approach to building financial security is key to developing broad economic inclusion, mobility and, ultimately, financial security for all.

Current efforts to overcome interconnected barriers to financial security are yielding promising results in communities nationwide. Many of these strategies are rooted in core community institutions—schools, community health centers, the workplace, and churches. Targeted innovations are being tested, refined, adapted, and replicated. Clients receiving workforce development services, for example, are achieving better and quicker results when high-quality, one-on-one financial counseling is woven into the delivery of other social services.[10] Low-income renters whose monthly rental payments are recorded on their official credit reports are raising their credit scores, thereby overcoming a major credit-access barrier. Clients at free tax preparation sites are being connected to new savings accounts that enable them to use their refunds for accumulating assets.

This paper explores how a financial security approach can be embedded into several systems that profoundly impact people living in poverty—the financial, education, justice, health, and tax systems. It highlights how thoughtful policy change, practical on-the-ground innovations, and service integration can eliminate barriers and place struggling families on the path to stability and prosperity. While features of other systems also limit families' ability to achieve financial security, these five systems are highlighted because their reform would create powerful financial security opportunities for low-income families and families of color. The paper concludes with a set of policy recommendations informed by effective strategies to establish financial security and economic inclusion for all.

The Challenge: Systems that Prolong Inequality and Financial Insecurity

Families build financial security in the context of larger public and private systems that impact us all financially. This section describes policies and practices within the financial, education, justice, health and tax systems to illustrate how they undermine, or limit, lower-income households' efforts to achieve financial security.

The financial system perpetuates poverty and financial insecurity

Access to bank accounts, home mortgages, business loans, and retirement accounts—combined with sound financial advice—is critical to establishing long-term financial security. However, more than nine million American households lack a bank account, and an additional 24 million have bank accounts but still use high-cost alternative financial services such as check-cashing outlets to meet their needs.[11] Some 60 million adults use high-cost lending products such as sub-prime mortgages, payday loans, and auto-title loans, including half of all African Americans and nearly 45 percent of Latinos, despite qualifying for more standard loan products.[12]

Millions of families have no alternative to these products. Many cannot qualify for conventional credit because of low credit scores or poor credit history. Low wages and a lack of emergency savings force people to turn to predatory lenders for cash to cover unforeseen expenses, or to tide them over until their next paycheck. Banks often do not provide small loans (under $500) and, if they do, strict underwriting standards prevent many low-income borrowers from qualifying.[13] As a result, households using high-cost credit products are those that can least afford it—with an average annual income of about $25,000 they spend approximately $2,412 on fees and interest, or nearly 10 percent of their income.[14]

Predatory mortgage lending

Due to aggressive marketing of high-cost mortgage loans in communities of color during the early 2000s, Black and Latino households received these products at three times the rate of White borrowers. Lenders targeted minority communities for high-cost mortgages, even when those borrowers could have qualified for more traditional and safer products. As a result, African American homeowners are

Systems Strip Assets From Low-Income Households

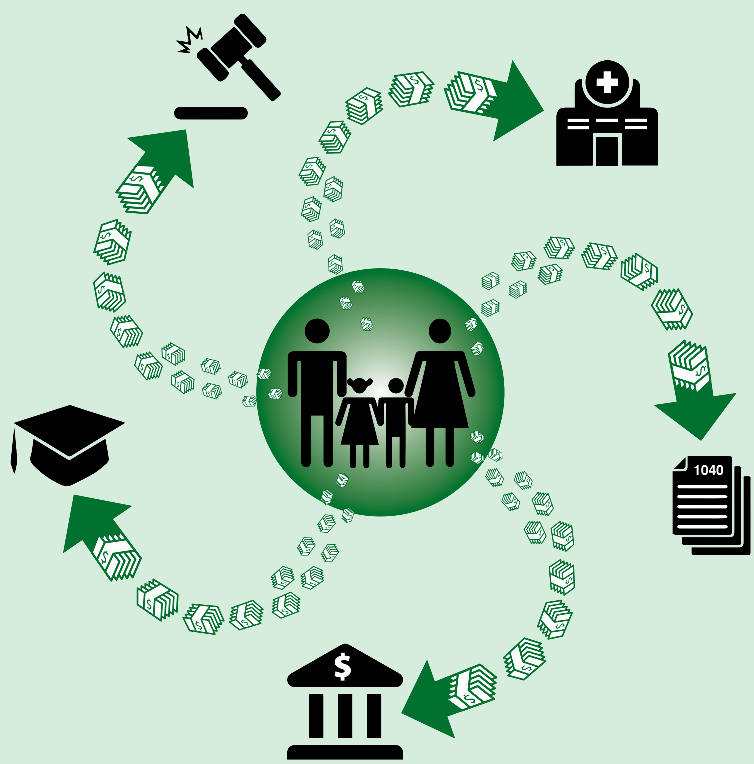
Involvement in the justice system has been shown to worsen poverty and inhibit financial security, especially for communities of color.

Health disparities and lack of access to affordable services exacerbate poverty.

The U.S. tax system leaves low-income households behind, and inhibits savings.

The financial system, through predatory lending institutions in underbanked communities, perpetuates the cycle of poverty.

Disparities in the education system hinders access to quality and affordable options.



86 percent more likely to be "underwater"—saddled with a mortgage that is higher than the value of their homes—than Whites, while Latinos are 36 percent more likely to be underwater than are their White counterparts.[15]

In the resulting foreclosure crisis, Black, Latino, and Asian households lost over half of their wealth.[16] Since then, families whose homes were foreclosed upon continue to face ongoing financial insecurity. They cannot access home equity to pay for higher education or secure their retirement; have limited access to mainstream credit because of lower credit scores; no longer have a cushion against unexpected financial hardships; and have lost their primary means of transferring wealth to their children.[17] With nearly 20 percent of loans in minority neighborhoods foreclosed upon or seriously delinquent, the cascading effects of decreasing home equity and declining property values have jeopardized the economic stability of entire communities.[18]

Payday loans and other predatory financial products

Payday loans are the most expensive short-term consumer loans on the market, with an average annual percentage rate of 400 percent.[19] Many borrowers become trapped in loans they cannot repay—rolling over the same debt multiple times, and incurring excessive fees on relatively small initial loan amounts.[20] Ninety percent of the industry's loan volume is generated from borrowers who commit to at least five loans per year, and 60 percent involves borrowers with at least 12 loans per year.[21] According to research conducted in California, payday lenders are nearly eight times as concentrated in neighborhoods with the largest population of African Americans and Latinos compared to White neighborhoods, draining nearly $247 million in fees per year from these communities.[22]

Other wealth-stripping, fringe financial products and service providers include check-cashers, who charge an average of $40 per payroll check; high-fee subprime credit cards; and auto-title loans that often result in the loss of a borrower's automobile. Although only 30 to 50 percent of the value of the vehicle is used as collateral, if the borrower fails to make full repayment on time, he or she can lose the entire value of their car, not just the outstanding loan amount.[23] Losing a vehicle typically impacts workers' ability to travel to and keep their jobs, further spiraling families into recurring financial crises.

Low-income families are unable to establish the foundations for financial security because they lack access to bank accounts, home mortgages, business loans, and retirement accounts. The use of alternative, high-risk products often result in escalating debt and, in the case of home mortgages, foreclosure and loss of equity. These wealth-stripping practices disproportionately impact families and communities of color, hindering economic mobility and widening the wealth gap.[24]

Disparities in education hinder financial security

High-quality education from early childhood through college, along with strong community supports, lays the foundation for career success and financial stability. However, key disparities along this education continuum limit the ability of lower-income students and students of color to achieve financial security over the course of their lives. This section highlights the features of the education system that contribute to disparate outcomes.

Lower-income students and students of color are the least likely to attend high-quality preschool, making them more likely to begin school late and lag behind throughout their academic experience.[25] In addition, persistent housing segregation limits school options for these students, because they typically do not live in middle class or affluent neighborhoods with high quality schools. As a result, lower-income students of color often do not have access to the high-quality curricula and highly qualified teachers offered in schools located in wealthier, predominantly White neighborhoods.

Poor academic preparation directly impacts an individual's future employment prospects, and their long-term financial security. By 2018, 45 percent of all jobs will require an associate's degree.[26] Unequal access to good schools particularly impacts students of color, whose employment opportunities are already limited by structural barriers. Disparities in the quality of education that Black and Latino students receive places them four grades behind White students academically by the time they reach high school.[27]

Black and Latino students are significantly challenged by the high cost of college. With limited family resources in comparison to White students, they are forced to seek out less expensive schools, work excessive hours, reduce study time, and acquire more debt.[28] Once they have enrolled in college, fewer Black and Latino students complete their studies and obtain a degree.[29]

Key components of the education system hinder, rather than support, the ability of low-income students and students of color to achieve career success and financial stability. This is proven by the median wealth of Black and Latino families whose top earner graduated from college, which is less than the median wealth of White families whose top earner dropped out of high school.[30] These inequities across the educational trajectory culminate in stark disparities in financial security.

The justice system deepens poverty for many low-income communities

Interaction with law enforcement and the judicial system all too often worsen poverty and present additional barriers to financial security. Criminal justice policy and practice over the past several decades has fueled the disproportionate incarceration of men of color—currently one in 15 Black adult men are serving time in prison or jail, as are one in 36 adult Latino men.[31] With so many working-age men separated from the labor force and facing employment barriers as ex-offenders, residents of lower-income communities of color face a unique set of constraints to establishing stable and prosperous lives.

A comprehensive discussion of how the justice system as a whole impacts the economies in communities of color is beyond the scope of this paper. This section highlights how disparities in enforcement, fines, and fees—as well as practices related to the determination and collection of child support obligations—impact the ability of lower-income families and communities of color to create financial security.

Enforcement, fines, and fees

Localities and states nationwide are increasingly using fines and fees as a way to increase revenues. In many cases, these practices are applied unequally and/or have inequitable impacts on people of color, causing minor offenses to escalate into crushing burdens of jail, poverty, and a cycle of insurmountable debt.

The recent Department of Justice report on Ferguson, Missouri, revealed how local police and court practices disproportionately target Black residents for greater enforcement and harsher punishments.[32] During 2012-2014 African Americans accounted for 85 percent of vehicle stops, 90 percent of citations, and 93 percent of arrests made by Ferguson Police Department officers, despite comprising only two-thirds of Ferguson's population. African Americans were 68 percent less likely to have their cases dismissed by the court. In addition, the court failed to provide clear and accurate information about charges or court obligations, and defendants were not adequately informed about how to seek a reduction in fines due to financial incapacity, or to pursue payment alternatives such as community service. Furthermore, African Americans were disproportionately more likely to have minor offenses snowball into crippling debt, which often resulted in jail time because of inability to pay, as well as the loss of their driver's license, employment, or housing.[33]

In California, increased traffic-related fines and late fees have resulted in four million Californians with suspended licenses because they are unable to pay the resulting debt. Once an initial deadline is missed, courts routinely deny people the right to a hearing unless they can pay the total amount owed in advance. These practices disproportionately impact people of color.[34] The state of Tennessee suspends driver's licenses for unpaid debts stemming from *any* criminal case;[35] 40 percent of suspended license holders are Black, while Blacks comprise 16 percent of the state's population. A New Jersey study found that 42 percent of suspended license holders lost their jobs as a result.[36] In addition, the debt incurred from mounting fines and fees adversely impacts on credit scores, further inhibiting financial security.

Child support debt

The purpose of child support is to promote the economic and social well-being, health, and stability of children whose parents are divorced. However, child support policies and practices can have the opposite effect of their intended outcomes and undermine family financial security. In particular, it can force the most economically fragile parents *and* their families deeper into poverty.[37] One in four parents who are ordered to pay child support are unemployed, and nearly one-third earn annual incomes below $12,700.[38]

Judges, family courts, and child-support bureaucracies routinely set orders that are not based on actual income and assets but rather, on what they determine a parent is capable of earning.[39] While this may sound like an incentive for non-custodial parents to find work to meet their child support obligations, child support enforcement actions such as driver's license suspensions and imprisonment actually hinder their ability to obtain and keep jobs.

Other enforcement actions include garnishing wages, placing liens on family members' assets, and reporting unpaid debt to credit bureaus—all of which damage credit scores and/or make it harder to become financially secure. In many states, family court judges may hold a parent in contempt of court for accumulating child support debt, which often leads to incarceration.[40] These actions are taken despite the U.S. Supreme Court determination that it is unconstitutional to incarcerate citizens for their inability to pay child support.[41]

Family members and friends commit their limited resources to help non-custodial parents (usually fathers) avoid incarceration for debt, further draining the assets of low-income families and communities.[42] Men without these supports who are imprisoned, upon release often find that their child support debt has increased to insurmountable levels during their prison stay. With an arrest and incarceration record, their prospects for employment are further reduced. Unemployment and debt can result in a father being jailed repeatedly for the same offense.[43] Furthermore, at least 35 states authorize interest charges for child support arrears. Colorado, Kentucky, Vermont, and Washington are authorized to charge 12 percent interest per year. [44]

Most surprising, a significant portion of child support payments are not allocated to children and families. According to federal law, custodial parents who apply for cash assistance assign their right to child support payments to the state. Therefore, some of the poorest families do not benefit directly from child support payments because they do not receive the full amount from the non-custodial parent. As a result, nearly one-third of the national unpaid child support debt is owed to state and federal governments, regardless of financial hardship or inability to pay on the part of the non-custodial parent.[45]

The policies and practices highlighted above wreak financial havoc on vulnerable families and communities. Court fines, fees, and penalties for minor infractions quickly accumulate in the form of insurmountable debt and, sometimes, incarceration when defendants cannot pay. Child support enforcement policies make it virtually impossible for low-income non-custodial parents to secure employment, access affordable credit, or obtain financial aid for higher education. Rather than encouraging parents to responsibly provide for their families and build long-term financial security, the child support enforcement system pushes them into deeper poverty.

Financial barriers to health and well-being

Health and financial security are deeply intertwined. This section highlights how disparities in health outcomes and access to services both contribute to and result in financial insecurity.

Factors shaping health include social factors such as faith, family, friends, language, and culture; economic considerations such as jobs, wages, savings, and business opportunities; physical characteristics of a neighborhood such as the presence or lack of parks, safe streets, pollution; and the service environment such as the presence or lack of grocery stores, transportation, health-care facilities, and libraries.

Just as some families and communities—particularly people of color—have been excluded from full participation in economic life, many are also excluded from enjoying optimal health. Life expectancy for African American men is approximately seven years shorter than that of White men; African American women can expect their lives to be about five years shorter than White women.[46] For communities that are experiencing economic decline and disinvestment, inadequate infrastructure exacerbates chronic conditions such as asthma and fosters infectious and communicable disease. Epidemics such as HIV or tuberculosis most severely affect low-income and people of color who lack the resources to obtain treatment.

The 2010 Affordable Care Act (ACA) made significant advances in rendering health care more affordable to lower- and middle-income Americans. The Commonwealth Fund Biennial Health Insurance Survey found that post-ACA implementation, fewer people experienced cost-related access problems and health-related financial difficulties. The number of adults who did not receive needed health care because of cost declined from 80 million people, or 43 percent, in 2012 to 66 million, or 36 percent, in 2014. The number of adults who reported problems paying their medical bills declined from an estimated 75 million people in 2012 to 64 million people in 2014.[47]

However, one of the major coverage provisions of the ACA—expansion of Medicaid eligibility to all low-income individuals—was severely weakened by a 2012 Supreme Court ruling that allowed states to "opt out" of expanding Medicaid. Consequently, in the 22 states that have refused federal funds to expand Medicaid, to date, many adults in poverty fall into a "coverage gap." Because their earnings are below the federal poverty level, they cannot quality for ACA health premium tax credits to help them pay for private insurance, yet their states do not provide them with Medicaid.[48] Therefore, even with ACA in place, many lower-income Americans continue to struggle with their health, the health conditions of their communities, and medical debt.

In addition to the adverse impact that poor health has on financial insecurity, research indicates that financial insecurity *itself* has a direct negative impact on physical and mental health. According to a 2012 study by the American Psychological Association, the majority of Americans experience multiple causes of stress related to financial security: money (69 percent), work (65 percent), and the economy (61 percent) were the most frequently cited stressors.[49] An Associated Press-AOL health poll found that among the people reporting high debt stress, 27 percent had ulcers or digestive-tract problems, compared with 8 percent of those with low levels of debt stress, and 29 percent suffered severe anxiety, compared with 4 percent of those with low debt stress.[50]

Lower-income communities of color continue to face systemic barriers to optimal health. Sub-optimal health, in turn, is exacerbated by financial insecurity, which takes a toll on physical and emotional well-being, as well as financial resources.[51]

An “upside down” tax code*

The U.S. tax system plays a crosscutting role in several of the systems described in this paper. Here, we build on previous sections to examine the tax code as a powerful engine for generating savings and wealth for some, while tax code-based benefits remain inaccessible to lower-income and households of color.

The provisions in the individual tax code that are referred to as “tax expenditures”—including tax credits, deductions, exclusions, and preferential rates—are similar to direct spending or subsidies from the federal government (i.e., one dollar of *uncollected* revenue has the same impact as one dollar spent). Of the $1 trillion in tax expenditures in the individual tax code, over half ($540 billion) is designed to encourage taxpayers to save and invest—through homeownership (e.g., through the home mortgage interest deduction), higher education (e.g., tax deductions for tuition and fees), retirement saving (e.g., through employer-sponsored retirement plans), and other incentives.[52] The cost of these savings and investment subsidies exceeds the combined budgets of all federal agencies aside from the U.S. Department of Defense.[53]

Paradoxically, the poorer the household, the less it benefits from these supports. In 2013, the top 1 percent of households received more benefits from these tax subsidies than the bottom 80 percent combined.[54] Several key policy flaws contribute to these inefficient and inequitable outcomes:[55]

1. Two out of three taxpayers do not itemize on their taxes (including 87 percent of households earning less than $50,000), and they do not benefit from itemized deductions as a result.[56]

2. Most tax benefits are based on a person’s tax rate, which is tied to their taxable income. Thus, higher-income earners receive the greatest benefits.

3. In most cases, the larger the asset that is taxed, the greater the benefit. For example, the benefit of the mortgage interest deduction is greater for households with larger homes and mortgages (because they have more interest to deduct) and less significant for households with smaller homes and mortgages.

4. Many tax subsidies exclude low-income families because of the way they are structured. For example, a worker benefits from tax-incented retirement plans if (s)he has access to a retirement savings account; but roughly half of all workers do not have access to employer-based retirement plans.[57]

Households of color are disproportionately excluded from many of the largest tax benefits. With lower homeownership rates, people of color are less likely to benefit from the mortgage interest deduction. Many families of color who do own homes do not earn enough income to benefit from itemizing their deductions.[58] Similarly, millions of workers of color, particularly Blacks and Latinos, do not have jobs that offer employer-based retirement savings plans. Those who do have access to employer-based plans may earn too little income to contribute to them and benefit from the associated tax incentives.[59] Finally, taxpayers may only take advantage of preferential tax rates on investment income if they own assets such as stocks and bonds, and the vast majority of households of color do not.[60]

The tax code is a powerful engine for building savings and wealth. Public subsidies in the form of tax deductions, credits, exclusions, and preferential rates enable wealthier families to offset the costs of homeownership, send their children to college, and save for retirement. However, because of how these subsidies are structured, they are inaccessible to low-income households and households of color, precisely those who could benefit the most.

* This term is attributed to CFED, used in from *Upside Down to Right Side Up,* CFED, 2014.

The Case for Hope: How Systems Can Be Reformed to Enhance Financial Security

The following sections explore how positive changes, already underway in communities across the country, can transform the harsh conditions of poverty and debt experienced by over 45 million people living in poverty.[61] We describe both evolving opportunities and tested strategies for building financial security through changes to the financial, education, justice, health, and tax systems. These enhanced, reformed systems are referred to throughout the remainder of this paper as “equitable” systems.

These changes run the gamut from small local programs to local, state, and federal policy. A great deal of innovation is being employed within and among community-based and nonprofit organizations as they seek to address the multiple barriers experienced by their constituencies. They are designing and expanding promising program interventions, and forging new collaborations that synchronize financial security supports across multiple agencies, programs, and services. These innovations carry important policy implications for consideration by the public and private sectors. While action at the federal level is key for broad impact, some activities are governed at the state and local levels. Thus, state and local policy solutions play an important role in addressing problems and testing approaches in some jurisdictions, that can be adapted to other places.

This paper supports innovations at all of these levels. However, it does not purport to address *entire* systems. It highlights a subset of policies and practices within each system that are specifically related to building financial security, which can inform large-scale approaches to ensuring resources and opportunities are available to all.

Reforming the financial system through more just and fair practices

Key innovations are emerging in relation to financial products and services that are expanding access to savings, credit, and investments for millions of lower-income families. This section examines how specific practices to increase financial security are being woven through education, social services, and workforce development programs. In conjunction with important policy reforms at the federal, state, and local level, these practices are helping families to build savings, access credit, avoid wealth-stripping loans, and enter the financial mainstream.

An equitable financial system that enhances financial security for low-income people would embody the following features:

1. **Integrate supports that promote financial security in the public and private sector.**
2. **Ensure access to affordable credit for all families.**
3. **Prevent families from falling victim to high-cost predatory lenders.**

Integrate supports that promote financial security in the public and private sector
A financial system built on improving financial security would help families acquire the skills to create and maintain a household budget, establish long-term goals, and effectively navigate choices among financial products and services. Access to these skills would be woven into education, social service, and workforce programs. Early childhood programs, for example, would teach parents to budget, improve their credit score, access appropriate products and services, manage their debt, and begin a college savings plan for their child. School curricula starting at the elementary level would include financial education components for youth.

Adults would gain access to multiple services to develop financial security through public programs and the workplace. In New York City, a pilot project paired access to a basic checking account with an average of one to two hours of financial counseling for adults transitioning from receiving public benefits. All 1,034 participants were offered bank accounts, and half were offered free one-on-one financial counseling with trained providers through New York City’s Financial Empowerment Centers. Participants who received the counseling were more likely to stay current on debt payments at the six and 12-month follow-ups.[62]

In Chicago, the Cara program provides job training, placement, and retention services to jobseekers affected by homelessness and poverty. Core services include life- and career-skills training, including financial education; industry-linked, hard-skills training; placement into permanent, quality jobs; and a full year of employment retention support. Coaches work with participants on developing long-term goals, including housing, education, debt repayment, credit amelioration, and budgeting. Cara also offers a matched savings program: if employed participants deposit at least $20 a month into a savings account throughout their first year of employment, they receive a 5:1 savings match at the end of the year. Since its inception in 1991, Cara has placed more than 4,600 individuals into more than 6,400 quality jobs at one-year job retention rates of 70 percent or better. On average, participants save $400 during their first year of employment.[63]

Building financial security is a long-term process and can be supported at key decision-making points in a person's life, such as starting a new job, having a baby, or paying taxes. The provision of financial literacy training and related products is most effective when these services are embedded in trusted community institutions, as the above examples illustrate. Folding support for financial capability into existing programs and services helps clients overcome multiple barriers, improves stability, and increases financial well-being.

Ensure access to affordable credit for all families

An equitable financial system would offer affordable credit and appropriate products and services that enable all households to save and build assets. Member-owned Community Development Credit Unions (CDCUs) embody elements of an equitable system. They were specifically designed to serve low- and moderate-income communities, and have pioneered efforts to deliver financial services to constituencies marginalized from the mainstream banking system. In addition, a variety of initiatives are working to support and encourage mainstream banks to offer appropriate products and services to lower-income households and households of color. One such initiative, "Bank on San Francisco" was launched by the treasurer of the City/County of San Francisco in 2006, and then replicated in cities nationwide. The initiative partnered with credit unions and mainstream local and national banks to increase access to bank accounts for people who cannot participate in the banking system. As a result, previously unbanked San Franciscans have opened more than 10,000 checking accounts per year since 2006.[64] The Bank on 2.0 program, launched by the Cities for Financial Empowerment Fund, aims to take these efforts a step further by embedding banking access strategies in existing municipal programs. Bank on 2.0 is developing systems and partnerships that leverage municipal service delivery to provide bank accounts and other financial products and services to low-income families.[65]

A financial system built on improving financial security would offer creative and innovative mechanisms for lower-income families to establish and repair credit, a key access point to the financial mainstream. For example, the national Credit Builders Alliance (CBA) recently completed a pilot project that uses rental payments to help low-income renters establish credit and financial capacity. Rent reporting provides monthly rental payment notification to at least one of the major consumer credit bureaus for inclusion on traditional consumer credit reports.[66] CBA partnered with eight affordable housing providers enabling them to become credentialed with Experian Rent Bureau to submit rental payment reporting on behalf of 1,255 low-income residents. Pilot project sites included affordable housing developments in Boston, Baltimore, Cleveland, Houston, Oakland, the Chicago suburbs, and communities in central Oregon and rural New Hampshire.[67] All residents in the pilot who initially had no credit history raised their scores to a high nonprime or prime score. Over three-quarters of participants experienced an increase in credit score, with an average increase of 23 points. In addition, the rent reporting process provided an opportunity for affordable housing providers to work with residents on progress toward other financial goals.[68]

Social loan programs are an innovative approach to expanding safe and affordable access to credit. For example, the Mission Asset Fund (MAF) in San Francisco has instituted a lending circle model known as *Cestas Populares*. Essentially cooperative savings accounts, *Cestas* function as rotating, interest-free, and no-fee credit associations. Each lending circle brings together friends, families, and community members to make equal cash deposits into a bank-insured pool. Members then take turns borrowing the entire pool of money interest free. Loans average $1,271 and participants use them to pay off large bills or invest in small businesses. As the facilitator of *Cestas Populares*, MAF provides management and oversight and, most significant, reports lending and repayment transactions to credit agencies as a bona fide financial activity. This formalization of transactions enables members to establish or improve credit scores, opening doors to mainstream credit.[69]

Affordable credit is a key building block of financial security. Results from these and similar models can inform how public and private programs meeting diverse needs in lower-income communities may also serve to build credit and long-term financial stability. These efforts help families avoid predatory lending and the cycle of escalating debt, and they position them to enter the financial mainstream.

Prevent families from falling victim to high-cost predatory lenders

An equitable financial system would ensure that booms and busts—similar to the subprime mortgage bubble and the subsequent financial crisis of the early 2000s—never decimate the wealth of so many vulnerable families in the future. At the federal level, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 enhances financial security by creating new oversight authority and implementing regulations that prevent lenders from peddling deceptive and high-cost mortgages to unsuspecting borrowers.

Approaches to addressing other predatory lending practices seek to monitor and protect consumers from high-cost lenders by capping interest rates on payday loans, auto-title loans, and short-term installment loans. The federal Consumer Financial Protection Bureau (CFPB) and states are currently designing mechanisms that curb predatory lending. Local governments are also acting to limit the proliferation of payday lenders and check-cashers by exercising their licensing and zoning authority. San Francisco, for example, enacted permanent zoning restrictions to create a restricted-use district; high-cost lenders are prohibited from operating in designated neighborhoods that already have a high concentration of payday lenders or check-cashers.[70]

In addition to regulation at various levels, an equitable financial system would offer lower-income families an affordable alternative to predatory consumer loans. In Texas, for example, the Community Loan Center (CLC) Small Dollar Loan Program works with employers and nonprofits to provide loans of up to $1,000 at 18 percent interest. CLC recruits employers to participate in the program at no cost to them and markets the loans to their employees. Employees apply for the loan online and, when approved, the funds are wired into their bank account. The loan is repaid through payroll deduction. As a pilot project, the CLC of the Rio Grande Valley made 2,000 loans in its first two years. Texas Community Capital (TCC) is partnering with nonprofits to expand the loan program statewide.[71]

Robust consumer protection and enhanced regulation of predatory lending can help vulnerable consumers avoid high-cost loans and the cycle of debt they often generate. Increased access to safe and affordable lending products helps clients build a history of accessing and repaying credit and establishes a foundation for future asset development.

The examples cited above highlight key components of an equitable financial system in action. Affordable financial products and services expand access to savings and credit for lower-income families. Supports integrated into public programs and the workplace—such as financial education, rent reporting to credit bureaus, and social loan programs—help lower-income families establish bank accounts and a credit history. Federal regulation and actions taken by state and local governments provide essential protection to families and communities that are preyed upon by predatory lenders. While these examples represent a small subset of overall financial system activities, they represent key opportunities that can be expanded and leveraged to help families improve their financial security.

Reforming the education system through cradle-to-career supports and financial empowerment

Key innovations are underway to increase access to high-quality education available to all. An education system that secures the long-term financial security of children and families would embody the following features:

1. **Provide high-quality preschool to all children, paired with a dual-generation approach to financial education.**
2. **Offer multiple opportunities for children and parents to learn and exercise financial skills throughout the school year.**
3. **Ensure tuition-free community college is available to all students.**
4. **Support the establishment of savings accounts for all children.**

Place-based or community-centered approaches to education, economic mobility, and financial security such as the Harlem Children's Zone (HCZ) have demonstrated that rigorous academic preparation from pre-kindergarten through high school, paired with wraparound community supports, increases students' achievement and acceptance to college. For example, 100 percent of children graduating from the HCZ pre-kindergarten programs were assessed as "school ready." Ninety-five percent of HCZ high school seniors were accepted into college, far above the national average.

Federally funded Promise Neighborhoods are adapting and enhancing this comprehensive approach in communities throughout the country. Today, Promise Neighborhoods sites are supporting student academic achievement in schools, as well as providing access to financial education services through school curricula, community centers, after-school programs, and parent-student events. These efforts offer a template for place-based initiatives to incorporate this focus. This section highlights policies and practices that promote the integration of financial security into the educational continuum.

Provide high-quality preschool to all children, paired with a dual-generation approach to financial education

An education system built on improving financial security would establish universally available public preschool. Making high-quality preschool available to all has the potential to reduce the racial wealth gap by helping students of color to enter school better prepared to learn.[72] One study indicated that African American children who received quality preschool from infancy through five years of age completed more years of education, were more likely to attend a four-year college or university, and were less likely to become parents in their teenage years than similar students in a control group.[73] Another study found that children who participate in high-quality preschool programs earn higher salaries and accumulate more wealth than non-participating peers.[74]

Early childhood programs can also connect parents with financial education, counseling, and asset-building products. For example, the Eastside Promise Neighborhood in San Antonio, Texas, has launched a pilot program to provide financial counseling to parents who enroll their children in the institution's childcare program. In exchange for no- or low-cost childcare, parents are required to meet with a financial counselor for six sessions during the time that their child is enrolled in the program.

Offer multiple opportunities for children and parents to learn and exercise financial skills throughout the school year

An equitable education system would provide children and families with multiple opportunities to access financial education, and learn about appropriate products and services that would build their financial security. The graphic below illustrates the ingredients for building financial security through each phase of the educational trajectory.

Starting in the early grades, a comprehensive curriculum could help students and families envision and prepare—academically *and* financially—for post-secondary education. The curriculum would integrate student exposure to age-appropriate financial concepts with access to financial products and coaching to support healthy financial behaviors. In Wisconsin and Texas, for example, provision of financial education and access to bank accounts improved students' attitudes toward saving and increased their understanding of personal finance.[75] These results led to the passage of statewide legislation to include financial education in school curricula.

From Cradle to College to Financial Security

Early Childhood (0–5)	K–5th grade	6th–8th grade	9th–10th grade	11th–12th grade	College/Career
Family Financial Awareness Parents introduce basic financial concepts to their child and take steps toward family financial security including learning their credit score, managing their debt, building emergency savings, and beginning a college savings plan.	**Basic Financial Education** Students continue learning basic financial concepts with parents and at school. Parents contribute regularly to savings plans: emergency savings, college savings, and retirement savings.	**Financial Readiness** Students take a comprehensive financial education class. Students discuss college finance and affordability with parents, and learn more about household and personal finances in culturally appropriate contexts.	**Financial Capability** Students begin developing financial capability skills through work and savings programs. Parents learn about the various types of college and the financial aid process.	**Asset Building and Planning** Students create a budget for college expenses and learn about financial products and services they will encounter during college. Student and parents complete the FAFSA, understand the Estimated Family Contribution, and how to compare financial aid offers.	**Financial Security** Students are educated, build income from employment, and build emergency savings, retirement savings, and other assets to withstand economic shocks.

Adapted from a chart by MEDA.

The Los Angeles Promise Neighborhood operates the Families Save program to address the intergenerational cycle of poverty, and help students and parents build financial capacity. Families Save is based in 19 schools and dozens of community centers throughout the Promise area and provides both curriculum-based and community-based financial education. Middle school and high school students acquire first-hand personal finance experience by engaging in real-life purchasing choices like buying a car or applying for a credit card. Families receive coaching on banking, budgeting, and college financial aid options, and they can access matching monetary incentives to support their savings goals. These and similar strategies ensure that students and families develop a strong financial capability foundation to help them overcome multiple barriers to financial security. Replicating these community- and school-based approaches throughout Los Angeles would build an entire generation of students (and families) who are better equipped to contribute to economic life and prosper.

Student summer employment is another way for youth to build a foundation for financial security. In San Francisco, MyPath works with low-income teens already participating in the Mayor's Youth Employment and Education Program. MyPath provides participating youth with peer-to-peer coaching on savings skills and helps them access mainstream financial products, including savings accounts that allow for direct payroll deposits. In 2012-2013, youth participating in the program saved an average of $1,210. Using the existing platform of a local government-funded summer employment experience represents a powerful and efficient approach to building skills for future financial security among low-income teens.

Ensure tuition-free community college is available to all students

An equitable education system would enable students to embark on a post-secondary course of study without going into debt. Making tuition-free community college available would remove barriers for lower-income students to pursue an associate's degree and/or complete requirements towards a bachelor's degree from a four-year college.

The Tennessee Promise program, initiated in 2014, provides two years of free community college tuition to Tennessee students. Aimed at increasing the number of students who attend college, it offers high school graduates a "last-dollar" scholarship, meaning the scholarship will cover tuition and fees not covered by federal or state grants and financial aid. Students may use the scholarship at any of the state's 13 community colleges, 27 colleges of applied technology or other eligible institutions, and must maintain satisfactory academic progress (2.0 GPA) to remain in the program.

In the first year of the Tennessee program, 57,000 students applied, representing almost 90 percent of the state's high school graduating class.[76] In addition to having his/her tuition covered, each student participating in Tennessee Promise also works with a mentor and performs eight hours of community service per term enrolled. Research suggests that these features, in addition to financial aid, enhance college enrollment, persistence, and completion.[77] In addition to providing free tuition, the state is also working with community and technical colleges to incorporate best practices in improving student graduation rates and job placement outcomes.

At the national level, the Obama Administration has proposed making two years of community college tuition free. The America's College Promise proposal would eliminate tuition for students who attend at least half time, maintain a 2.5 GPA while in college, and make consistent progress toward a degree. Nine million students could take advantage of free community college tuition if all states participated. The program would partner with states to waive tuition while promoting reforms to help more students complete at least two years of college. Students would enroll in community college programs that either fully transfer to local public four-year colleges and universities, giving students a chance to earn half of the credit they need for a four-year degree, or that are occupational training programs with high graduation rates that lead to degrees and certificates that are in demand among employers.[78] Three-quarters of the average cost of community college would be covered by federal funding and states would contribute the remaining funds necessary to eliminate community college tuition for eligible students.[79]

As more jobs require more education, workers with only a high school diploma are finding it increasingly difficult to enter the middle class. Waiving community college tuition is a key strategy to enabling low-income students and students of color to attain a post-secondary degree and increase their earning potential.

Support the establishment of savings accounts for all children

Children's savings accounts generate positive and interrelated financial security impacts. According to the Center for Social Development, for parents, the existence of a savings account in their child's name helps to make a college education a tangible goal; and research shows that they become more engaged in savings and financial management as a result.[80] For the child, having a savings account makes it easier to set goals for college and work toward them. Even modest savings can produce positive results: as little as $3,000 in savings increases the odds that children will graduate from high school compared to children in families without savings.[81]

Municipalities and states have initiated programs that provide every child with a savings account and help boost savings for lower-income children. In San Francisco, every child who enters kindergarten in a public school automatically receives a college savings account through the Kindergarten to College program. The City and County of San Francisco provides a seed deposit and a variety of savings matches to encourage families to save early and often. In Maine, the Harold Alfond College Challenge automatically opens and seeds a college savings account with $500 for every newborn child. Louisiana uses tax records from the state Department of Revenue to automatically calculate a progressive match based on household income.[82] At the federal level, the American Dream Accounts Act, recently reintroduced in Congress, authorizes the creation of online college savings accounts combined with resources and support intended to help students, particularly low-income children, access a college education that leads to a career.[83]

The examples cited in this section illustrate ways to provide students and parents with access to financial capability supports along the educational trajectory and help lower-income students attain a post-secondary degree, thereby increasing their future earnings and economic mobility.

Reforming the justice system through more equitable approaches to fees, penalties, debt, and child support

The justice system faces overarching challenges in protecting safety and guaranteeing access to a fair legal process. It is beyond the scope of this paper to discuss comprehensive reforms that would make the system more equitable, humane, and effective overall. This section highlights a key set of practices related to enforcement, fines, fees, and child support that can help vulnerable families and communities build financial security. Promising steps are being taken by some state governments to reduce the spiraling impact of criminal justice fines and fees and institute more just and successful child support enforcement policies. An equitable justice system would embody the following features:

1. **Eliminate the practice of jailing defendants for inability to pay court-ordered fines and fees and offer opportunities for nonviolent offenders to reduce their debt from these fines.**
2. **Base child support on ability to pay.**
3. **Revoke the legal requirement that parents reimburse the state or federal government for welfare assistance provided to their children.**
4. **Allocate child support payments to activities that enhance financial opportunities for children.**

Eliminate the practice of jailing defendants for inability to pay court fines and fees and offer opportunities for nonviolent offenders to reduce their debt from these fines

Debt from mounting fines and fees mandated by courts keeps individuals in a state of perpetual instability and prevents then from accessing the resources they need—such as identification, employment, or housing—to be financially secure. A justice system built on improving financial security would take a different approach. The Colorado state legislature is leading the way in granting reductions in fines and fees and eliminating them altogether for defendants who cannot pay. In April 2014, the state passed a bill to ban debtor's imprisonment by establishing a process to determine which defendants cannot pay court-imposed fines.[84]

The federal government offers tools to states to reduce debt. Fugitive Safe Surrender, a national initiative of the U.S. Marshals Service, encourages persons wanted for nonviolent felony or misdemeanor crimes to voluntarily surrender to the law in a faith-based or other neutral setting and have their case adjudicated.[85] Those who turn themselves in receive favorable consideration from judges on reduction of their debt. The State of New Jersey's program has enabled almost 18,000 individuals to settle nonviolent warrants and court fines to date. During a Safe Surrender event at a New Jersey church, 63 percent of those who surrendered did so for outstanding traffic warrants. One-third surrendered on misdemeanor charges, and 4 percent did so for holding outstanding child support debt, family court warrants, or probation warrants.[86]

These types of programs and policy efforts can help alleviate the unnecessary pressures and barriers to financial security for low-income people, while also helping states recoup outstanding fees.

Base child support on ability to pay

A system built on improving financial security would implement child support policies that take into account a non-custodial parent's ability to pay, in addition to how much financial support the child needs. This approach increases low-income parents' ability to support their children in an effective way, and allows for more accountability for fulfilling financial obligations.[87] While state formulas vary, Delaware, Hawaii, and Montana use the "Melson Formula" method, which recognizes supporting others is impossible until one's own basic support needs are met.[88] The Melson Formula helps ensure that child support orders reflect a non-custodial father's real income.

Research indicates that low-income parents will pay child support if they have the financial capacity to do so, and that many could afford to pay smaller child support obligations consistently.[89] Accordingly, using mechanisms that ensure child support obligations are in line with the non-custodial parent's actual income is a sound strategy to increase support to low-income children in need and also protect low-income fathers from further impoverishment as a result of child support debt. Basing child support on ability to pay should also take into account incarceration status of the non-custodial parent. If the parent is in prison, child support orders should be suspended to prevent the build-up of insurmountable debt. At a minimum, mechanisms for modifying child support orders for incarcerated noncustodial parents should be improved and made more transparent.[90]

Revoke the legal requirement that parents reimburse the state or federal government for welfare assistance provided to their children

Child support payments represent an average of 40 percent of the income of poor custodial families who receive them. However, for families who receive Temporary Assistance for Needy Families (TANF), the state collects child support from non-custodial parents and keeps most of the payments to reimburse government coffers for the cost of TANF. *This money does not go to the families or children themselves.*

Current law requires that custodial parents who apply for cash assistance assign their right to child support payments over to the state. However, states can and should use their option, established by federal law in 2005, to "pass through" all child support payments to families, rather than retaining payments intended for children.[91] As of July 2013, 22 states passed through at least some of the child support collected, reflecting broad concern about the harmful impact on children when the state redirects child support payments to the government.[92] A number of states also disregard child support payments passed through when determining a family's eligibility, and level of assistance, for public assistance. Research shows that more generous pass-through and disregard policies increase the amount of child support received by custodial parents and children on public assistance. These policies encourage fathers to work and pay child support, assist families in making the transition from welfare to work, and increase the financial security of families on TANF.[93]

Forty-four states have policies that forgive at least a portion of child support debt that is owed to the state as reimbursement for public assistance benefits.[94] While not all debt compromise programs reduce arrears to amounts that are affordable to parents, the financial impact on parents and families of reducing debt is positive. Evidence suggests that when faced with daunting amounts of debt that they will likely never be able to pay, lower-income fathers tend to not pay either their monthly or arrearage obligations. Debt amnesty programs encourage low-income fathers to pay their obligations as they become financially able to do so.[95]

Policies and practices that maximize the support that low-income children receive directly from non-custodial parents, and that forgive a portion of child support debt owed to the state, serve to increase the financial security of non-custodial parents and their children.

Allocate child support payments to activities that enhance financial opportunities for children
If state policy requires the collection of past due debt, innovative approaches can ensure that children benefit directly. For example, Kansas Child Support Services, working in collaboration with the state treasurer, established the Child Support Savings Incentive Program to allow non-custodial parents to open a 529 college savings account for their children. Every dollar deposited into the 529 account for the child will result in Child Support Services reducing the non-custodial parent's state-assigned arrears by two dollars.[96]

Struggling with mounting debt keeps individuals in a state of insecurity and marginalization, and hinders them from accessing the jobs, housing, and education necessary for building stable and productive lives. The practices highlighted above represent important steps toward reversing the impact of fines, fees, penalties, and debt, and increasing opportunities for vulnerable families and communities to establish financial security.

Reforming the health-care system to support financial literacy

A health-care system that promotes financial security, rather than undermining it, would broadly prioritize prevention and financial well-being as a strategy. It would include addressing community infrastructure issues and the lack of basic services that lead to poor health outcomes for low-income communities. Financial security is also a key social determinant of health.[97]

Recognizing the importance of a broad prevention approach, this section highlights policies and practices related to the health system that would specifically build and safeguard the financial security of vulnerable clients. A health system that reinforces family financial security would embody the following elements:

1. **Use health services as an access point for financial services and support.**
2. **Improve regulation of medical debt collectors to protect vulnerable consumers.**

Use health services as an access point for financial services and support
A health system structured upon improving financial security would provide low-income families with access to medical services and the financial skills, tools, and supports necessary for stability, prosperity, and well-being. In the Delaware Valley, Clarifi, a nonprofit that provides credit and budgeting counseling at 24 offices, is piloting a new service delivery approach to integrate financial counseling into community-based health-care organizations that provide a range of physical and mental health, legal, case management, and other services. Through a medical-financial partnership with a health care provider, Clarifi is offering its services at a health center in North Philadelphia. Patients who seek financial counseling are referred to a Clarifi financial counselor based onsite several days weekly. The counselor works with patients on strategies to manage spending, decrease debt, and increase savings. The 2015 goals are for the counselor to provide one-on-one counseling to approximately 150 individuals and for Clarifi to conduct educational workshops for up to 200 residents. A driving force for implementing the pilot is a desire to better understand how individuals' financial health can impact on their physical health and vice versa.[98]

In a nationwide effort, the National Association of Community Health Centers Community HealthCorps has trained its 500 AmeriCorps members in a financial education curriculum during its 2014-2015 program year. These AmeriCorps members work with health center clients throughout the country to improve financial decision-making skills. A centerpiece of these efforts is an online toolkit called Your Money, Your Goals,[99] developed and field-tested by the Consumer Financial Protection Bureau. The topics include:

- making spending decisions that achieve goals;
- ordering and fixing credit reports;
- avoiding tricks and traps in choosing financial products;
- making decisions about repaying debts and taking on new debt;
- keeping track of income and bill; and
- deciding whether to open a checking account, and understanding what's needed to do so.

AmeriCorp members using this toolkit are deployed in 200 medically underserved communities in partnership with 36 community health centers and partner agencies. They have received training and follow-up resources to utilize the toolkit effectively with clients.[100] Members use the toolkit to help patients develop a spending/saving plan, understand debt and debt resolution, and set and track money-related goals. As of March 2015, 18,193 patients had received financial education assistance from AmeriCorp members.[101]

Improve regulation of medical debt collectors to protect vulnerable consumers

Recent federal action is helping to mitigate some of the negative impacts of medical debt on vulnerable families. The U.S. Treasury Department and Internal Revenue Service issued new rules in 2014 regulating debt collection practices of nonprofit, tax-exempt hospitals (applying to about two-thirds of hospitals nationwide). The new rules mandate that tax-exempt hospitals evaluate a patient's need for financial assistance before they refer a case to a debt collector, report debt to a credit agency, place a lien on a patient's home, or move to garnish a patient's wages. In addition, the rules prohibit hospitals from charging patients who are eligible for financial assistance more than the amounts generally billed to people who have insurance.[102]

While these regulations are an important step forward, practices of for-profit medical providers are not affected (approximately 40 percent of the hospital market).[103] Please see the next section for policy recommendations to address this issue.

Health and financial security build upon and reinforce each another. The policies and practices highlighted above represent opportunities within the context of the health system to increase financial security and reduce medical debt, and significantly improve the health and well-being of vulnerable families and communities.

Reforming the tax system to be more equitable

As co-chair of the national Tax Alliance for Economic Mobility, PolicyLink is working with over 35 national partners to advance tax reform proposals that build the long-term security of lower-income families and families of color. Drawing from the work of the Alliance, an equitable tax system would embody the following features:

1. **Make tax benefits accessible to lower-income individuals and households.**
2. **Boost the capacity of lower-income individuals and families to save and invest in tax-incentivized accounts.**
3. **Make tax-incented savings simple and automatic.**

This section highlights opportunities for increasing financial security through the tax code.

Make tax benefits accessible to lower-income individuals and households

A tax system built on improving financial security would make tax code-based savings and investment incentives more equitable by restructuring certain tax benefits as credits, preferably refundable credits. Tax credits are accessible to the two-thirds of households who do not itemize their deductions. Refundable credits are the most progressive form of tax benefit, as even the lowest income families—those who pay payroll taxes but have little or no income tax liability—can benefit from them. A taxpayer whose tax credit is greater than his or her tax liability will actually receive a direct payment from the government.[104] The discussion below highlights how tax credits in general, and refundable credits in particular, can help lower-income households.

The Earned Income Tax Credit (EITC) and the Child Tax Credit are examples of existing tax benefits that are refundable and directly benefit lower-income working families. In the 2013 tax year, the most recent year for which data is available, over 27 million working families and individuals received the EITC.[105] The Child Tax Credit (CTC) offsets the cost of raising children through a partially refundable credit worth up to $1,000 per child. An estimated 38 million people received the CTC in 2013.[106]

Critical improvements to these programs will expire in 2017, affecting 50 million Americans—including 25 million children—unless Congress takes action to make them permanent.[107] An equitable tax system would make the improvements permanent and extend the benefits to low-income workers who are not raising children. Childless low-income adults and non-custodial parents currently receive little or no benefit from the EITC and as a result, are being pushed deeper into poverty.[108] Furthermore, because the EITC cannot be claimed by those under the age of 25, millions of low-income parents are being excluded from the program's proven benefits of promoting work, alleviating poverty, supplementing low wages, and supporting economic mobility.[109] The EITC should be extended to childless low-income workers starting at age 21, as proposed by Republican and Democratic leaders and the Obama Administration.

Another step to building an equitable tax system would be to improve the mortgage interest deduction (MID). The MID allows taxpayers to deduct mortgage interest from their tax bill, but it is not accessible to households that don't itemize or don't own a home. The MID should be converted into a refundable credit so that lower-income homeowners can access the benefits. In recent years, several bipartisan committees in Congress have proposed changes to the MID to make it more accessible.[110] In addition, a tax credit for renters would make the tax system more equitable by helping lower-income non-homeowners offset high housing costs.[111]

Subsidizing households to build assets, rather than debt, would be another promising step in the right direction. Economists with the Urban-Brookings Tax Policy Center have made several proposals to this end. Key components include 1) limiting the size of the MID (so that larger mortgages do not result in larger "rewards" in terms of tax treatment), and 2) eliminating the property tax deduction (which would remove a de facto incentive for taxpayers to incur greater debt through the purchase of more expensive properties and deduction of the correspondingly large property tax from their tax bills).[112]

Improving the Savers Credit is another approach to expanding access to financial security. The Savers Credit is intended to help low- and moderate-income households save for retirement by providing a tax credit for contributions made to eligible retirement plans. However, because the credit is nonrefundable, it does not benefit low-income households that have little or no liability for federal income tax, exactly those who need it most.[113]

Finally, an equitable tax system would improve higher education tax subsidies like the American Opportunity Tax Credit (AOTC) for lower-income families. Currently, 40 percent of the AOTC is refundable, which helps make college more accessible to low- and moderate-income households. As part of an equitable tax system, it would be expanded to a 100 percent refundable credit, enhancing its ability to benefit lower-income students and their families.[114] In addition, the AOTC is set to expire in 2017; however, it should be converted into a permanent feature of the tax code.

Boost the capacity of lower-income individuals and families to save

In addition to accessible tax incentives, an equitable tax system would offer matching funds to help low- and middle-income families to save. For example, the Financial Security Credit would facilitate and encourage savings for lower-income families at tax time. Families would apply for the credit on their federal income tax form and be able to divert a portion of their tax refund into an approved savings product of their choice, including retirement accounts, college savings plans, U.S. savings bonds, certificates of deposit, and savings accounts. They would receive a 50-cent match for every dollar of savings, up to $1,000, held for at least eight months.[115]

The Financial Security Credit Act was introduced in the 113th Congress, based on New York City's SaveUSA model, which offers low-income families a mechanism and an incentive to start a savings account at tax time. In the process of filing their taxes, low-income New Yorkers open a bank account for the deposit of their tax refunds. If they leave their initial deposit untouched for a year, they receive a 50 percent match (up to $500). During the 2011 and 2012 tax seasons, over 3,300 individuals opened accounts and pledged to save an average of about $550 each. Approximately 70 percent of individuals fulfilled their commitment each year, saving nearly $2.5 million total.[116]

Make tax-incented savings simple and automatic

Children's Savings Accounts (CSAs) would help put every child in the country on the path to financial security. Automatically created at birth, the accounts would help families save for higher education, homeownership, retirement and other mobility-enhancing purposes. CSAs have been proposed for over a decade at the federal level—the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act has been introduced in Congress, with bipartisan support, since 2005.[117] The ASPIRE Act creates an account for all children at birth, seeded with $500 and an additional deposit for children of low-income parents. Similar proposed legislation, USAccounts, establishes an account for every child at birth, seeded with an initial deposit of $500 from the federal government. Children of lower-income households are eligible for an additional match to their family's savings through an increase in their refundable Child Tax Credit.[118] These federal proposals build on the strong track record of children's savings account models initiated by states and municipalities, discussed above in the reforming education section.

An equitable tax system would make retirement savings simple and automatic for everyone, including low-and moderate-income workers who do not have access to retirement plans. In recent years, "automatic IRA" policies have been proposed at the federal and state levels. These policies require employers, above a certain number of employees, to provide workers with the means of savings through tax-benefited retirement savings accounts. Employers would enable employees to make automatic, direct deposit contributions into an Individual Retirement Account (IRA) unless they decide to opt out and not participate. Because contributions would be automatic, these accounts would function as an ongoing retirement savings plan, thereby giving all workers access to tax-benefitted retirement savings.

In 2012, the California legislature passed legislation creating the California Secure Choice Retirement Savings Trust. The legislation required a market feasibility study before establishing automatic retirement accounts for six million Californian workers without access to a workplace retirement plan. The feasibility study is expected to be complete in December 2015 and will lay the groundwork for legislation to establish an auto-IRA program. The Illinois Secure Choice Savings Program, passed by the Illinois Legislature in 2014, gives workers at Illinois firms with more than 25 employees access to an employer-based, individual retirement savings account, into which they contribute savings through automatic deductions from their paychecks. All employers with more than 25 employees participate in the program. Some 30 states are poised to pass similar proposals.

An additional retirement savings option, President Obama's proposed "myRA" (my retirement account), would automatically allow individuals to save up to $15,000 in a government bond as a "starter" account for retirement savings. Employers that choose to participate make contributions through automatic payroll deductions. The U.S. Treasury launched a small pilot program for the free accounts at the end of 2014 and expansion of the program is currently in progress.

Another proposal, from the Center for American Progress, calls for the creation of a Universal Savings Credit that simplifies existing incentives in the tax code by turning deductions into one credit. Taxpayers would receive the credit as a percentage of their contribution to an eligible savings account, regardless of income or tax liability, with federal matching funds offered for lower-income households. Savings could be used for a wide range of purposes, such as paying for health care, education, buying a first home, starting or expanding a business, or simply emerging from an income disruption such as unemployment or retirement.[119]

Proposed reforms to the U.S. tax code described in this section would help make tax benefits more equitable and accessible by:

- converting itemized deductions into refundable credits;
- turning nonrefundable credits into refundable credits;
- making it easier for lower-income families to save; and
- creating more incentives to save via public matching funds.

These and similar measures build on the provisions and scope of the tax system to strengthen the financial security of lower-income families.

Policy Recommendations

Enormous potential exists to enhance and reorient public policies to help struggling households build their financial security. The following policy recommendations are drawn from innovative policy and practice described in the previous sections.

Financial System Policy Reforms (see earlier section for examples):

- Localities, states, and the federal government should support and replicate promising local innovations that achieve the following:
  - Expand access to financial capability supports.
  - Build credit scores.
  - Increase access to affordable financial products for vulnerable households.
- Congress should maintain the integrity of the Dodd-Frank consumer protections that regulate lenders and reject legislative attempts to weaken or dilute its provisions.
- State and local governments should expand efforts to regulate and limit predatory lending.

Education System Policy Reforms (see earlier section for examples)

- Localities and states should support and expand local innovations that achieve the following:
  - Automatically enroll kindergartners in college savings programs.
  - Integrate financial education and financial literacy training into school curricula and youth summer employment.
  - Provide students and parents access to information about college and career options.
- Make high-quality preschool available to all children.
- Integrate evidence-based financial education programs into school curricula at all levels.
- Make tuition-free community college available to all students.
- Establish college savings accounts to benefit students in need.

Justice System Policy Reforms (see earlier section for examples)

- States should mandate reductions in court fines and fees that disproportionately impact low-income people and communities of color.
- Localities and states should eliminate the practice of jailing defendants for inability to pay debt and offer opportunities for nonviolent offenders to reduce their debt from court-ordered fines.
- States should reform child support payment structures to reflect the non-custodial parent's ability to pay.
- States and the federal government should repeal existing requirements for low-income parents to reimburse the state or federal government beyond the actual amount needed to support the child.
- Any collected reimbursements to the state and/or federal programs should be used for purposes that enhance financial security for the children such as savings accounts, universal pre-K, and financial education programs.

Health System Policy Reforms (see earlier section for examples):

- States should accept federal funds to expand Medicaid programs (or offer a similar alternative) to address the health coverage gap experienced by adults who earn below 100 percent of the federal poverty level.
- Health-care providers should integrate financial services and support into existing health care services and interactions with clients.
- The federal government should improve federal regulation of medical debt collectors and for-profit hospitals to protect vulnerable consumers.

Tax System Policy Reforms (Federal):[120]

- Make tax code-based benefits more accessible to low-income households by turning deductions into credits, preferably refundable credits that are accessible to lower-income families with little or no tax liability.
- Make the temporary improvements to the Earned Income Tax Credit (EITC) and Child Tax Credit expansions permanent, and extend the benefits of the EITC to lower-income workers without children and younger workers, who are currently excluded.
- Provide low-income households with tax incentives to encourage flexible savings.
- Make tax benefits of homeownership more accessible and equitable.
- Establish a refundable tax credit for renters.
- Make the American Opportunity Tax Credit 100 percent refundable and permanent to better assist low-income students in obtaining a post-secondary degree.
- Make the Savers Credit refundable so that it can support retirement savings by lower-income working families.
  - Make savings incentives simple and automatic:
  - Create a child savings account at birth for every child in the country.
  - Provide all workers access to an employer-based, portable, individual retirement savings account (auto-IRA) into which they contribute savings through automatic deductions from their paychecks.
  - Continue to expand and strengthen the federal “myRA” program, which grants workers access to a retirement account and supports their saving through automatic payroll deductions.

Conclusion

Closing the wealth gap and building an equitable and prosperous future demands that we advance policies and practices to strengthen the financial security of vulnerable individuals and families, and transform struggling neighborhoods into strong, stable communities. These outcomes are mutually dependent.

Incorporating a clear and consistent focus on building financial security into pre-existing programs serving lower-income communities has already begun and is yielding promising results. Practitioners around the country are helping low-income renters improve their credit scores and enter the financial mainstream; integrating financial education into school curricula, community health services, and workforce development programs; and helping parents and students in struggling communities budget for college and successfully navigate financial aid options. Continued support is needed for these innovative efforts to expand and reach all who can benefit.

Simultaneously, we must ensure that the broader systems with which every American interacts serve to build financial security for all. Every child, regardless of their income or race, should be able to access high-quality education, starting with preschool. Each family should have equal access to safe and affordable financial products, and financial incentives to save for the future. Every senior citizen should enjoy a secure retirement.

To achieve these goals, major shifts in policy and practice are needed, requiring sustained advocacy and diverse leadership that spans sectors and issues. Advocates have a key role to play in working with policymakers at the local, state, and national levels to ensure that the promising strategies and practices highlighted in this paper are institutionalized. Support for lower-income households to build savings, meet financial goals, and fully participate in economic life should become standard practice throughout the systems that affect us all.

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120 The priorities listed were developed by the Tax Alliance for Economic Mobility, a national coalition of organizations working towards equitable tax reform, which is co-chaired by PolicyLink.

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