State of Delaware

Governor’s Task Force for Financial Independence

Final Report
June 2002

Task Force for Financial Independence

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Executive Summary

Over the last two decades, millions of Americans have reaped the benefits of low inflation and strong employment as well as a strong stock market. Recently, we entered a more uncertain period, characterized by rising unemployment and more turbulent financial markets. Shifts in economic well-being such as these highlight the need for greater financial security for all Americans.

Typically, when measuring economic well-being, researchers, advocates for the poor and policymakers focus on household income. While having enough income remains critical to the survival of families living on the edge, more recent thinking and research has highlighted the importance of wealth or financial assets—in addition to income—as a critical factor in achieving household economic self-sufficiency. Having assets enables households to make important financial investments—such as purchasing a home, starting a business, paying for college, investing in stocks, or saving for retirement—that lead to long-term economic well-being and stability. Moreover, having assets can also change thinking and behavior, as families envision a brighter future for themselves and their children.

Recognizing the need to help all Delawareans build assets, Governor Ruth Ann Minner and State Treasurer Jack Markell commissioned the Governor's Task Force for Financial Independence. The charges of the Task Force were to:

- Identify and explore current and proposed strategies to help people save money and build assets;
- Pursue those strategies that will have the greatest impact and are most viable;
- Formulate and advocate for any public policy efforts that are required for implementation; and
- Develop suggestions consistent with the current highly restrictive state budget environment.

Framing the Issue:
The Asset-Building Challenge in Delaware & Across the Country

Delaware is rich with economic opportunity. For many of the state's residents, the recent economic expansion was a time of growing income and wealth. In particular, Delaware has one of the nation's strongest job markets, with strong employment growth and high levels of full employment. Moreover, average annual pay in Delaware is among the top ten states in the U.S. Yet, not all of the state's residents share equally in this prosperity. As Delaware's economy has grown, the fortunes of some of its residents have lagged. In some areas, Delaware statistics are worse than the national average. In others, they are better. And in almost all areas, we could do better.

- **Poverty.** The most recent statistics for Delaware estimate 10% of the state's population lives in poverty, with higher rates for vulnerable populations, such as children, inner-city residents, and families headed by a single female.
- **Wealth inequality.** Despite healthy levels of wealth accumulation for most families, 23% of Delawareans lack enough cash to survive for three months at the poverty level without employment.[1]
- **Financial illiteracy.** Recent national figures find that, on average, 12th graders answered slightly more than 50% of personal finance questions correctly. Teens in Delaware likely mirror this national pattern. Without an understanding of how money works, people are unlikely to accumulate assets and wealth.
- **"Unbanked" households.** Delaware ranks above the national median with respect to the percent of households with some type of bank account. Still, many families in Delaware lack a bank account, and families without an account are much less likely to own a home, have a car or have other financial assets.
- **Insufficient retirement savings.** According to Federal Reserve data, over half of U.S. households have failed to save enough for retirement. While comparative data on retirement savings at the state level is not readily available, it is likely that Delaware also follows this trend.

These issues should be of primary concern to policymakers in Delaware and can be addressed directly through asset-based policies.

[1] From a draft CFED report to be published in late Summer 2002.

Asset-Based Policy in Delaware:
Findings & Recommendations

The ability of low- and moderate-income families to purchase homes, pursue education and improve themselves financially depends not only on incentives to save, but also on education about savings, access to savings mechanisms (i.e., bank accounts and employer-provided benefits) and proper protection of assets. As a result, the Task Force explored asset building and implementation strategies for Delaware in three areas:

- **Asset Facilitation**
- **Asset Incentives**
- **Asset Protection and Removing Barriers to Asset-Accumulation**

In addition to identifying current activities in Delaware in these three areas, the Task Force developed a number of policy recommendations that are either of low or no cost to the state of Delaware, but which have the potential for significant impact in both the short and long run.

Asset Facilitation

Asset facilitation refers to policies or programs that provide:

- financial education,
- direct access to basic financial services, such as transaction accounts, or
- other institutional mechanisms to save, such as employer-provided benefits.

The Task Force found a number of programs that provide badly needed financial education and assistance. These include programs for adults, such as the Delaware Money School, the Everywoman's Money Conference, and the Money Management Program of the Division of Services for Aging and Adults with Physical Disabilities. Programs for children include those sponsored by the Center for Economic Education and Entrepreneurship at the University of Delaware, the Keys to Financial Success curriculum for high schools, and the After School Money $marts Program.

In order to facilitate greater access to asset building opportunities, the Task Force recommends:

- Expand financial literacy for strategic populations, including:
  - Offering financial literacy training for caseworkers employed by the State of Delaware.
  - Permitting financial literacy training as an approved work activity under TANF.
  - Facilitating employer-based financial literacy training.

- Encourage the creation of a statewide financial literacy publicity campaign.

- Expand predatory lending prevention education.

- Increase state support of pre-purchase housing counseling.

Asset Incentives

Asset incentives are designed to encourage people to save. Many Americans are unaware of incentives or do not believe that it is possible for them to save, so the Task Force believes it is important to highlight this area.

The Task Force found a number of current programs in Delaware that offer incentives to save, fostering greater self-sufficiency and economic mobility for low- and moderate-income people. These include the Individual Development Account (IDA) programs operating under the Delawareans Save! collaborative, and the Family Self Sufficiency (FSS) program for tenants of publicly subsidized housing.

The Task Force recommends several strategies to foster or encourage greater asset accumulation among low- and moderate-income families. Though distinct, these recommendations represent a related series of measures – from increasing disposable income to establishing bank accounts to creating various incentives to save – that together form the foundation of what could become a comprehensive asset-building system for low- and moderate-income families in Delaware.

To foster asset accumulation for low- and moderate-income families in Delaware, the Task Force recommends:

- Support an Earned Income Tax Credit (EITC) outreach campaign.
- Enact a Delaware Earned Income Tax Credit (EITC).
- Enact a Delaware Interest Income Tax Credit (IITC) offering incentive to save.
- Study opportunities to expand the number of small businesses offering employee retirement plans.
- Provide support for Individual Development Accounts.
- Support efforts to obtain federal pilot funds for Children's Savings Accounts.

Asset Protection & Removing Barriers to Asset-Accumulation

These two dimensions of asset policy were combined in the Task Force's third subcommittee. Asset protection refers to policies and programs designed to help safeguard assets when adverse events such as a work injury or a loss of job could deplete them. Asset barriers refer to eligibility standards for low-income families participating in public assistance programs that prevent those on assistance from accumulating assets beyond a federally or state specified level.

The Task Force found a number of current initiatives or programs that help households to protect their assets, including the state's system of Unemployment Insurance, the state's workers' compensation program, and health insurance provided through the Delaware Healthy Children Program and the Community Health Access Program. In addition, the Task Force found that Delaware is among the most generous states with respect to asset tests. For the most part, Delaware has raised asset limits for Medicaid, Food Stamps and Temporary Assistance to Needy Families (TANF) to the maximum allowed by the federal government.

To improve asset protection for low- and moderate-income families in Delaware, the Task Force recommends:

- Reduce the risk of asset loss due to lack of access to affordable health care, including:
  - Expanding the Healthy Children Program (CHIP).
  - Expanding the Community Health Access Program (CHAP).
  - Supporting the expansion of Federally Qualified Health Centers.

- Improve the protection of household assets by:
  - Encouraging best practices for non-traditional lenders and debt managers.
  - Providing support for mainstream and non-profit alternatives to high-cost fringe banking services.

- Disseminate an easy-to-read list of resources for the unemployed.

- Create family economic self-sufficiency standards for Delaware.

- Develop anti redlining policies for insurance.

Conclusion

Achieving financial independence is one of the dreams of most American families. While earning sufficient income remains critical to financial independence in today's economy, accumulating assets—in addition to income—has become a critical factor in achieving household economic self-sufficiency. Yet, too many families have either no assets, lack the disposable income or connections to financial institutions to begin saving, or have assets that are poorly protected. These issues should be of primary concern to policymakers and can be addressed directly through asset-based policy recommendations contained in this report.

Asset Building Policy: A Forward-Thinking Strategy

Over the last two decades, millions of Americans have reaped the benefits of low inflation and strong employment as well as a strong stock market. Recently, we entered a more uncertain period, characterized by rising unemployment and more turbulent financial markets. Shifts in economic well being such as this highlight the need for greater financial security for all Americans.

Typically, when measuring economic well-being, people focus on household income. Public policy in the United States has included various approaches to poverty alleviation and self-sufficiency, with most of them being income replacement programs and strategies. While having enough income remains critical to the survival of families living on the edge, many observers[2] have begun to examine the importance of wealth or financial assets—in addition to income—as a critical factor in achieving household economic self-sufficiency. Assets are significant in achieving a better life. They can be used to:

- enable important investments, such as home purchase, business start-up, or additional education and training;
- increase household income through the purchase of stocks and bonds, or
- protect or self-insure oneself or one's family against risk or future expenses by way of saving for a "rainy day" or retirement.

Moreover, assets not only enable important economic investments, they also provide important non-economic benefits that income alone cannot provide. As Michael Sherraden argues in *Assets and the Poor: A New American Welfare Policy*, "Income may feed people's stomachs, but assets change their heads….Assets are hope in concrete form."[3] As assets accumulate—even a small amount—they become a reason to imagine an economic future better than the present, to plan and prepare for that future.

[2] See, for example, Sherraden, Michael. Assets and the Poor: A New American Welfare Policy. Armonk, NY: M.E. Sharpe, Inc., 1991. Melvin Oliver and Thomas M. Shapiro. Black Wealth/White Wealth: A New Perspective on Racial Inequality. New York: Routledge, 1997. Dalton Conley. Being Black, Living in the Red: Race, Wealth and Social Policy in America. Berkeley: University of California Press, 1999. Michael Stegman. Savings for the Poor: The Hidden Benefits of Electronic Banking. Washington, DC: The Brookings Institution Press, 1999.
[3] Sherraden, Michael. Assets and the Poor: A New American Welfare Policy. New York: M.E. Sharpe, Inc., 1991. 6.

While assets are important for economic well being, research also shows that asset accumulation in the U.S. is still highly unequal. For example, while the top quintile of earners commands 43% of earned income, they control 86% of net financial assets.[4] In addition, according to a recent study conducted by the Federal Reserve, the net worth of low-income families has dropped even as the net worth of the average American family has risen during the recent expansion. A recent *New York Times* article notes that "[the 1990s] prosperity bypassed many Americans…. Poverty among all families [in 2000] remained largely unchanged from its 1980 and 1990 levels."[5]

As a result of this work and a growing awareness of the limitations of income-based policies for helping families achieve self-sufficiency, a new set of policies has emerged that fall under the rubric of "asset-based policies." Asset-based policy focuses on building human capital and financial wealth for the long-term through savings and asset accumulation. Unlike income supports, asset building allows families to foster their financial independence. Thus, the goal of asset-based policy is not only to prevent families from falling into poverty, but also to facilitate economic security, empower families to take control of their financial destinies, and introduce more people into the financial mainstream. Asset-based programs are consistent with American values as they emphasize savings and self-improvement and can benefit people from all financial walks of life.

[4] Oliver and Shapiro, 69.
[5] Kilborn, Peter T. "Census Shows Bigger Houses and Incomes, but Not for All." New York Times 14 May 2002.

About this Report & the Governor's Task Force for Financial Independence

Recognizing the importance of asset-based policies and the need to help all Delawareans build assets, Governor Ruth Ann Minner and State Treasurer Jack Markell commissioned the Governor's Task Force for Financial Independence. The charge of the Task Force was to:

- Identify and explore current and proposed strategies to help people save money and build assets;
- Pursue those strategies that will have the greatest impact and are most viable;
- Formulate and advocate for any public policy efforts that are required for implementation; and
- Develop suggestions consistent with the current highly restrictive state budget environment.

The Governor's Task Force for Financial Independence is the nation's first to consider a broad range of asset-based policies, including but not limited to Individual Development Accounts (IDAs). In considering a number of asset-based policies, the particular focus of the Task Force's deliberations have been those policies that have the potential to benefit low- and moderate-income families and individuals.

Under the leadership of State Treasurer Jack Markell and Caroline Glackin, the Executive Director of the First State Community Loan Fund, the Task Force met a total of five times between January and May 2002. Recognizing that the ability of low- and moderate-income families to accumulate assets depends not only on incentives to save, but also on financial education, access to savings mechanisms (i.e., bank accounts and employer-provided benefits) and proper protection of assets, the Task Force explored asset building and implementation strategies for Delaware in three areas:

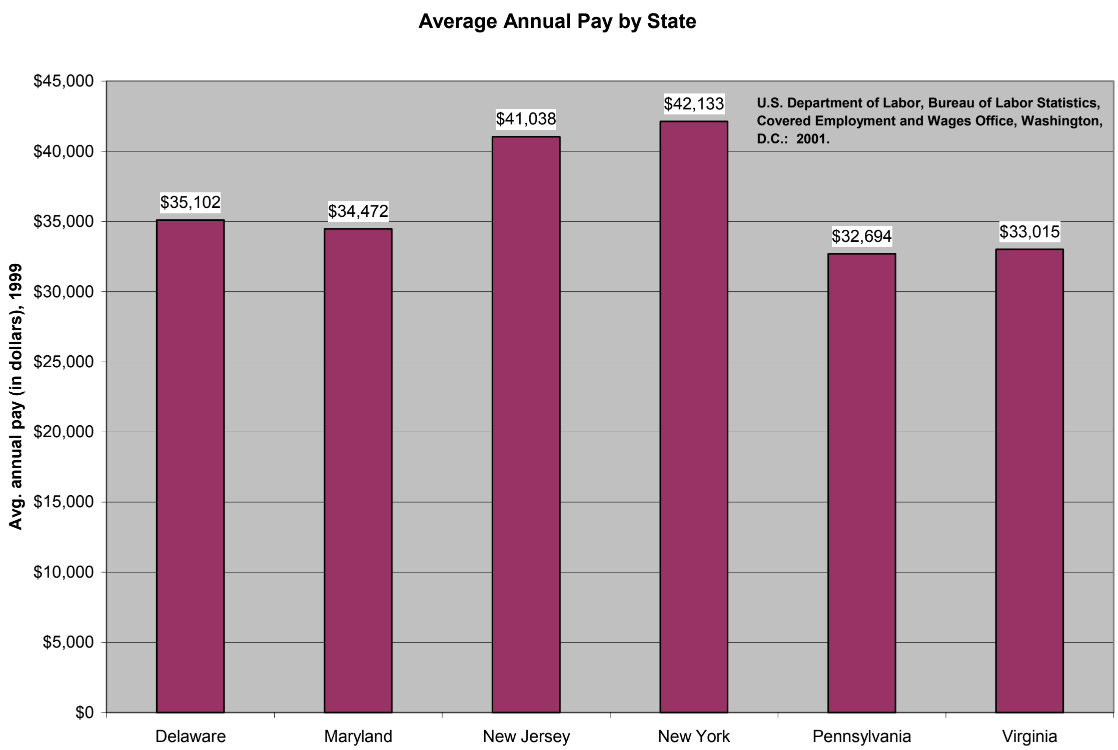
- **Asset Facilitation**
- **Asset Incentives**
- **Asset Protection & Removing Barriers to Asset-Accumulation.**

In selecting recommendations, the Task Force is mindful of significant budget constraints. The recommendations that follow focus on a number of innovative strategies, many of which are either of low or no cost to the state of Delaware, but have the potential for significant impact in both the near term and over the long run. In addition, as this Task Force was convened by the Governor and State Treasurer, its recommendations are focused on those that can be enacted at the state level or through the private or not-for-profit sectors. While federal policymakers have significant opportunities to shape asset policies for years to come, this Task Force is not the appropriate body to recommend changes at the federal level.

The balance of this report reviews the importance of these areas, describes efforts already underway in Delaware and recommends additional steps to be taken.

Framing the Issue:
The Need for Asset-Based Policies in Delaware

Delaware is rich with economic opportunity and, for many of the state's residents, the recent economic expansion was a time of growing income and wealth. According to the *Development Report Card of the States*[6]by the Corporation for Enterprise Development (CFED), Delaware has one of the nation's strongest job markets, with strong employment growth and high levels of full employment. Moreover, with average annual pay of $35,102, earnings in Delaware rank 9th best in the U.S. Not all of the state's residents share equally in this prosperity. For example, while average pay is high in Delaware, the state also ranks below the median (30th) in the distribution of income between rich and poor. Thus, as Delaware's economy has grown, the fortunes of its residents have been growing apart. The symptoms of this include poverty, income and wealth inequality, economic insecurity, and financial illiteracy. These issues should be of primary concern to policymakers and can be addressed directly through asset-based policies.

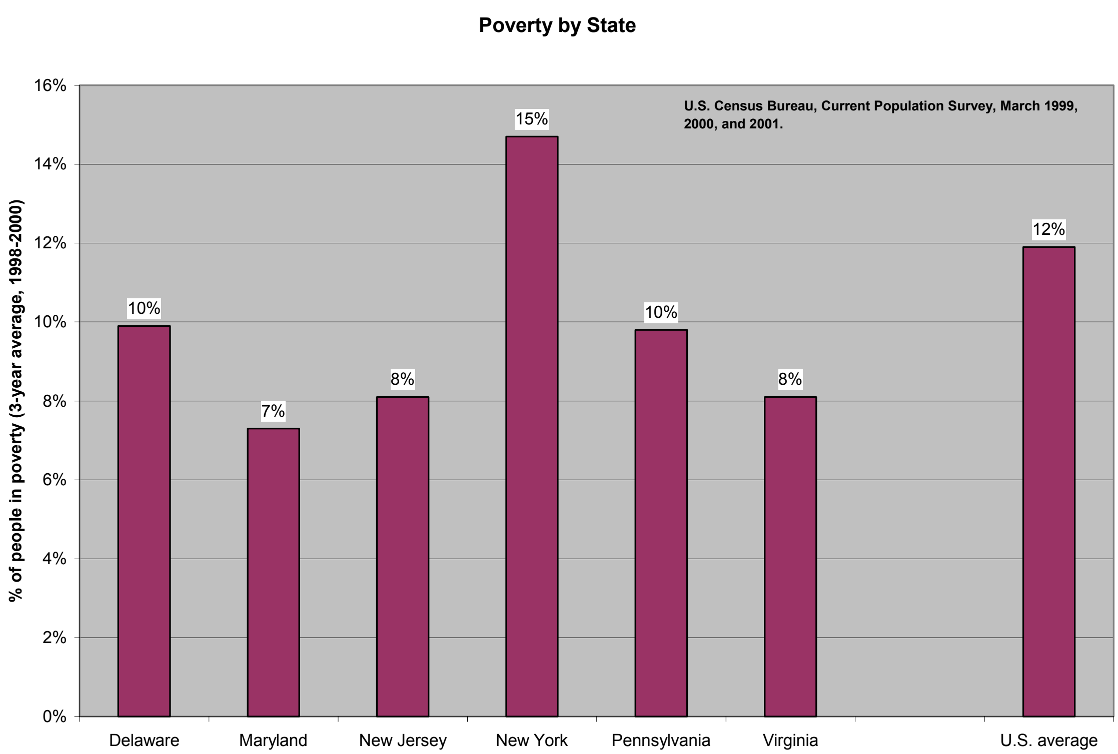


[6] For more information on the *Development Report Card for the States 2001*, additional state rankings, and detail about the data measures, see <http://drc.cfed.org> Accessed Feb. 13, 2002.

Incomes are above average in Delaware, yet poverty is a reality and a risk for many state residents.

Although there are solid employment opportunities for many Delawareans, many workers remain in low-wage jobs with little career advancement and few opportunities to save for the future.

- On average, wage earners in Delaware earn $35,102 per year, ranking 9th among the fifty states.[7]
- Many jobs in Delaware pay poverty-level wages without benefits. The most recent poverty statistics for Delaware estimate 10% of the State's population lives in poverty (the threshold for a family of four is $17,029). According to the Economic Policy Institute, "in 1999, 23.5% of the jobs in Delaware paid below the wage needed to lift a family of four above the poverty line, with full-time, full-year work."[8]
- Poverty disproportionately affects certain populations and regions. For example, the poverty rate for families headed by women is nearly twice that of families headed by men. Children in Delaware are also disproportionately poor, with 16.7 % of people under age 18 living below the poverty line. In Kent and Sussex Counties, over one in five children live below the poverty line (23.2%).[9]



[7] Ibid.
[8] Mishel, et al. 2000. *State of Working America 2000-01*. Economic Policy Institute. <http://www.epinet.org/> Accessed April 2002.
[9] Center for Applied Demography and Survey Research, University of Delaware.

Delaware is a wealthy state, but wealth inequality is growing.

Across the United States, as income and wealth have grown during the recent economic expansion, the gap in wealth between rich and poor has also grown. National leaders across political parties recognize this. As Senator Bob Kerry said, "The gap between those who own capital – and therefore a stake in America's success – and those who do not, is fast becoming a chasm." Similarly, Senator Rick Santorum said, "Just as poverty among the elderly was one of the defining social problems early in this century, so growing disparity between the rich and the poor is one of the critical social dilemmas today."[10]

- Nationwide, the top 20 percent of wage earners command 43% of earned income, yet they control 86% of net financial assets.[11][12]
- Research by Edward Wolff finds that in 1994 the median African-American family had a net worth of $1,100 while median net worth for whites was $57,200—over fifty times greater than for African-Americans.[13]
- The picture of asset inequality is similar in Delaware. Although Delaware ranks well (14th among states)[14] for mean household net worth ($131,466) and while Delaware also ranks best in the U.S. in the percentage of white households (only 7%) with zero net worth, after adding in the much higher percentages of non-white families with zero net worth, Delaware ranks 23rd nationally with 14 percent of all families that have zero net worth. [15]
- 23% of the state's households lack the cash reserves to survive for three months at the poverty level without employment. The state is 30th nationwide in this measure.[16]

10 Beard, Sam. "The American Dream gets a new definition." Editorial. The Times Union July 2000: A7.

11 Net financial assets is defined as a household's assets minus equity (in a home or vehicle) minus debt.

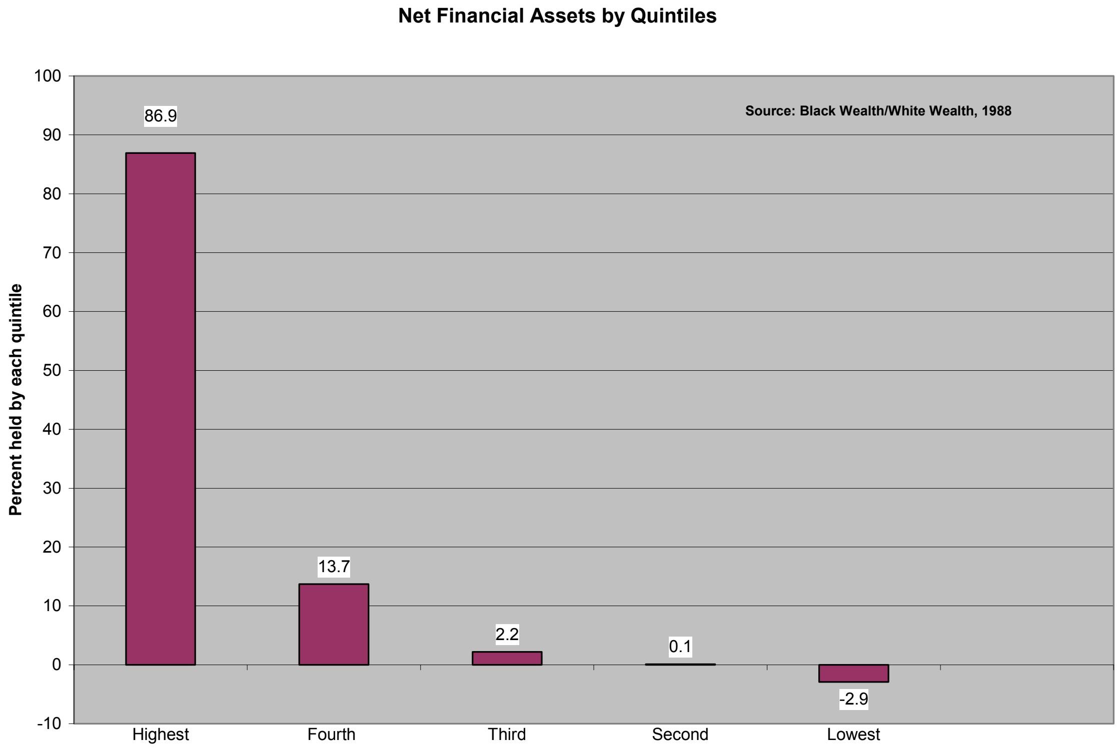
12 Oliver and Shapiro, p. 69.

13 Wolff, Edward. "Racial Wealth Disparities: Is the Gap Growing?" Public Policy Brief, No. 66. The Levy Economics Institute, Bard College, 2001.

14 From a draft CFED report to be published late Summer 2002.

15 Ibid.

16 Ibid.



Financial illiteracy is becoming worse nationwide and policymakers are beginning to take notice.

Economic well-being is directly related to financial knowledge and the lack of financial literacy is a major impediment to financial success and stability. Without an understanding of how money works and how to function in the mainstream financial system, people are very unlikely to accumulate assets and wealth.

- A recent study from Jump$tart finds that on average 12th graders answered 50.2% of personal finance questions correctly. The report also shows that Caucasian students performed the best with an average score of 53.7%, while African Americans received the lowest scores of 42.1% (Asian Americans had 50.6%, Native Americans had 45.5% and Hispanics scored at 44.8%). Jump$tart notes that this is a failing grade.[17]
- Although data specific to Delaware is not currently available, these national figures are likely indicative of the situation for young people in Delaware. Thus, financial illiteracy is a threat to the ability of future generations to save and accumulate assets.
- Significant numbers of adults also fail tests of basic economic principles.[18]

17 "From Bad to Worse: Financial Literacy Drops Further among 12th Graders". Jump$tart, Washington D.C. April 2002.
18 "Literacy Survey: Results from The Standards in Economics Survey"
< http://www.ncee.net/cel/results.html#_Toc446902761.> Accessed January 29, 2002.

Delaware ranks above average in terms of households with bank accounts, but many families most likely remain "unbanked."

The phenomenon of the "unbanked" – families without bank accounts – goes hand-in-hand with financial illiteracy. Some "unbanked" households may not understand the benefits of having a bank account or they may think the costs outweigh the benefits. Low-income families may mistrust banks or the service fees may be too high for families that carry a low balance. Research on the unbanked shows that households that do not have transaction accounts are 43 percent less likely to have positive holdings of net financial assets, 13 percent less likely to have a home, and 8 percent less likely to own a vehicle.[19]

- Conservative estimates put the number of unbanked households at ten percent of the U.S. population or over 12 million people. Fully one-fourth of all lower-income families have no relationship with a bank, savings institution, credit union, or other mainstream financial service provider. One-third of these households are African American and 29 percent are Hispanic.[20]
- The Federal Reserve estimates that 25% of all low-to –moderate-income families in 1995 (of those earning less than $24,000) had no bank account.[21]
- Forthcoming estimates are that 82 percent of all households in Delaware have some type of bank account, ranking 18th nationally. Delaware ranks particularly high (5th in the U.S.) with respect to the percentage of households (46%) that hold a non-interest bearing checking account.[22]

Preparing for the future: Delaware families may not have adequate retirement savings.

Retirement savings is another important component of wealth for most Americans and a critical factor for financial independence later in life. Unfortunately, comparative data on retirement savings at the state level is not readily available. What we know nationally about the state of retirement planning for most workers is not encouraging:

- Only 49% of workers have any idea how much they need to save for retirement.[23]
- According to the Federal Reserve Data, 56% of U.S. households have failed to save enough for retirement.
- In 1998, about 48 percent of persons who had retired lacked pension income or annuities.[24]

19 Carney, Stacie and William G. Gale, "Asset Accumulation Among Low-Income Households." Assets for the Poor: The Benefits of Spreading Asset Ownership, Ed. Thomas M. Shapiro and Edward N. Wolff. New York, NY: Russell Sage Foundation, 2001.

20Carr, James H. and Jenny Schuetz. "Financial Services in Distressed Communities: Issues and Answers." Fannie Mae Foundation 2001. <http://www.fanniemaefoundation.org/programs/financial.PDF> Accessed April 29, 2002.

21 "President Clinton Unveils 'First Accounts.'"<http://clinton4.nara.gov/WH/New/html/20000113_2.html> Accessed January 29, 2002

22 From a draft CFED report to be published late Summer 2002.

23 Choose to Save. <http://www.psaresearch.com/choosetosave.html> Accessed April 29, 2002.

Asset-Based Policy in Delaware: Present & Proposed

The findings and recommendations of the Task Force are divided into three areas:

- **Asset Facilitation**
- **Asset Incentives**
- **Asset Protection & Removing Barriers to Asset Accumulation.**

In each section, the report highlights current activities in Delaware as well as recommendations of the Task Force.

[24] "Pension Plans Characteristics of Persons in the Labor Force Without Pension Coverage." U.S. General Accounting Office Report to Congressional Requesters. 2000. <http://www.gao.gov/new.items/he00131.pdf> Accessed on April 29,2002.<http://www.gao.gov/new.items/he00131.pdf> Accessed on April 29,2002.

Asset Facilitation

What is Asset Facilitation?

Asset facilitation refers to policies or programs that provide:

- financial education,
- direct access to basic financial services, such as transaction accounts, or
- other institutional mechanisms to save, such as employer-provided benefits.

What is being done to facilitate asset accumulation in Delaware?

The following is a partial list of programs in Delaware.

Programs for Adults

Delaware Money School

The Delaware Money School, a project of the Delaware Financial Literacy Institute, represents a community-based effort to provide financial education in a pressure-free learning environment. Classes are held throughout Delaware and most of them are free. During the last three years, 400 money school classes have been offered and have reached in excess of 5,200 students. Classes are scheduled on a quarterly basis; over 70 classes in all three counties were scheduled for the spring of 2002 on a diverse array of financial topics, ranging from basic money management to investing to retirement planning. Numerous financial professionals – some from the financial services industry, others from nonprofit organizations and government – have volunteered to teach these classes.

Everywoman's Money Conference

Women are often in a unique and vulnerable financial position for several reasons:

- Women typically spend less time in the workforce than men, as they care for children or elderly parents.
- Women earn less than men; this is true at all levels of education and it gets worse with age.
- Women save less than men do.
- Women invest more conservatively than men do.
- Women live longer than men, so their money has to last longer.

A group of volunteers, working with the State Treasurer's Office, developed and organized the Everywoman's Money Conference in 1999 and 2000, to deliver financial information to women at all levels of financial sophistication. The Money Conference energized and gave women from all walks of life the basic knowledge and tools to begin taking control of their financial lives. More than 2,000 women from throughout the state attended the Money Conferences to learn about personal-finance topics such as investing, getting out of debt, planning for retirement and saving for college.

Division of Services for Aging and Adults with Physical Disabilities; Money Management Program

In 2001, Delaware enacted House Bill 84 establishing a money management program for low-income senior citizens and disabled people to help those who want to stay financially independent but need help keeping their finances in order and paying their bills. Delaware's program is a joint project between the AARP and the Department of Health and Social Services (DHSS), and targets low-income older persons, and persons with disabilities, who are at risk because of their inability to manage their financial affairs.

Financial Literacy Training for Case Workers

Delaware State Housing Authority (DSHA) caseworkers have received financial literacy training from the First State Community Loan Fund through Delawareans Save! All caseworkers were trained simultaneously over one and a half days to use a financial fitness curriculum with their clients.

Don't Borrow Trouble

The "Don't Borrow Trouble" campaign coordinated by the Delaware Bank Commissioner and the City of Wilmington is intended to assist people in how to shop for credit and avoid unscrupulous lenders. The Bank Commissioner's office is offering the Don't Borrow Trouble program combining public education and awareness.

Small Business and Microenterprise Development

Delawareans have access to comprehensive small business and microenterprise[25] services and financing via public and non-profit sources. The

[25] A microenterprise is a business with five or less employees one of which is typically the owner that requires capitalization of under $35,000.

Delaware Small Business Development Center Network with offices in downtown Wilmington, Newark, Dover, and Georgetown offers training and technical assistance (one-on-one counseling and assistance for special purposes) either alone or in cooperation with the Service Corps of Retired Executives (SCORE) and other organizations. Capital Works™, a joint project of the First State Community Loan Fund and YWCA of New Castle County, offers comprehensive services for microenterprises statewide, including training, technical assistance, access to markets, and networking. Microloans from $300 to $15,000 are also available. Through an innovative product, investors in the Delawareans Save! Individual Development Account (IDA) program can pre-qualify for financing through Capital Works by virtue of their savings and financial fitness training.

In addition to the providers of services, Delawareans have access to a range of traditional and non-traditional financing sources. These organizations often collaborate to bridge any gaps in availability. The Delaware Small Business Resource Partnership is an innovative collaborative effort of over 40 government agencies and not-for-profits that serve small businesses in Delaware by providing information and referrals among the agencies.

This strong support system for small businesses and microenterprises in Delaware is intended to assist entrepreneurs to become successful and build not only their incomes, but also to build wealth for their families and their employees.

It's Your Money - Why Don't You Make the Most of It?

The video features user-friendly vignettes on banking, budgeting, credit, and savings and comes in two versions: a single 15-minute production or a one-hour continuous-loop for play in waiting rooms. Designed to inspire interest in financial education, the concepts are presented as "real life" situations in story format. It comes with a companion brochure that reinforces the topics and lists local resources on financial education, home ownership counseling and Individual Development Accounts. Developed by Citigroup and the Nehemiah Gateway Community Development Corporation, "It's Your Money" is gaining distribution with community groups, state agencies and organizations across the country.

Other Efforts

A significant number of organizations in Delaware provide valuable financial literacy education. For example, certified housing counseling agencies throughout the state provide pre-purchase, post purchase, default housing counseling, and some reverse mortgage counseling. Other programs provide emergency home repair assistance. Also, the Americans for Consumer Education and Competition (ACEC) is working diligently to promote universal financial education in Delaware's schools.

The Delaware Financial Literacy Institute, a newly formed not-for-profit, promotes financial education through the Delaware Money School and conferences. Its mission is to help individuals – especially those of low-and moderate-income – become equipped with the tools to get their financial lives in order so that they can be self-sufficient and enjoy financial well-being over time. It expects to collaborate with a number of community organizations.

Many of Delaware's for-profit financial institutions also provide financial education to their own employees, community groups and customers.

Beyond Financial Education

Although financial education is a vital component of asset facilitation, it is not the only one. Across the country, there are many initiatives to reduce the ranks of the unbanked and to increase the "user friendliness" of financial institutions.

In Delaware, according to a survey by the Delaware Bankers Association conducted as a part of this Task Force, banks take a number of steps to bring the benefits of banking to a large number of users. Some of these initiatives include:

- Low cost checking and savings accounts
- First time homebuyer counseling
- Credit repair counseling
- Financial management workshops
- Free social security check cashing
- No fees for any checks drawn on certain banks
- Spanish speaking staff in branches

- Free savings accounts for participants in the Earned Income Tax Credit Program
- Savings accounts through DSHA for low-income clients. For some, this will soon link with Individual Development Accounts (IDAs) providing up to $1,500 in matched savings
- Funding of many credit and housing counseling groups

Programs for Children and Youth

Center for Economic Education and Entrepreneurship at the University of Delaware

The Center for Economic Education and Entrepreneurship (CEEE) offers workshops and courses for teachers in financial literacy and provides teachers with appropriate curriculum materials. All materials are correlated with the state economic standards and where appropriate state language arts and mathematics standards.

Keys to Financial Success

The Delaware Bankers Association (DBA) is sponsoring a pilot program at Newark High School during the 2001-2002 academic year. This program is an elective one semester course in basic banking, credit and investing. It will be in six Delaware high schools taught by ten teachers in the 2002-03 school year. The program in Newark is a partnership of DBA, CEEE, the Federal Reserve Bank of Philadelphia, and Consumer Credit Counseling Services of Maryland and Delaware.

After School Money $marts Program

The Department of Education, with support from the Governor and funding from the General Assembly, was empowered to deliver after-school pilot programs. The Department was encouraged to partner with private corporations to provide additional funding and expertise. An after school financial education pilot program for grades seven to nine was initiated by the Center for Economic Education and Entrepreneurship for the Spring of 2002 at three middle schools.

Academy of Finance

The Academy of Finance program integrates classroom instruction with workplace experience including paid internships, job shadows, mentoring, and guest lecturers. The Dover High School and the Howard High School of

Technology programs provide students with a National Academy of Finance curriculum that is intensive in economic and business principles.

Money $mart Kids Conference

In 2001, the Delaware Center for Economic Education and Entrepreneurship, the State Treasurer's office and Citigroup organized the first annual "Money $mart Kids Conference" where 250 children between fourth and seventh grades came with their parents (about 500 people in total) for education about money management. Money $marts provided parents with tools to help them raise financially-aware children and also engaged kids in understanding the basics of money management. Another conference is scheduled for the fall of 2002 in Dover.

Bank on It!

Through a unique partnership between the State Treasurer's office, the Delaware State Chamber of Commerce, the Center for Economic Education and Entrepreneurship, and a number of Delaware banks, with the assistance of the Delaware Bankers Association, 24 schools offer the "Bank on It!" program and more than 5,500 elementary school students in Delaware are learning the fundamentals of money and savings, using materials that are tested on the State Assessments. The "Bank on It!" program, which began in 1999, provides students in grades four through six with instruction in financial management. Bankers from participating financial institutions typically visit the school once a week. Students open real savings accounts and are afforded the opportunity to make deposits and, in some cases, to serve as tellers under the supervision of the banker.

Recommendations for Asset Facilitation

In its deliberations, the Task Force studied the many current initiatives to support asset facilitation in Delaware. In making its recommendations, the Task Force has also identified a number of key gaps that remain. The Task Force endorses financial education efforts that are sensible, appropriately targeted, and effectively delivered. Furthermore, the Task Force believes it is optimal to create "win-win" scenarios for financial institutions and the intended participants in new programs rather than through mandates. In that spirit, the Task Force recommends:

I. Expand financial literacy for strategic populations.

As described above, there are a large number of initiatives currently under way in Delaware. These should be continued and expanded to include young adults, senior citizens, prisoners, and the like. In addition, programs for Spanish-speakers should be expanded. In light of this, the Task Force makes the following recommendations targeting specific populations who can benefit from financial literacy programs.

a. Offer financial literacy training for case workers employed by the State of Delaware.

Financial literacy training should be offered to state case workers including but not limited to those in the Department of Health and Social Services, the Delaware State Housing Authority, the Department of Services for Children, Youth and their Families, the Department of Labor, and the Department of Correction (including Probation and Parole). Partnerships with other organizations may be pursued as well. Financial education for case workers will address the financial literacy needs of their clients while simultaneously providing case workers with the tools to manage their own financial matters.[26] Because curricular materials are free or have nominal cost, and training could be provided at low cost as well, we expect little out of pocket expense.

b. Permit financial literacy training as an approved work activity.

Participation in financial literacy training should be recognized as an approved work activity meeting the 30-hour/ week work requirement for Temporary Assistance for Needy Families (TANF) recipients. Illinois is the only state that

[26] North Carolina has held financial literacy training sessions for their social services case workers by using the curriculum developed by the U.S. Treasury. The curriculum titled "Helping People in Your Community Understand Basic Financial Services" is available in both English and Spanish and is available free of charge online (http://www.fms.treas.gov/eft/educ/helping.html). Alternatively, they could use other curricula as well.

currently does this. By following Illinois' lead, we would promote financial education, create more opportunity for financial stability and remove a barrier to participation. Financial literacy and asset specific training as an approved work activity should range from 12 to 60 hours depending upon the individual. The expected cost to the state will be minimal. This initiative would require a federal waiver.

c. Facilitate employer-based financial literacy training.

While many Delawareans are participating in financial education opportunities, family and work responsibilities prevent more adults from being able to take advantage of these free resources. Shift work, second jobs, lack of transportation, and child care concerns are many of the barriers faced by adults in accessing these resources. The Task Force recommends that employers make financial education opportunities available to their employees on site. In addition, the Task Force recommends that the Office of State Personnel make financial literacy training available for State of Delaware employees.

Employees with basic financial knowledge can be better employees, as they spend less time on the job dealing with personal financial crises and have greater incentives to maintain employment. We encourage employers, including the State of Delaware, to provide financial literacy training as an option for their employees. Furthermore, curricular materials and counselors are available to provide such training cost effectively. To the extent costs would be incurred, consideration should be given to the potential availability of Workforce Investment Board funds.

II. Encourage the creation of a statewide financial literacy publicity campaign.

Organizers of this campaign should explore the model being promoted by the Consumer Federation of America (CFA). With support from CFA and the Ford Foundation, more than 100 Cleveland area institutions are sponsoring a metropolitan-wide savings initiative known as ClevelandSaves. Participation is open to any greater Cleveland area resident who agrees to work toward a savings goal (e.g. homeownership, school tuition, retirement or debt repayment), open an account and make a monthly deposit. Savings goals may be as little as $10 per month. In return for participation, ClevelandSavers have access to:

- No-fee savings accounts offered by many Cleveland-area financial institutions;
- Free informational and motivational workshops that demonstrate how anyone can save and build wealth;
- Free one-on-one planning consultations with a wealth-building coach or financial planner;
- Free seminars by financial experts on how to pay off debts, spend less, get good deals, qualify for a home mortgage, set up a retirement account, or select a savings or investment product, and
- Wealth-building clubs run by participants that meet monthly to provide information and assistance.

Sponsors of ClevelandSaves include non-profit service providers (i.e., Better Business Bureau and Consumer Credit Counseling Services), nonprofit community organizations, religious groups, government institutions (i.e., Federal Reserve Bank of Cleveland), and private employers and employee groups, such as the Greater Cleveland Growth Association, banks, thrifts, credit unions, and unions. Based on the success to date in Cleveland, CFA and the Financial Planning Association have begun to expand this model to other communities nationwide under the AmericaSaves banner. Based on estimates from the ClevelandSaves program a statewide campaign under the AmericaSaves model would most likely cost $250,000 per year for staff and a marketing budget. These funds need not necessarily come from the state government. Obviously, more careful analysis would be required to measure the benefits.[27]

III. Expand predatory lending prevention education.

We encourage the State Bank Commissioner's office to continue the "Don't Borrow Trouble" initiative and to expand this program geographically beyond Wilmington and also into other areas such as check cashers and title lenders, to help consumers preserve and protect their assets. According to the Coalition for Responsible Lending, predatory lending practices cost consumers an estimated $9.1 billion annually.

Because consumer education is very important, it is recommended that where possible all financial education training cover predatory lending concerns and that any education program that is adopted by the state also include information on avoiding predatory situations and publicizing the existing consumer complaint process through the

[27] Based on conversations with organizers of ClevelandSaves.

Bank Commissioner's office or the Attorney General's office. Training should be provided for state and private case workers about the complaint process.

IV. Increase state support of pre-purchase housing counseling.

First-time homebuyers should have access to third party housing counseling before making what is often the largest financial decision of their lives. Federal Reserve Board Chairman Alan Greenspan testified before the U.S. Senate Banking Committee,"… a recent study by Freddie Mac, one of the nation's largest purchasers of home mortgages, finds that homebuyers who obtain structured homeownership education have reduced rates of loan delinquency."[28]

This Task Force recommends that the State of Delaware provide increased support of housing counseling programs as circumstances allow. Pre-purchase housing counseling is important to overall financial education, for access to affordable housing and for maintenance of assets. Because a home is generally the largest share of total net worth for low- and moderate-income families, housing counseling, which is often required for down-payment and settlement assistance and the purchase of affordable housing, facilitates asset accumulation. In recent years, certified housing counseling agencies have experienced backlogs, so that the supply of services is less than the demand. Additional funding is required to meet demand and should be considered as the state's budget situation improves.

DSHA should adopt a policy requiring participants in the SMAL (Second Mortgage Assistance Loan) down payment and settlement help program to receive homeownership counseling prior to signing a real estate sales contract. Counseling is already required but should be provided earlier in the process. Other down payment and settlement help programs in Delaware already have such a requirement.

[28]U.S. Senate Committee on Banking, Housing, and Urban Affairs, Hearing on "The State of Financial Literacy and Education in America." Prepared Statement of the Honorable Alan Greenspan, Chairman, Board of Governors, Federal Reserve System. Feb. 5, 2002. <http://banking.senate.gov/02_02hrg/020502/grnspan.htm >Accessed on April 19, 2002.

Asset Incentives

What are asset incentives?

Asset incentives encourage people to set goals, save, and invest in assets that will benefit them and their families. While the benefits of asset-building may be obvious to people with a strong understanding of the financial world, many Americans are unaware of incentives or do not believe that it is worthwhile to pursue them. For example, a family of five living in DSHA rental housing may qualify for matched savings for a down payment on a home of their own. A variety of programs, offer incentives to save.

Public policy plays a significant role in creating incentives for asset accumulation, particularly at the federal level. According to an analysis of the United States Congress Joint Tax Committee's estimates of fiscal year 2000 federal tax expenditures by Michael Sherraden of Washington University in St. Louis, federal asset-building tax expenditures to individuals totaled $288.5 billion (for housing, retirement, and investments/business development).[29] The distribution of these benefits is highly regressive. For example, households with incomes over $50,000 received 91 percent of federal home ownership tax expenditures and 93 percent of federal retirement tax expenditures in fiscal year 1998. At the same time, public policy has largely penalized low-income people who try to save and build assets by setting low asset limits for eligibility in public benefit programs such as welfare and food stamps. Tax-code incentives for those purposes are beyond their reach.

State policy also plays a role in incentives for asset accumulation. State policies include incentives to promote homeownership or make homeownership affordable (i.e., loans, down payment assistance, and Homestead exemptions), policies to promote the growth and development of small businesses (i.e., technical assistance, low-interest loans) and programs to encourage higher education (i.e., financial aid and College Savings Plans).

Finally, asset-based policies are more than just a theory or promise. New policy experiments across the U.S. with Individual Development Accounts (IDAs) (see next section for explanation of IDAs) – the most common of a range of new asset-building tools – show that, with the proper support, poor families can and will save. For example,

[29]Curley, J. and Sherraden, Michael. (2000) "Analysis of Tax Expenditures," St. Louis: Center for Social Development, Washington University in St. Louis.

in an in-depth evaluation of the national Down payments on the American Dream (ADD) policy demonstration[30], the Center for Social Development has found strong evidence that IDA accountholders can save.[31] Based on data from 1,326 IDA savers, most of whom had only been saving for nine months, CSD found:

- Accountholders had saved a total of $378,708 (all deposits and interest, less withdrawals);
- Total IDA accumulation (participant savings plus match) totaled $1,120,317;
- The median accountholder had saved $181, or $23 per month;
- The typical accountholder made a deposit in seven out of every ten months, and
- Very income-poor households saved in IDAs at a higher rate than less income-poor households.

What are we doing in Delaware?

Delawareans Save!

A collaborative of private sector, public sector, and not-for profit organizations established an Individual Development Account program, called Delawareans Save! in 2001. IDAs are matched savings accounts designed in most cases to encourage three asset building purposes: buying a first home; pursuing post-secondary education or training; and starting or growing a small business. Individuals deposit money each month in a savings account and matching funds are accumulated in a separate, parallel account. When the accountholders are ready to use their savings for one of the specified purposes, they withdraw their savings and their matched funds are sent directly to the provider for the asset purchase.

Delawareans Save! is primarily funded by the U.S. Department of Health and Human Services, the Delaware State Housing Authority, Deutsche Bank Trust Company Delaware, Discover Bank, Citigroup, and J.P. Morgan Chase. The First State Community Loan Fund serves as the lead agency for the collaborative, managing the matching funds, training, and servicing of accounts. Currently, $850,000 in matching funds are available for Delawareans over the next four and

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[30] The American Dream Downpayment (ADD) Policy Demonstration was the first, large-scale test of IDAs as a social and economic development tool. It was initiated by the Corporation for Enterprise Development (CFED) at 13 sites across the country with generous support from eleven national foundations.

a half years. The program offers a 1:1 match for investors with a $1,500 limit. In order to be eligible for the program, an individual must either earn less than 200% of the poverty line, qualify for the Earned Income Tax Credit (EITC), or qualify for Temporary Assistance for Needy Families (TANF). The program includes financial fitness training and asset-specific training to help investors meet their savings goals. The YWCA of New Castle County, First State Community Action Agency, NCALL Research, Nehemiah Gateway CDC, and Interfaith Housing are the program providers. The accounts are held by Artisans' Bank and Wilmington Trust Company.

Promoting the federal Earned Income Tax Credit (EITC) and Savings

The EITC provides moderate- and low-income working families with federal tax relief and incentives to work through a cash refund, even to families whose incomes are low enough that they do not owe any Federal taxes. A simple example shows how the EITC works. For a family with two or more children, for each $100 earned, the EITC is $40, until earnings reach $10,000 and the EITC reaches $4,000. Then for each additional $100 of income that the family earns, the EITC is reduced $20, so that when family income reaches $30,000, the EITC has phased out to $0. The EITC varies with the number of children as well as family income. The average EITC per family is currently $1,600. In addition, this year a new Children's Tax Credit offers up to $500 per child to working poor parents.

In Delaware, State Senator Margaret Rose Henry and State Representative Helene Keeley sponsored Senate Bill 71, which was introduced in 2001, to establish a refundable state earned income tax credit equal to 20% of the corresponding federal tax credit. This bill is pending in the General Assembly. The fiscal note attached to the bill indicates that revenue loss for fiscal year 2003 would range between $16,000,000 and $17,000,000. In 2000, 47,590 Delawareans claimed the federal EITC totaling $77,763,000 in EITC refunds.

Governor Ruth Ann Minner, State Treasurer Jack Markell, and Wilmington Mayor James Baker endorsed an outreach campaign to promote the federal EITC for

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[31] Sherraden, Michael, et. al. Savings Patterns in IDA Programs, St. Louis: Center for Social Development, Washington University in St. Louis, 2000.

the 2001 tax season. In addition to promoting awareness of the tax credit, organizers recruited volunteers who were trained by the IRS to assist with tax preparation. The Nehemiah Gateway Community Development Corporation (NGCDC), a faith based community development organization, conducted a public outreach campaign. Other Volunteer Income Tax Assistance (VITA) sites helped Delawareans as well. Although goals were set to promote the tax credits statewide, and provide tax preparation to help low wage workers file for it, the campaign focused primarily in New Castle County due to a lack of adequate resources and downstate partners. The campaign also promoted other financial services at the tax preparation sites including free savings accounts through two statewide retail banks and financial literacy workshops.

No public funds were invested in these efforts. The EITC Campaign was paid for with private sector funds donated to the NGCDC.

Delaware College Investment Plan (Delaware's 529 plan)

The Delaware College Investment Plan was established in 1998, as a result of legislation introduced by State Representative William Oberle to help families save for college. In this plan, funds grow tax-free, so long as they are withdrawn for education-related purposes and can be used at virtually any accredited college or university in the U.S., including accredited trade schools. Fidelity Investments manages the plan and the State of Delaware sponsors the plan. As of May 2002, more than 11,500 participants have saved over $77 million in the plan.

Family Self Sufficiency (FSS)

FSS is a federal program that coordinates subsidized housing with case management and support services, and increased rent payments resulting from increased earnings are placed in escrow accounts for clients. The purpose is to encourage tenants to increase their savings so they can afford to move to unsubsidized housing. In Kent and Sussex Counties, the Delaware State Housing Authority (DSHA) offers education, job training, and other support services to help families become self-sufficient homeowners and move to private market housing, including support of Delawareans Save! IDAs.

DSHA and the U.S. Department of Housing and Urban Development sponsor Moving to Work (MTW). The elements of FSS are included in the DSHA MTW program. MTW aims to (1) expand housing options for low-income families and (2) promote resident employment. Clients sign a contract with DSHA and outline a personal plan for how they will achieve their self-sufficiency goals. Currently, DSHA serves more than 1,200 families, elderly, and persons with disabilities. MTW includes 925 of these families.

Rent is capped at a maximum of 35% of a client's monthly adjusted income or $120, whichever is greater, to provide a strong work incentive. As the client's income increases, the percentage of the additional income, which formerly would have been paid in rent, is placed in a savings account.

Recommendations for Asset Incentives

The Task Force's recommendations focus on several strategies to encourage asset accumulation among low- and moderate-income families. Though distinct, these recommendations represent a related series of measures – from increasing disposable income to establishing bank accounts to creating various incentives to save – that together form the foundation of what could become a comprehensive asset-building system for low- and moderate-income families in Delaware. The Task Force is highly sensitive to the state's current budget situation. It makes the following recommendations with the understanding that resources to implement them are unlikely to be available in the immediate future, but with the hope that as resources do become available, serious consideration to these recommendations will be given.

I. Support an EITC Outreach Campaign

Not surprisingly one of the key determinants of asset accumulation among low-income households is having some disposable income beyond that needed to meet current consumption needs. Thus, a first step in creating incentives for asset accumulation is to encourage every eligible Delaware household to claim two federal refundable tax credits: the earned income tax credit (EITC) and the refundable child tax credit (CTC).

The State of Delaware should actively participate in the campaign to publicize both the EITC and the refundable CTC, and assist eligible Delaware working families in filing for these credits. If all eligible Delaware households obtained the federal EITC to which they are legally entitled, we estimate it could bring in up to $29 million additional federal dollars into the Delaware economy.[32] Additional federal dollars would be obtained by full enrollment in the refundable child tax credit.

The experience of other states and cities with EITC outreach/enrollment campaigns demonstrates that EITC enrollment can in fact be significantly increased by a well-designed public/private campaign. Moreover, when linked with opportunities to open a

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[32] We arrive at our estimate as follows. According to a recent report of the U.S. General Accounting Office, roughly 25% of U.S. households eligible for the EITC did not file for the credit, so full enrollment would increase the number of recipient households by 33%. In FY 2003, Delaware households are projected to receive $86 million in EITC (because Delaware households receive 0.25% of U.S. EITC expenditure which is projected to total $34.208 billion in FY 2003). If full EITC enrollment raises EITC dollars by the same percentage it would raise the number of EITC households - 33% - then it would raise EITC dollars by $29 million (33% of the projected $86 million) in FY 2003.
Source: "Earned Income Tax Credit Participation." U.S. General Accounting Office. Dec. 14, 2001, GAO-02-290R. < http://www.gao.gov/new.items/d02290r.pdf> Accessed March 2002.

bank account, such campaigns can increase the percentage of low-income families with such accounts.

The Extra Credit Savings Program, operated by South Shore Bank in Chicago, presents one simple model for linking low-cost accounts to EITC refunds. In the Extra Credit Savings Program, South Shore Bank offers tax preparation services to EITC-eligible taxpayers at selected bank branches. Once the amount of the EITC is determined, South Shore Bank offers the taxpayer the option of opening a low-cost account in which to deposit all or part of the refund.

The success of the program will be largely dependent on the resources invested in it. For example, last year, the State of Washington spent $316,000 on its public information campaign. The campaign included direct mail, radio, transit and television advertising, public service announcements, internet information, and distribution of posters throughout the state. The state also set up a toll-free hotline to distribute EITC information, tax forms, and promotional materials, and to refer callers to free tax assistance. There were more than 400 free tax preparation sites open across the state during tax season. Staff at the hotline referred callers to the nearest site in their area. Washington's hotline received more than 16,000 calls. In addition to taking incoming calls, Washington state employees contacted nearly 8,000 people who have recently gone from welfare to work to make sure they know they may be eligible for the EITC.

These investments in the state of Washington Campaign yielded an increase of $29 million in EITC refunds in a one-year period.[33]

The Committee believes that Delaware's financial support of such a campaign could play an important role in the campaign's success.

II. Enact a Delaware Earned Income Tax Credit (EITC).

Delaware should enact a state EITC, just as a third of the states in the United States have already done. But why isn't the federal EITC enough? The answer is that despite its achievement, the federal EITC is not enough for any state especially committed to helping working families build assets. A state EITC lifts people's incomes and gives them

[33] "Washington leads nation in growth of EITC applicants." State of Washington, Office of the Governor, Press Release. Nov. 18, 1999

an increased opportunity to save. Moreover, a state EITC is helpful in furthering the effort to move people from being dependent on income subsidies toward self-sufficiency.[34] The funds provided through the EITC represent an important component in asset-building.

The state EITC should be based on the federal EITC. The simplest approach - the one taken by most states - is to permit a household to claim a refundable state EITC on its state income tax return that is equal to X% of the federal EITC that it claims on its federal income tax return. The most common value of X% in other states is 15% (X% ranges from 5% to 30%). In Delaware, pending Senate Bill 71 sets X at 20%. In Delaware, each 5% would cost approximately $4 million.

Another important issue has to do with whether or not the credit is refundable. The federal EITC has been successful in reaching low-income working families in part because it is refundable. In 2002 it is estimated that 87% of all federal EITC dollars would not be sent out if the EITC were non-refundable. It must be emphasized that the refundable federal EITC gives zero dollars to families that do not work, and for a family with at least two children, gives $40 for each $100 the family earns from work until it reaches a maximum of $4,000 when the family's labor earnings reach $10,000; hence, from $0 to $10,000, the more the family earns from work, the more EITC dollars it receives. The refundable EITC is based on work, not on need. But a family of four with $10,000 of annual labor earnings (for example, from 50 weeks of work, 32 hours per week, at $6.25 per hour) owes zero federal income tax. If the EITC were non-refundable, the family would get zero EITC dollars, instead of the $4,000.

Similarly, the Delaware EITC or a Delaware IITC should also be refundable (described below). Most low-income families who work and save would get zero dollars if these programs were non-refundable. It is for this reason that the Task Force recommends following the federal EITC and making these two tax credits refundable. The Task Force recognizes that all else being equal, a refundable credit would typically be more costly than a non-refundable* credit. However, that need not be true. The Task Force believes

[34] The Center on Budget and Policy Priorities gives a useful description of state EITC's.
Johnson, Nicholas. "A Hand Up: How State Earned Income Credits Help Working Families Escape Poverty in 2001." Center on Budget and Policy Priorities. Dec. 2001. < http://www.cbpp.org/12-27-01sfp.pdf> Accessed March 2002.

*Assuming a 20% nonrefundable EITC was passed, a family with 3 personal credits would pay no Delaware personal income tax if their adjusted gross income was roughly $22,840 or less. Under current law, that same family pays Delaware personal adjusted gross income was roughly $14,685 or more.

it is better to accept a small percentage for the Delaware EITC (for example, 5%, instead of the 15% typical of the EITC's of other states or the 20% proposed in Senate Bill 71) than to enact a non-refundable EITC. Most other states that have enacted EITC's have made them refundable. The Task Force has the same recommendation for the IITC-- it is better to accept a smaller "multiple" for the Delaware IITC than to enact a non-refundable IITC.

Should the decision be made instead to enact a non-refundable EITC, we believe it should be viewed as a small first step in the direction of a refundable EITC or IITC. The majority of working/saving families who would be eligible for a refundable EITC or IITC will be excluded from a non-refundable EITC or IITC. It should also be remembered that, right from the start, the federal EITC enacted in 1975 under the leadership of Senator Russell Long (with the endorsement of California Governor Ronald Reagan) was made refundable because its authors wanted the EITC to replace welfare, and they recognized that a non-refundable EITC would exclude most of the people they wanted moved from welfare to work.

The Committee addressed several concerns that have been raised about state EITCs, and, as pointed out in the accompanying footnote, believes them to be less compelling than the benefits of implementing an EITC.[35]

III. Enact a Delaware Interest Income Tax Credit (IITC) offering incentive to save.

Another recommendation for creating incentives to save is to reward eligible working families for saving at a financial institution. Such an incentive directly relates to our goal of encouraging asset building. The Task Force proposes an original approach: An Interest Income Tax Credit (IITC), which could be implemented even if the State EITC were not implemented. To be eligible for the Delaware IITC, a family must qualify for and claim the federal EITC. Administration of the program would be significantly eased by using

[35] Several tax administrators have expressed concern about possible fraud.

It is true that the federal EITC has an "error rate" problem. But so do many other items in the personal and corporate income tax. Recent studies have shown that most of the EITC error rate is due, not to intentional fraud, but to confusion concerning certain provisions, such as which of two separated parents can claim a child, whether a working grandparent rather than the working parent should file the claim, and the definition of a "qualifying" child. In the past half decade, substantial effort has been made by Congress and the IRS to modify the provisions responsible for much of the EITC error rate such as requiring the reporting of social security numbers for all children, and this effort continues. In fact, more is being done to measure and reduce the EITC error rate than the error rate of many other items in the personal and corporate income tax.

Tax administrators are correct to emphasize that the first step in assisting low-income working families is to raise tax thresholds in order to reduce the number of such families that owe positive tax. This has sometimes been called "removing people from the rolls." But that phrase is misleading because it seems to imply that the aim is to reduce the number of such families that file tax returns. However, there is also an advantage to filing returns: it helps to assure that every working family that Congress or a state legislature wants to assist through a refundable tax credit in fact obtains assistance.

federal eligibility guidelines. A family would have to work. To obtain the IITC, a family would have to both work and save. To obtain the IITC, a family would have to establish a bank account with a financial institution, so the IITC gives "unbanked" families an incentive to become "banked." Like the EITC, the IITC would be refundable to reach most low-income working/saving families. A family's IITC would equal a multiple (set by the General Assembly) of its interest income, up to a ceiling per family (also set by the General Assembly).

The IITC would work as follows. For the federal income tax, each household annually receives a W-2 statement from its employer(s) indicating its earned income from work, and a 1099-INT statement from its financial institutions indicating its interest income. Under the Delaware IITC, a low-income working family would file a Delaware income tax return, attach its federal tax return showing the EITC it is claiming on its federal income tax return, and attach a copy of its 1099-INT statement(s) indicating its interest income. On its Delaware tax return, it would claim a Delaware refundable IITC.

If a family's federal EITC is $0, then its Delaware IITC would be $0. If a family's interest income is $0, then its Delaware IITC would be $0. If it both claims a federal EITC and receives interest income (documented by a 1099), it would be eligible for a Delaware IITC.[36]

The IITC has two objectives: to give working families an incentive to save more, and to reward working families that save. Like any other new tax incentive, it is not possible to

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[36] The amount of a family's IITC would be proportional to both its federal EITC and its 1099-INT interest income, up to a ceiling. Its IITC would be a multiple of its interest income, where the multiple varies directly with its EITC so that, as its income rises towards $30,000, its EITC and its IITC would both phase out gradually.

For example, suppose the average EITC family obtains $40 of interest income (for example, by maintaining an average bank balance of $1,000 when the interest rate is 4%), documented by a 1099 from its bank. If the average multiple is set equal to 1 by the legislature, then the average EITC family would be able to claim a Delaware IITC equal to $40.

Suppose there are roughly 50,000 Delaware families that claim the federal EITC. Then, the total Delaware IITC cost would be 50,000 x $40 = $2 million.

A particular family's multiple would be determined this way. The Delaware legislature would set the "maximum multiple"-- the multiple for a family that receives the maximum possible federal EITC. If a particular family's EITC is 50% of the maximum EITC, its multiple would be 50% of the maximum multiple. For example, if the legislature sets the maximum multiple to be 2, then this particular family would have a multiple of 1, so its IITC would simply equal its interest income.

Consider a family with two children that earns $25,000, and thereby obtains a federal EITC of $1,500, which is 37.5% of the maximum EITC of $4,000, so its multiple would be .375x2=0.75. If it earns $80 of interest income, its IITC would be $60. Now consider a family with two children that earns $12,000 from work, and thereby obtains the maximum federal EITC of $4,000. It's multiple would be 2.00. If it earns $60 of interest income, its IITC would be $120 (unless the IITC ceiling is set below $120). Thus, a family's IITC varies directly with its federal EITC and with its interest income.

accurately estimate in advance how much additional savings it will generate. The greater the maximum multiple set by the legislature, the greater will be the saving that is generated and the greater will be the cost of the IITC program to the state. While the EITC generates more work and the IITC will generate more saving, the magnitude of both effects are uncertain. What is certain is that they reward families that make the effort to work and save.

IV. Study opportunities to expand the number of small businesses offering employee retirement plans.

Retirement saving~~s~~ is a critical form of asset building. Large numbers of small businesses do not offer long-term retirement savings plans to their employees. The Wall Street Journal reported in its March 7, 2002 edition, "Roughly half the workers on private payrolls don't have any employer-sponsored retirement plans at all. About 74% of the best-paid fifth of American workers participate in some form of pension plan on the job, but only 17% of the worst paid fifth do, according to number-crunching of Labor Department data by the Economic Policy Institute, a Washington think tank." While we cannot extrapolate from that statement that those not covered by such plans necessarily work for small employers, there are good common sense reasons to believe that the statement could easily apply to a majority of small businesses.

Maintaining the data to offer either a pension plan or even a non-matched 401K savings plan is an administrative burden, especially for small businesses operating at the margin. Further, work hours of employees of small businesses could be so variable that the record-keeping burden is even more difficult. Compliance with ERISA (Employee Retirement and Income Security Act) guidelines is complex and daunting. Communication with employees must be careful, clear and well-thought out. All of those conditions impose a significant time burden on a small business.

However, if the administrative burden could be removed from the business, there would likely be greater willingness to offer plans for long-term savings. An employer match is not necessary to offer such plans.

It is appropriate to 1) determine a better understanding as to why small businesses do not offer retirement plans, 2) determine how many such businesses and employees exist in

Delaware, 3) find out if an appropriate model to address these issues already exists elsewhere (i.e., the plan recently announced by the Delaware State Chamber of Commerce), 4) understand the potential legal/liability issues that might come into play with this proposed administrative structure, 5) attempt to cost out the development and implementation of the appropriate structure, and 6) figure out where it would be best situated.

V. Provide state support for Individual Development Accounts.

While there is an active IDA program, Delawareans Save!, the state should consider financial support of IDAs as budgets permit as well as encourage additional support of federal programs. Additional funding would make savings more accessible for additional Delawareans.

Most states have enacted some kind of IDA policy, whether via legislation (33 states and the District of Columbia), administrative rulemaking (10 states) or the inclusion of IDAs in the state's welfare reform plan (32 states). Delaware has not taken any of these steps, although the state does have an emerging statewide network of IDA programs. Options for state funding to support the growth of IDAs include:

- direct appropriation,
- allocation of federal or state-federal funds over which states have control, including Community Development Block Grant (CDBG) funds, Temporary Assistance for Needy Families (TANF) funds, Welfare-to-Work (WTW) funds or Community Services Block Grant (CSBG) funds, or
- state tax credits for direct investments in IDAs.

IDAs are a direct incentive for asset accumulation that requires the types of financial education and training that this Task Force supports.

VI. Support efforts to obtain federal pilot funds for Children's Savings Accounts

A number of proposals to establish and fund accounts for children have emerged from Congress, academics, and analysts over the last few years. Beginning asset accumulation at birth through individual accounts for all children holds enormous potential to build an inclusive, universal system; reduce child poverty; provide an important orientation toward the future (and possibly change behavior); expand college attendance, homeownership and business capitalization rates; much better prepare people for retirement; and foster intergenerational transfers of wealth.

The basic idea calls for each newborn child (plus, perhaps, all children up to age five) to be given an account and a "start in life" deposit of $500 or $1,000, just as each child is now assigned a Social Security number. The account then becomes the centerpiece of the system, with the account being used for a whole range of asset building purposes, and staying with the child through life and then passed on to future generations, or to others. Annual deposits to the accounts could be made by the child, government, family members, friends, and not-for-profits, and tax incentives could encourage additional contributions from the private sector. Public matching deposits could be provided for lower-income families, while tax deductions or credits could provide similar incentives for better-off families. Financial education curricula in schools could be tied to the accounts.

There is no shortage of ways to approach children's accounts[37], but there is also no shortage of difficult political, ideological, administrative, and funding challenges. One way that Delaware can play a role in the emerging interest in Children's Savings Accounts, while at the same time limiting the state's financial investment, is to provide full state support for applicants to a planned national demonstration of CSAs. At present, the Corporation for Enterprise Development is raising money from private foundations to establish a nationwide demonstration of CSAs. Though the final demonstrations sites will be chosen through a competitive process, the state could significantly increase the chances of a site being chosen in Delaware by:

[37] See discussion of Children's Savings Accounts in Building Assets: A Report on the Asset-Development and IDA Field. Ed. Ray Boshara, Washington, D.C.: CFED, December 2001, 91.

- Helping to encourage strong community-based organizations to apply,
- Offering to publicize the work of a Delaware site, and
- Agreeing to convene state and even regional policymakers periodically to explore the progress and results of asset-building initiatives with children and youth.

Asset Protection and Removing Barriers to Asset-Accumulation

What is asset protection?

Asset protection refers to policies and programs designed to help safeguard assets when adverse events like a work injury or a loss of job could deplete them. In the U.S., asset protection is provided by both the public and private sectors. Public provision of asset protection includes social insurance methods such as Social Security, workers compensation, unemployment insurance, and Medicare. Private provision of asset protection includes life and health insurance providers. These public programs also are means for providing for income security for a set of common risks that shift over the life cycle and that loom larger or smaller depending on the backdrop of general social, economic and demographic changes. These include: involuntary unemployment, illness, accident, early death, and even living past what one's savings could afford or beyond one's health insurance coverage.

What are we doing in Delaware to protect assets?

Unemployment Insurance

The nation's system of unemployment insurance is a national and state partnership. It is based upon federal law and executed through state law and administration. Unemployment insurance was created to provide adequate benefits to protect workers during temporary periods of joblessness. It is a first line of defense against a hardship and the erosion of assets.

Typically, unemployment insurance is designed as a support for those who lose their jobs through no fault of their own. Delaware allows some exceptions that many states do not. Individuals can collect unemployment if they have to quit their job due to domestic violence, because of sexual harassment on the job, because of a shift change that will not work with their life schedule and because of health reasons or physical safety issues.

In Delaware, those who qualify for unemployment insurance have a self-employment allowance which enables those collecting benefits to pursue entrepreneurship by taking Small Business Development Center (SBDC) courses in lieu of their job search activity. According to the Department of Labor, participants in this program must be unemployment insurance claimants who have been identified as likely to exhaust unemployment insurance benefits via the unemployment insurance profiling system.

Workers' Compensation

The workers' compensation program represents a no-fault insurance approach to industrial or work-related accidents. Workers give up some rights – to sue employers for full damages resulted from a work-related accident – in exchange timely payment of medical costs and partial income replacement during rehabilitation, or in the case of permanent injury, partial damages.

In Delaware, if workers are injured on the job and eligible for workers' compensation, compensation will pay 66 2/3% of the employee's gross wage up to a maximum of 66 2/3% of state's average weekly wage. It may be worth noting that workers' compensation payments are non-taxable which will make the net benefit higher. Delaware is unique in that if an individual is disabled by work injury, the person can get both the weekly wage replacement benefit and the payment of compensation for the resulting impairment and disfigurement simultaneously.

Because of the complex nature of workers' compensation, the Task Force was unable to formulate specific recommendations to enhance the important asset protection aspects of this program. However, given concerns nationally about the adequacy of compensation for work-related accidents, the Task Force recommends that the Delaware Department of Labor study where Delaware ranks with respect to the recommendations of the National Commission on State Workers Compensation.

Health Insurance

Low- and moderate-income working families often encounter rapidly escalating costs of medical care and difficulty in obtaining affordable health insurance. Nationally, more than one-third of low-income working parents have no health insurance. Most uninsured Americans are from working families. The reasons for this lack of health insurance are many, including low-wage jobs that provide no benefits and job loss that can sever a worker's connection to medical insurance.

In addition, individuals who need to self-insure are facing rising costs and fewer options from which to choose.

Without affordable medical care, individuals are less likely to seek preventative care or treatment early in a serious illness. When medical care is ultimately obtained, the medical conditions may be far more serious in nature, requiring emergency treatment or hospital stays. Serious medical conditions gravely impact a working family. Illness of the working individual or a child may cause loss of job due to missed work time or reduction of income due to disability caused by the illness or accident.

High medical costs may take a large portion of income to pay off, and may lead to collections and poor credit histories. Such poor credit histories lead to lack of affordable options for credit and may impact an individual's ability to obtain future credit, bank accounts, services, and employment. In addition, credit issues and bankruptcy filings may precipitate the loss of assets, particularly homes.

Opportunities for affordable health care and available health insurance are critical to a working family's ability to retain and grow their assets. The following are some affordable options for health care in Delaware.

Safety Net Providers

State service centers provide medical care and/or clinics for screening for HIV, diabetes and chronic disease. The Medical Society of Delaware has contributed to the safety net by organizing a VIP program where physicians provide care to a number of low-income individuals. Medical centers and hospitals throughout the state operate clinics where low- and moderate-income individuals may obtain medical care.

Federally Qualified Health Centers (FQHC) are private, non-profit primary health care offices that serve all patients, insured and uninsured. Funding comes from patient fees and federal grants made under the U.S. Public Health Services Act. In Delaware, the Federally Qualified Health Centers are "safety net" providers of primary health care. These Health Centers provide all patients quality health care with fees based on a sliding fee scale that takes income and family size into consideration.

Currently, there are three Federally Qualified Health Centers in Delaware. These are Westside Health and Henrietta Johnson Medical Center in New Castle County, and Delmarva Rural Ministries in Kent County. La Red is a new health clinic, located in Sussex County. Funded by the Office of Rural Health, La Red operates with a part-time doctor and may become an FQHC in the next few years.

These health centers are actively working to create a FQHC network in order to share best practices and realize economies of scale. These health centers are among the primary locations where uninsured individuals that may qualify for other state or federal programs are enrolled. These programs include Medicaid, Medicare, the Delaware Healthy Children Program, and Community Health Access Program (CHAP).

Delaware Healthy Children Program

Of the approximately 43 million Americans without health insurance, almost 11 million are children. Recognizing this gap, Congress established the State Children's Health Insurance Program (SCHIP) as part of the Balanced Budget Act of 1997 to support state efforts to decrease the number of uninsured children in low-income families. The SCHIP provides $5 billion dollars per year in matching funds for states to provide health insurance to children whose families have incomes that exceed Medicaid limits, but who lack sufficient income to purchase private insurance.

The federal program has been implemented in Delaware through the "Delaware Healthy Children Program." This program covers everything from routine checkups to eye exams to doctor and hospital services. Children covered by this program are provided an extensive set of services for a single monthly rate and no co-payment.

Community Health Access Program

The Community Health Access Program (CHAP) helps uninsured individuals identify a primary care physician that will provide them with ongoing preventative and other medical services. By developing a relationship with a primary care physician, an individual is more likely to have good health and access potential medical problems early, before a problem becomes an emergency. There is no financial support attached to this program that funds medical care on the part of the doctor. However, there are Care Coordinators, funded by CHAP, located in emergency rooms, health clinics, FQHCs and other places to identify and refer individuals that qualify under the program to primary physicians or specialists.

The fee scale used by the health centers and primary care physicians for CHAP members is tied to income and family size. Should the patient need referrals to other providers, the Care Coordinators access a list of medical providers who offer discounted services to these individuals.

CHAP program services are provided primarily by the FQHCs and private physicians that participate in the Medical Society of Delaware's VIP program. However, there is currently more demand than supply. The FQHC's have limited capacity especially in Kent and Sussex counties. Additionally, there may be a long commute to access their services. The VIP program providers cannot meet the demand from the marketplace, especially for the primary care physicians.

What are asset barriers and how do they affect asset accumulation?

Historically, public policy related to asset accumulation has been bifurcated in the U.S. For the non-poor, we have long had a policy of asset-building, whether via the Homestead Act or G.I. Bill, or more recently via the home mortgage interest deduction, pension fund exclusions and the like. For the poor, we have had a policy of asset denial. In particular, low-income families seeking or participating in public assistance programs (especially food stamps, Supplemental Security Income , and Temporary Assistance for Needy Families) face asset barriers. Those on assistance are not allowed to accumulate assets beyond the federally or state specified level. Those seeking assistance must first spend down or deplete their assets to that level before qualifying for such assistance. In a review of the literature on asset tests, Peter Orszag concludes that, "the evidence that is available generally suggests that the asset tests act as a disincentive to saving among lower-income families."[38] Orszag concludes that, given the extremely low levels of assets allowed under most public assistance programs, an increase in the level of allowable assets is good policy.

What are we doing in Delaware to remove barriers to asset accumulation?

Asset tests for public assistance

The subject of public assistance asset tests is complicated by different asset tests for different public assistance programs and varying state/federal authority to set asset limits. For example, the authority to set the asset limits ranges from federal responsibility with very little state discretion (i.e., SSI) to federal responsibility with state discretion in determining how to count assets (i.e., Medicaid and food stamps) to full state discretion (i.e., TANF). In addition, in some programs (i.e., Medicaid) there are also different asset tests for different eligibility categories. Delaware is among the most generous states with respect to asset tests and, for the most part, has raised asset limits to the maximum allowed under the flexibility granted by the federal government. In particular, Delaware has:

- Raised the asset limit for participation in "Welfare to Work," Delaware's main cash assistance program, to $5,000, making Delaware among the states with the most generous asset limits for cash assistance,
- Effectively eliminated the asset test for Medicaid receipt, making Delaware one of 18 states that have done this, and
- Acted to exclude the value of all vehicles from the countable asset limit for participation in the food stamp program. Delaware is one of 17 states that have made this reform to food stamp asset limits.

Protection of household assets

Predatory lending refers to a number of lending abuses that may take place in the mortgage industry. Under the guise of providing credit to borrowers with poor credit histories, predatory lenders often target the elderly, minorities and poor families with lending products that are high cost and can lead to a loss of home

[38] Orszag, Peter R. "Asset Tests and Low Savings Rates Among Lower-Income Families," Center on Budget and Policy Priorities, Washington, D.C., April 13, 2001.

equity. Many victims of predatory practices actually have good credit and are not economically disadvantaged, merely ill-informed.

Pawn shops, automobile title lenders, payday lenders and other fringe lending companies may also cause loss of assets, such as a car, through default on these high cost, short term loans. These companies have grown over recent years as they provide the convenience and accessibility to borrowers.

These costs should not necessarily be controversial, as high risk borrowers would be expected to pay higher fees. However, inability to meet the agreed upon terms can lead to foreclosure, repossession of an automobile, and lost wages while still owing the lender money even after the collateral on these loans are taken. Effective disclosure of the risks of borrowing is critical, as is sufficient education so consumers understand precisely the benefits and risks of any transaction.

Mortgage lenders, as well as title lenders, finance companies, payday lenders, and check cashing services, fall under the Delaware banking code and as such must obtain a license to do business. The Delaware State Bank Commissioner's office is the primary state agency responsible for oversight of these financial companies, through licensing, examinations, regulation, consumer education, handling consumer complaints, and investigating cases of fraud and deception. The Bank Commissioner's office works along with the Attorney General's Consumer Affairs Division in the investigation of lenders when necessary.

Delaware has no usury laws that cap interest rates for loan products. These transactions are "market based" and agreements between the consumer and the lender on the fee and interest rate of the loan govern the transaction. Current regulations already require posting of fees and interest rates; disclosures, in advance of any contract commitment, as part of the lending contract; and adherence to state and federal law including the Equal Credit Opportunity Act and the Truth in Lending Act.

The Task Force reviewed the current regulations in place as well as the incidence of reported consumer complaints and fraud. It felt that the current laws in place in Delaware along with national lending laws provided reasonable coverage for consumers. However, the Task Force does recommend support for additional back-end protections for consumers taking out title loans. Additionally, the Task Force believes that it is important to focus on consumer education including how to file complaints.

Recommendations for Protection and Removing Barriers to Asset Accumulation

I. Reduce the risk of asset loss due to lack of access to affordable health care.

Low- and moderate-income working families may not have affordable and convenient access to health care services. This may prevent individuals from seeking medical care for themselves or their families until the illness is chronic or more difficult to treat. Alternatively, an unexpected accident may throw a family into turmoil. Illness of the working individual or a family member impacts the ability to work, and may lead to loss of a job due to missing too much work time. The less obvious impacts are that high medical bills cause a stripping away of assets including pressure to pay many bills and possible collection situations leading to poor credit histories and bankruptcy. Future requests for credit, bank accounts and employment may be affected. The following recommendations should be considered:

a. Expand Healthy Children Program (CHIP).

States have already expanded coverage for children through Medicaid and other programs since enactment of SCHIP, but the adults in these families often can qualify for coverage only if their income falls below the welfare income eligibility limits that their state used prior to enactment of the 1996 federal welfare law. Working with the federal government, states can expand coverage to parents of children covered by Medicaid or SCHIP. This has the added advantage of not only offering more low-income adults health care, but also of potentially increasing the number of eligible children enrolled in existing programs as it would help educate parents about family eligibility.

The Task Force recommends, as funding becomes available, the expansion of the current Healthy Children Program in the following ways: 1) expand the program to cover children's dental as well as medical expenses, 2) reduce or eliminate the monthly cost of the program, and 3) enable adults to enroll in the program for a monthly fee.

House Bill 349 is pending and would expand the CHIP program as outlined above. The fiscal impact of this bill has not been determined.

b. Expand the Community Health Access Program (CHAP).

The Medical Society of Delaware sponsors a VIP program that encourages their physician members to work with low- and moderate-income individuals in the provision of health care services. This is an important public service provided by physicians in Delaware. The Task Force recommends that DHSS and the Delaware Health Care Commission continue to work with the Medical Society and aggressively encourage private physicians, both primary and specialist physicians, to participate in the program. This would require some state financial and staff resources and could have a significant impact on the families served. One full time social worker per every 150 applications per month is needed to process the incoming applications. The cost for one full time position is $40,000 per year including fringe benefits.

c. Support the expansion of Federally Qualified Health Centers.

Currently, the Bush Administration is 18 months into a 5-year strategy to add 1,200 new and expanded health center sites in order to serve an additional 6.1 million patients nationwide. This is being done through competitive funding rounds conducted two to three times per year by the federal government.

The Task Force supports the expansion of the number of federally qualified health center locations in the state. The Division of Public Health under the Delaware Department of Health and Social Services should aggressively support all viable applications for federal funding for expansion or start-up in locations identified as high-need in the state. With limited health centers, there is a substantial need to increase access and convenience by placing multiple health centers in each county.

Support from the state's Division of Public Health on applications submitted to the national Bureau of Primary Health Care is critical in enabling the state to access and benefit from currently available federal funding for expansion or start-up of additional health center locations, especially in under-served areas.

II. Improve protection of household assets.

a. Encourage best practices for non-traditional lenders and debt managers.

It is important for state policymakers to understand the role of non-traditional providers of credit and of debt management services. Further analysis including debt management companies is warranted. A number of other states are conducting studies of this industry as a result of problems across the country. Similar analysis in Delaware may be appropriate.

Currently, title lenders, as do all lenders, must comply with the federal disclosure rules under the federal Truth in Lending Act. This requires disclosure of annual percentage rate on the loan, fees, payback schedule, and monthly payment. The borrower must also sign a contract for the loan that outlines all of the specific conditions of the loan. However, these loans tend to be high cost, short-term loans, with strict provisions should the customer default on repayment of the loan.

We recommend passage of legislation similar to Senate Bill 285 which focuses on title lenders and imposes increased up-front consumer disclosures, a 24-hour rescission period after signing the contract before the customer is obligated (this is similar to the three day requirement imposed on real estate lending transactions), and two back end protections. The back end protections are the most important aspect of the bill in that they require 1) that the Title Lender attempt a work-out arrangement for the loan prior to repossession and 2) that after repossession the loan becomes a "no recourse" loan where the Title Lender accepts the automobile in full payment of the amount due on the loan.

b. Provide support for mainstream and non-profit alternatives to high-cost fringe banking services.

Some mainstream banking institutions and credit unions offer free or low-cost checking and savings accounts, as well as credit cards, signature loans and other loans that continue to be an alternative to high costs fringe financial businesses. Additionally, the development and growth of non-profit solutions to existing lending channels for short term, low-dollar loans should be encouraged. Some non-profits currently have funds to provide short-term loans to consumers for housing and other emergency needs. These programs should be marketed and expanded where feasible. New programs from other locations should be reviewed for feasibility. Examples include: "Ways to Work" offers loans between $500 and $2,500 for consumers who are unable to access financing from traditional sources. State financial support is not necessarily required.

III. Disseminate an easy-to-read list of resources for the unemployed.

While the Department of Labor currently provides a "Survival Guide" for unemployed Delawareans, a single sheet list of contacts for such things as medical coverage, training, and entrepreneurial assistance would offer a short, simple summary of key services and opportunities. It would help to simplify access across state agencies for the unemployed. This would be a very low cost option that could benefit many unemployed individuals and their families and help to prevent the loss of assets through job loss and subsequent challenges.

IV. Create family economic self-sufficiency standards for Delaware.

Thirty-one states have been identified and 24 states have calculated the amount of money working adults must have to meet their basic needs without any kind of subsidies through a project of Wider Opportunities for Women with financial support from the Ford Foundation.39 There are variances in the costs of living due to differences in family size and composition and by geography. Developing this information for Delaware could provide guidance for policy makers, program providers and funders. A local agency or university could be responsible for assisting the University of Washington researchers in this project. Wider Opportunities for Women is currently seeking 4 additional states to begin this 3 to 6 months process in July 2002. The cost of this project including research assistance, printing and dissemination would be less than $15,000 because of the support provided by the Ford Foundation.

V. Develop anti redlining policies for insurance.

Availability of mortgage and homeowners insurance is vital to the ability of low- and moderate- income families to access and protect affordable homeownership. Perceived risk in some locations makes such insurance unavailable or increases the cost of coverage. In addition, such practices reduce equity appreciation for property owners who wish to sell or refinance their homes. Moreover, the lack of substantial information

[39] "Six Strategies for Economic Self Sufficiency." <http://www.sixstrategies.org> Accessed April 2002.

about insurance provision—or lack thereof—hinders our current understanding about why some neighborhoods and populations lack adequate property insurance. Better disclosure and transparency will allow policymakers, community groups, and insurance companies to better understand the trends and practices of insurance lending and redlining. In turn, better protection of property assets can result for all property owners, regardless of income, race, or geographical location.

Ideally, academics, community groups, and policy analysts would like to obtain data including: geographic location, housing structure, loss costs, information on individual policyholders, underwriting guidelines, agent location, and related data. We could create an abundance of information by cross-cutting the data. Realizing that Delaware would incur costs to report such data, the Task Force suggests the following minimum guidelines for disclosure:

- provide geocoded data on property insurance policies, and
- make this data available to the public.

Information should be gathered by the Attorney General's Office, the Office of Human Relations or the Insurance Commissioner's Office regarding the prevalence and disparate impact of these practices on homebuyers and property values in lower income neighborhoods.

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