Welfare Reform New Ideas

Helping the Hardest-to-Employ Get and Keep Jobs

- **Extend Welfare-to-Work Grants and Strengthen Focus on Fathers**. Funding for the $3 billion grant program that the President fought for in the Balanced Budget Act ends in FY 1999. These funds are targeted at the hardest-to-place welfare recipients, and non-custodial parents of children on welfare, and at concentrated areas of poverty. 75% of the funds are allocated to states, who in turn pass them to local Private Industry Councils and 25% of the funds are available on a competitive basis. We expect DOL to propose extension of the grant program in their FY 2000 budget proposal. We should consider revising the statutory language to increase the focus on increasing employment of fathers. While there is a significant level of interest in serving this population, there is likely more we could do to increase the quantity and quality of services. This should also increase support from the Ways & Means committee as Shaw is very interested in fatherhood issues. Possible approaches include requiring states and communities to designate a minimum portion of WTW formula funds for fathers, setting aside a portion of competitive grant funds for this purpose, or earmarking funds for needed technical assistance and capacity building on this relatively new area. Other changes worth considering: shifting more funds toward competitive grants, increasing tribal set aside (currently 1%), and streamlining data collection requirements. Assuming level funding, this would cost $1.5 billion annually.

- **Request Additional Welfare-to-Work Housing Vouchers.** We are unlikely to get the full 50,000 housing vouchers requested for FY 99. This approach continues to have merit, both in helping families move from welfare to work and as a catalyst for changing the way local housing authorities, and HUD, do business. Cost to fully fund 50,000 vouchers is $283 million. Some, including Deich and Edley, have also suggested allowing housing authorities to convert Section 8 vouchers that are turning over to the more flexible approach of the WTW vouchers.

- **Invest in Increasing English Language and other Literacy Skills.** There is evidence that those with low education levels have a harder time leaving welfare. There is also emerging evidence that English language may be a barrier for some minority welfare recipients, including immigrants. We may want to explore whether there is more the federal government could do to increase access to ESL and other basic education that is combined with work, though this does not necessarily have to be done with TANF funds. We need to first explore what is available, whether there are successful models that can be replicated, and what the demand is.

Helping New Workers Succeed in the Workforce/Achieve Self-Sufficiency

- **Welfare to Work Transportation**. There are several ways to ensure people moving from welfare to work can get to their jobs.

- (1) **Request full $150 million authorized for Access to Jobs** for FY 2000 (TEA-21 set guaranteed funding from the Highway Trust Fund at $60 million for FY 2000). This would allow DOT to fund more competitive grants. Note these funds can be spent on current and former welfare recipients, as well as families up to 150% of poverty so they help the working poor as well.

- (2) **Donate surplus federal vehicles to welfare to work programs**. These could be given, leased, or sold to current and former welfare recipients for whom public transit it not a viable option, including those living in rural areas. Cars could be allocated through community-based organizations or intermediaries. This could be modeled after the initiative to donate federal computers to schools.

- (3) **Help former welfare recipients access funds to purchase cars**. In some areas, public transit is not a viable option for a family moving from welfare to work. In addition, owning a car is something many poor families aspire to, and something that helps them become part of the economic mainstream. Family Services of America, and other organizations, currently offer revolving loans for low income families to purchase cars. FSA's model currently operates in 20 sites and is scheduled to expand to 60 sites later this Fall, with partial funding from foundations and private financial institutions. They are also seeking federal funding to help with this expansion. Possible sources include: HUD, Treasury, DOL WTW grants, as well as existing federal and state TANF funds. Another option is to expand allowable uses of IDAs to include purchasing a car needed to go to work.

- **Connection between TANF and Unemployment Insurance.** There is growing interest in exploring the relationship between these two systems. Historically, few welfare recipients have qualified for UI, and some have essentially used AFDC as a form of unemployment insurance. As more welfare recipients joining the labor force, we need to consider the most appropriate way to provide income support to them between jobs. Various approaches include: (a) changing rules of the UI system that make it hard for former welfare recipients to qualify for UI once they go to work and in the event they lose a job and (b) creative uses of federal TANF or state MOE funds to provide income support to people in between jobs. Either approach should be accompanied by a strong effort to promote job retention and rapid re-employment. This could be considered as part of a more comprehensive UI reform initiative that NEC has been considering, but it would not depend on that. NOTE: NGA has a grant to explore this issue and several states are trying innovative approaches. While we do not have to frame the issue in terms of planning for economic downturns, it seems prudent to address this issue earlier rather than later.

- **ALREADY INCLUDED BY JEANNE: Optional state coverage expansion through eligibility simplification** (new policy). In the wake of welfare reform, Medicaid eligibility rules have become even more complex since states must cover people who would have been eligible for AFDC under the old rules. Additionally, Medicaid law allows states to cover parents but not adults without children -- even if they are very poor. This proposal would allow states to opt for a pure poverty standard for Medicaid eligibility for all people (like we do for children) rather than the old categorical eligibility categories. Not only would such an approach simplify the Medicaid program for families and states; it would provide an opportunity for significant coverage expansion. While any change in Medicaid almost always raises concerns amongst some advocates, this proposal would be strongly supported by the Governors and advocates such as the Center for Budget and Policy Priorities. (Cost: Depends on the proposal and projected coverage expansion take-up rates).

- **Transitional Medicaid:** Families can currently receive Transitional Medicaid for up to 12 months after leaving welfare, but only about 20 to 30 percent of eligible families are enrolled. The program has many procedural hurdles that make it more difficult to access than regular Medicaid coverage and the 12 months transitional period is too short for many families. The budget could eliminate some of the current prescriptive reporting requirements now in the law (that, for example, requires families to report earnings in the fourth, seventh, and tenth months of coverage and divides the 12 months of coverage into two 6 month segments with different co-pay and benefit rules) and allow states to provide a full 12 months of coverage without regard to changes in family circumstances, similar to the 12-month option for children that was adopted in the Balanced Budget Act. In addition, the budget could provide states the option of extending transitional Medicaid to 24 or 36. These ideas need to be fully discussed, vetted, and costed out. The current program reauthorization sunsets in 2001.

- **Extend the Work Opportunity Tax Credit and Welfare-to-Work Tax Credits** (WOTC has already expired and WtW will expire in 1999).

Disability Policy

- **Expanding the Defense Department's "CAP" program.** The Defense Department's Computer Accommodations Program ("CAP") purchases equipment for DOD employees with disabilities to allows them to keep working if they become disabled, or for new employees just joining the workforce. By using a central $2 million fund for such purchases, individual offices do not have to bear the cost within their own budgets, and are less likely to be deterred from hiring a person with a disability. CAP is also able to get better prices on equipment through its bulk purchases and expertise. It has a showroom to help employees try out appropriate adaptive devices (CAP makes the decision on what equipment is purchased, not the employee). It has provided over 9,000 accommodations since its inception in 1990. This program is a good example of how employers and employees are taking advantage of new (and increasingly cheap) technology, such as computers for the blind that talk and listen, and alternative computer keyboards for people with dexterity problems, that allow people with disabilities to work. Expanding the program has the strong support of the Administration's appointees with disabilities, in particular for Tony Coelho, chair of the President's Committee on Employment of People with Disabilities.

Defense has estimated that it would cost $8 million a year to expand CAP government-wide, but this is likely overstated since CAP now serves the entire Defense Department for $2 million a year. A more realistic range is $2 - 5 million a year. While having DOD perform this service for all federal employees is a bit unusual, they have a great deal of expertise at this task and they are ready to take on the added responsibility.

- **Tax Credit for Disability Related Expenses:** New tax credit for employers and/or individuals with disabilities with extraordinary disability-related expenses, such as assistive technology or a personal assistant. The proposed credit would allow a credit of 50 percent of the first $10,000 of disability-related work expenses. [Need Treasury information on scoring.]

- **New BRIDGE grant program**: This program would create interdisciplinary consortiums of service providers (employment, transportation, etc.) to better assist people with disabilities in going to work. NEC and DPC will receive revised proposal shortly from the President's Task Force on Employment of People with Disabilities and will evaluate and vet.

- **Information and Communication Technologies for People with Disabilities**. NEC has developed draft proposals now being vetted to ensure that new technologies will be designed from the beginning to be accessible to people with disabilities. Ideas include leveraging federal government procurement, investing in R&D, funding industry consortia, training the next generation of engineers, etc. (Tom Kalil is working on this, coordinating with DPC and OMB).

Tobacco -- New Ideas

- **Tobacco Counteradvertising**: Fund a $200 million per year tobacco counteradvertising and education campaign, as proposed in the President's 1999 budget and McCain legislation. This campaign would develop counteradvertising and purchase enough media time to reach teens at least four times a week. The campaign would also fund an extensive school- and community-based anti-tobacco education campaign.

- **Tobacco Cessation**: Each year, 20 million smokers attempt to quit, but only 1 million, or 5 percent, succeed. More than 90 percent smokers who attempt to quit do so on their own, and the vast majority fail within 2 to 3 days. However, research shows that effective cessation methods could raise success rates to 10-20 percent (over 2 million people annually). The Agency for Health Care Policy and Research (AHCPR) endorsed 5 smoking cessation methods that have been proven to be effective in helping people to quit: gum, patch, nasal spray, inhaler, and pill (Zyban). A full course of these treatments costs around $200-300 (for a three months supply, without counseling). However, less than half of managed care organizations provide coverage of any AHCPR-approved therapies, and those that provide coverage may impose cost-sharing requirements that hinder access to treatment. In fact, a study of managed care in Washington State found that eliminating copayments for smoking cessation services significantly increased participation rates.

These proposals to help current smokers quit could be coupled with our continued call for comprehensive legislation to stop children from smoking before they start. Total combined cost of all these initiatives: $855 million over 5 years. We could make a series of proposals, some part of the budget and some not: (1) Fall -- announce new DOD anti-tobacco plan, and new DOL and OPM tobacco-free workplace programs; (2) Winter -- propose Medicaid and Veterans coverage of cessation benefits through FY2000 Budget; and (3) Spring -- tax coverage of cessation as a medical expense and expanded coverage of cessation benefits in FEHBP.

<u>(1) New Department of Defense anti-tobacco plan</u>. This plan is still being vetted at the agency but will likely include covering over-the-counter nicotine replacement therapies under military health care coverage as part of a comprehensive military-wide anti-tobacco plan. Cost: $60 million per year.
<u>(2) Anti-tobacco workplace initiatives by DOL and OPM</u>. DOL could expand its drug-free workplace initiative to provide information to employers on steps they can take to reduce tobacco use among employees (cost: $63,000 per year). OPM could disseminate a model workplace cessation program for all federal agencies (agencies would use existing appropriated funds).
<u>(3) Medicaid coverage</u>. Currently, smoking cessation prescription and non-prescription drugs are optional state benefits under the Medicaid statute. We could propose to require states to cover cessation, as the McCain bill did (CBO estimated cost: $120 million over 5 years, HCFA estimated $114 million). Alternatively, we could propose an enhanced

federal matching rate for smoking cessation treatments, in order to offer the states an incentive to cover these services. The Hansen-Meehan bill establishes a 90 percent match rate for state costs of smoking cessation services at an estimated cost of about $110 million over 5 years. Currently, 23 states cover Zyban, 6 states cover non-prescription treatments, and 5 states cover cessation counseling. A study by the Center on Addiction and Substance Abuse at Columbia University found that over 42 percent of Medicaid recipients smoke, as compared to 25 percent of the general population and that nearly 10 percent of all Medicaid hospital days are attributable to smoking.

(4) Veterans: We should re-propose the plan from the President's 1999 budget which created a new discretionary program open to all veterans who began using tobacco products while in the service, regardless of their eligibility for other VA health care services (currently less than 15 percent of veterans receive their health care through the VA system because of statutory limits -- veterans must be low income or have a service-related injury.) The VA would contract with private sector entities to furnish AHCPR-approved services to interested veterans. OMB estimates that this proposal would cost $87 million for the first year, and $435 million over 5 years. Thirty-six percent of the 25 million veterans in this country smoke.

(5) Tax Treatment. Currently, the cost of cessation treatment cannot be claimed as a deductible medical expense because the IRS does not recognize smoking or tobacco addiction as a "disease." The IRS has indicated in written opinions that an official medical authority classification of smoking as a disease would allow cessation to deduct these expenses. Treasury is interested in pursuing this in 1999. This would be done outside of the budget.

(6) Federal Employees Health Benefit Program. We could require enhanced coverage of smoking cessation services. One option is to raise coverage limits to more accurately reflect the cost of AHCPR-approved treatments, and to raise the number of treatments allowed per lifetime to account for the fact that the average smoker requires three to five cessation attempts before they successfully quit (i.e., require coverage of $300-400 per treatment, with three maximum treatments covered per lifetime). Another option is to waive the deductible and copayment requirement for cessation benefits. Currently FEHBP fee for service plans, which cover 70 percent of beneficiaries, are required to provide only $100 in smoking cessation benefits. Generally, this coverage does not kick in until after the calendar-year deductible has been met, and most plans restrict benefits to once per lifetime. Many plans only cover prescription drugs. HMO coverage of smoking cessation benefits varies greatly. This would be done outside of the budget, but would have to occur in the spring as part of OPM's annual letter to contracting plans, establishing the terms for the following year of coverage.

Includes ideas from Paul

August 14, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG
CECILIA ROUSE

SUBJECT: Preliminary Compilation of Potential "New Ideas" for FY2000 Budget

This book is an initial compilation of potential "new ideas" for the FY2000 budget. When we return from vacation -- on August 24th -- we will continue to compile and develop new policies for the fall. Many of the proposals in this book come from interest groups, etc. and have not been vetted with any of the economic agencies.

The proposals are categorized into six areas: Education and Training, Community Empowerment, Homeownership, Tax Cuts/Simplification, Financial, and Other. Here is a summary of the proposals:

Education and Training.

- **Tax Credits for Summer School and Tutoring.** Research indicates that students forget a great deal during the summer months. Therefore, Alan Krueger recommends that we propose a refundable tax credit of $150 per student per year to help parents send their kids to summer school.

- **Higher Education Proposals.** Tom Kane has four proposals: (1) a demonstration to test how much grants, loans, work-study, etc. affect college enrollment; (2) limit Pell Grant eligibility to the first two years of college and simultaneously increase the maximum grant size; (3) simplify the need analysis for financial aid which is currently so complicated that it likely serves as a disincentive for some folks to take advantage of the programs; and (4) since minorities are more likely to drop-out of college than whites, create program to provide incentives to colleges to retain minority students better.

- **Education Proposals from Shireman.** Shireman provides eight potential proposals, including an English-Plus Agenda -- an initiative that would invest in the foundation skill of English, then branch out to embrace more foreign language learning (especially in the elementary grades) and international education (in college and graduate school); a School-to-Work II proposal; a National Service II proposal; expanded youth training programs; a truly major Pell Grant increase; a State High Hopes or Pre-K-to-16 Pipeline-to-College initiative; an initiative to get the best and the brightest into teaching; and some kind of proposal on school finance equity.

- **Tax Relief for AmeriCorps Awards.** Individuals who receive an AmeriCorps education award must pay tax on that award. We could provide a tax exemption for the award, which would cost about $14-$20 million per year.

- **INTERNAL Department of Labor Training Memo.** This is an internal Department of Labor memo and we are "not supposed to have it." Ray Uhalde lays out a number of proposals. The most interesting may be to establish a $200 million a year program to provide grants to local areas suffering from skills shortages. The problem with this approach would be that it would go against our efforts of consolidation.

- **Community Workforce Parternships.** A similar proposal to Regional Skills Alliances.

- **Community Education Centers.** This idea -- from a White House Fellow -- would create public schools into Community Education Centers (CECs), where after-school programs would be administered; Head Start and child care would be available; evening classes for adults would be provided; and on weekends, CECs could function as a "one-stop shop" for health and government services that are currently difficult to access.

- **INTERNAL Department of Labor Memo on FY2000 Budget Themes.** This is an internal Department of Labor memo and we are "not supposed to have it." Geri Palast lays out a number of potential themes for the Administration's and the Department's FY2000 budget. The proposed theme for the Administration is an "Out-of-School Youth" effort.

- **Super Small Business Section 127 Tax Credit.** In 1996, we proposed a "super" Section 127 tax credit for small businesses. Under our plan, employers with average receipts over the prior three years of $10 million or less would be allowed a 10 percent non-refundable income tax credit with respect to amounts paid to third parties for employee education and training under a Section 127 plan. The employer's deduction for education expenses would be reduced by the amount of the credit.

Community Empowerment.

- **Local Infrastructural Improvement and Economic Revitalization Fund.** Emil forwarded you this idea to establish a Federal grant program to fund local infrastructural improvements. This would spark revitalization of declining or stagnant low-income areas by providing funds to upgrade local infrastructure. These Federal dollars could leverage State, local, and private funds for such infrastructural efforts.

- **Environmental Activity Bonds.** Just as we proposed to provide tax credits for the interest of school construction bonds, Weinstein and Orszag propose that we do the same to help urban (and rural) areas clean up waterways.

- **Asset Development for Section 8 Voucher Recipients.** Currently, an individual still sees the size of their subsidy reduced for each extra dollar he/she earns. This new idea from Liebman and Orszag would roll-over any savings -- or a part of the savings -- from an individual earning more money into an Individual Development Account (IDA). That is, if the size of a person's Section 8 voucher is reduced by about 30 cents for each extra dollar he/she earns, we could put this savings -- up to 30 cents -- in an IDA. *

Cost? Also for Food Stamp recips?

- **Brownfields Meets Community Development.** Under this proposal, we would push banks to invest in brownfields as part of their CRA commitments.

- **Electronic Funds Transfer and IDAs.** Mike Stegman proposes that we use EFT '99 to help increase savings among low-income Americans. We could use our ability to electronically transfer money to efficiently establish IDAs for more Americans.

- **Community Development Corporation Tax Credit.** In 1993, we put in place a demonstration tax credit for investors in 20 CDCs. According to this report for Bruce Katz' shop at Brookings, this program has been effective. We could propose expanding this CDC tax credit to more areas. The author of this report also proposes some changes to make the tax credit more effective.

- **CDFI Tax Credit.** In 1996, we proposed a tax credit for investors in CDFIs. We could re-propose this $100 million non-refundable tax credit. The maximum amount of credit allocable to a particular investment would be 25 percent of the amount invested.

- **Community Revitalization Tax Credit.** LISC proposes a Community Revitalization Tax Credit (CRTC) -- similar to the Low-Income Housing Tax Credit -- to help stimulate private-sector investment in commercial property in underserved neighborhoods.

Homeownership.

- **Low-Income Homeownership Tax Credit.** Self-Help -- a community group in North Carolina -- proposes a tax credit for investors who provide second mortgages to low-income families. This could significantly reduce the barriers to homeownership among low-income families, who do not really benefit from the home mortgage interest deduction.

- **Increase Allocation of Mortgage Revenue Bonds.** Each state receives a supply of tax-exempt mortgage revenue bonds. These bonds help low-income families become homeowners and help develop affordable rental housing. There are currently 53 co-sponsors of legislation in the Senate and 316 co-sponsors of legislation in the House to increase the allocation of mortgage revenue bonds by slightly more than 50 percent and then index it to the rate of inflation.

- **Expand Use of Mortgage Credit Certificates.** Mortgage Credit Certificates (MCCs) are credits against federal income tax equal to between 10 and 50 percent of mortgage interest (to a limit of $2,000 per homeowner) issued by state governments. MCCs count *against* state's ability to issue mortgage revenue bonds. We could propose to expand the MCC program to allow the limit to be $4,000 for homeowners in EZs or ECs. We could also propose allowing states to not have to count MCCs against their mortgage revenue bond base.

- **First-Time Homebuyer Tax Credit.** The 1997 tax law put in place a $5,000 tax credit for first-time homebuyers in the District of Columbia. To boost homeownership in Empowerment Zones, we could propose allowing any first-time homebuyer in an EZ to take advantage of this tax provision.

- **Historic Homeownership Assistance Tax Credit.** The National Trust for Historic Preservation proposes a 20-percent tax credit to homeowners who rehabilitate or purchase a newly rehabilitated historic home and occupy it as a principal residence.

Tax Cuts/Simplification.

- **H&R Block Tax Simplification Proposals.** H&R Block make 10 proposals to simplify the tax code. The proposals include: (1) simplifying interest and dividend reporting; (2) simplify definitions; (3) simplify forms; (4) simplify child tax credit calculations; (5) simplify education loan interest deductions; (6) simplify home refinancing; (7) simplify deductions used in residential rentals; (8) simplify deductions for software; (9) simplify retirement plan rollovers and penalties; and (10) simplify or eliminate AMT.

- **Marriage Penalty Proposals.** This Treasury document walks through the various marriage penalty proposals.

Financial Matters.

- **ATM Proposal.** Weinstein proposes that Treasury publish an annual report on consumer financial issues, including ATM fees. In each report, Treasury would provide a list of insured financial institutions based on geographic divisions and by size. Treasury would report on the following categories: (1) Fees charged to depositors at ATMs at their home branches; (2) Fees charged by institutions to depositors using other banks ATMs; (3) Fees charged by ATM networks; (4) ATM fees charged to non-member depositors by institutions; (5) Minimum deposit requirements for checking and savings accounts; (6) Fees for overdrafts; and (7) Checking account fees. Fees and charges for checking accounts often depend on what packet of services are offered when you opened account and how much money is in the account. We will need to develop categories which underscore the differences in types of accounts. If we just list checking account fees, the fees that aren't reported would increase.

- **"Debt for Development" Assistance.** Bruce McNamer's proposal for the White House Fellow program.

- **Micro-Enterprise Proposals.** Cliff Kellogg memo outlining existing programs on micro-enterprise loans and on the Kennedy-Domenici PRIME bill.

Other Proposals.

- **Auto Insurance Fraud.** Auto insurance fraud is a $13 billion-a-year problem in America. We could propose significant funding for a Justice Department anti-auto insurance fraud. Since an estimated 13 percent of auto-insurance premiums go to pay for fraud, we could claim that this effort will help drive down auto-insurance premiums.

- **Department of Labor Memo on Pensions.** This memo lays out 20 potential pension proposals. Emil has a copy and will be reviewing these options with the pension group.

- **Research and Development Collaboration.** PPI proposes that we expand the R&E tax credit to provide a flat 20-percent credit for industry expenditures in research consortia and partnerships between industry and universities or federal laboratories. They also propose that we establish an Industry Research Alliance Challenge Grant to help develop stronger links between government and industry research.

- **Child Support Reform for Low-Income Families.** Sara McLanahan proposes that we provide some kind of incentive for low-income fathers to meet their child support obligations.

CORPORATION FOR ENTERPRISE DEVELOPMENT

MEMORANDUM

TO: Jon Orszag, National Economic Council
Paul Weinstein and Andrea Kane, Domestic Policy Council
Michael Barr and Cliff Kellogg, Treasury Department

FR: Ray Boshara, Brian Grossman, and Bob Friedman
Corporation for Enterprise Development

RE: Policy issues regarding IDAs and asset-building strategies

DT: August 26, 1998

The Corporation for Enterprise Development (CFED) greatly appreciates the White House's and Treasury Department's continuing and growing interest in Individual Development Accounts (IDAs) and would like to use this opportunity to briefly discuss a range of current policy issues related to IDAs and other asset-building strategies for low-income Americans.

While we have, of course, discussed these issues with you and others in the Administration on prior occasions, we believe that a couple of them — final consideration of the *Assets for Independence Act*, and the treatment of IDAs in TANF — warrant immediate consideration. We also would like to secure an official ruling on IDAs and the Community Reinvestment Act very soon, and hope that our proposed incorporation of IDAs into *EFT '99* will receive favorable consideration. And finally, in response to your invitation, we would like to briefly present some of the key elements of the broader asset-building agenda, and we encourage both the White House and Treasury Department to embrace all or a portion of it in the President's FY2000 Budget and beyond.

1. *Assets for Independence Act*

As you know, we believe that the legislative process for authorizing and appropriating funds for the *Assets for Independence Act* (AFIA) has moved too far to allow a change of jurisdiction to the Treasury Department. While we believe an attempt to change the jurisdiction might impede authorization, we are more concerned that such a change would endanger any prospect of an appropriation this year and pose increasing problems in coming years as Labor-HHS appropriators (and HHS officials) will be reluctant to use funds from their annual allocation to support a program run by another department. In our view, the growth of the field will be stunted from a delay in funding; thus we endanger not only our representations to the legislators who championed AFIA and directed it toward HHS, but all the community groups who have advocated so actively for its passage.

other issues
– econ literacy
working on IDA guide on econ literacy
– need clarity on tax treatment of IDA match – interest + contribution + withdrawal

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While we do not believe it is advisable for the Department of the Treasury to formally assume administration of AFIA, we believe that Treasury can and should play a significant role in guiding the implementation of AFIA and in organizing financial institutions around IDAs — and strongly recommend that Treasury play the <u>lead</u> federal role developing IDAs into a universal system of asset accounts (as described in the "The Broader Asset-Building Agenda" section below). Thus, we encourage Treasury to <u>advise on the implementation of AFIA</u>, especially with respect to the participation and protocols for participating financial institutions and CDFIs. We would actively support the inclusion of the following report language:

> "Acknowledging the important role that private financial institutions can play in expanding the use of IDAs, the Committee advises the Secretary to collaborate with the Department of the Treasury to ensure that banks, community development financial institutions (CDFIs) and other financial institutions are educated on ways that they can facilitate the development of IDAs within their institutions. The Community Development Financial Institutions Fund (CDFI) within Treasury is well positioned to assist HHS in building these linkages and the Committee strongly urges the Secretary to work in consultation with CDFI in implementing the demonstration authorized under this Act."

Such activities do not, of course, have to be limited to programs authorized under the *Assets for Independence Act*. Financial institutions as diverse as CitiGroup, NationsBank, Merrill Lynch, CDFIs (notably, Community Development Credit Unions), and Shorebank are already planning significant IDA initiatives, and dozens of other banks are already partnering with community-based IDA programs. We believe that Treasury could build upon these activities by (1) broadening interest among and educating a wide range of financial institutions about IDAs; (2) organizing those financial institutions participating in IDA programs to develop common practices and protocols; and (3) convening those financial institutions to discuss best practices and share knowledge.

2. *IDAs and TANF*

As detailed in the enclosed memo prepared by Mark Greenberg of the Center for Law and Social Policy, we are greatly concerned that the proposed HHS definition of "assistance" will discourage states (and needy families) from using their TANF resources to fund IDAs. As you know, IDAs have been widely and consistently promoted as a <u>long-term</u> anti-poverty tool: the *Personal Responsibility and Work Opportunity Reconciliation Act*, foundations and community groups, state policymakers, and the current sponsors of the *Assets for Independence Act* all view IDAs not as short term "assistance" and thus subject to time limits, but as investments — via <u>savings</u> from <u>earned</u> income in <u>restricted</u> accounts — in productive assets that will reduce welfare dependency and help people help themselves out of poverty. For this and other reasons articulated by Mr. Greenberg, we recommend that the final regulations clearly specify that a state's expenditure of TANF funds for an IDA shall <u>not</u> fall within the definition of "assistance."

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Some states proposing tax credits for private contributions to IDAs (based on Neighborhood Assistance Programs) PA, IN

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We understand that the draft final regulations are about to be sent to the White House for final review. We hope that you will do whatever you can to ensure that the final regulations do not discourage states and eligible families from using their TANF dollars for IDAs.

3. *IDAs and the Community Reinvestment Act*

As you may know, dozens of banks and thrifts are currently participating in IDA programs around the country by providing retail banking services to IDA participants, offering matching dollars and operating funds to IDA programs, providing account data to community organizations running IDA programs, and assisting in the design and implementation of IDA programs. These activities serve community development purposes under the *Community Reinvestment Act*. This seems to be fairly clear: as the December 1997 issue of the Office of Thrift Supervision's newsletter states, "Partnership activities with local IDA program providers may assist thrifts in receiving favorable consideration under the CRA."

However, some financial institutions have been reluctant to support IDAs without an official interpretation of CRA significance of various bank IDA-related activities. Based on our conversations with financial institutions around the country, CFED strongly believes that a favorable CRA ruling on bank IDA activities would dramatically — and quickly — increase financial institution participation in IDA programs, thus allowing many more low- and moderate- income individuals to open IDA accounts at financial institutions in their communities.

In April of this year, CFED requested a ruling from the Inter-agency CRA Committee. They declined to offer us a specific ruling on IDAs, instead asking us to refer to rulings on other subjects (see enclosed letters to and from Mr. Michael Bylsma). Since that time, the Treasury Department has tried to push this forward (by, most recently, requesting a positive ruling in connection with National Homeownership Week), but CFED has not yet succeeded in securing a direct ruling. This could most easily be achieved through an "Inter-agency CRA Q&A." CFED thus would greatly appreciate any help you could provide in expediting this process.

4. *IDAs and EFT '99*

As you know, CFED submitted formal comments on the proposed *EFT '99* regulations last November. In those comments, we pointed out that *EFT '99* presents an excellent opportunity to integrate up to 10 million "unbanked" Americans into the financial mainstream — or to further isolate them, depending on how it is used. We hope that our recommendation to link IDAs to the proposed "ETA" has received favorable consideration, and we encourage you to move this and our other recommendations forward as you begin to finalize the regulations. We have enclosed a copy of CFED's formal comments; following is a summary of the recommendations included in those comments:

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1. Add the explicit goal of facilitating savings as part of integrating the non-banked into the U.S. financial mainstream.
2. Interest should be paid on any *de facto* savings that accumulate (after some minimal period) in the ETA.
3. A separate, low-cost, interest-bearing savings account should be set up to facilitate savings.
4. ETAs should be regularly (monthly or quarterly) swept into separate savings accounts or Individual Development Accounts.
5. Savings in Individual Development Accounts should, in particular, be encouraged (with financial incentives or CRA credit) to facilitate the acquisition of high-return productive assets.
6. Include savings facilitation as a criterion in selecting Treasury's financial agent.
7. Use the EFT '99 requirement to promote broader economic literacy that includes savings.
8. Non-financial institutions — notably check-cashers, CDFIs, and schools — should be included in the EFT system, primarily as a point of access for funds in ETAs and to provide economic literacy training. Regulations should be developed to ensure that funds can be accessed through non-financial institutions at a reasonable and fairly uniform cost.

As you may know, Michael Stegman has made similar and even further reaching proposals to incorporate IDAs into *EFT '99*, as you can see from the enclosed policy paper he published in March 1998 through the Brookings Institution.

5. *The Broader Asset-Building Agenda*

The two enclosed publications, *Building Assets for Stronger Families, Better Neighborhoods, and Realizing the American Dream* (1998), and *Universal Savings Accounts – A Route to National Economic Growth and Family Economic Security* (1996), discuss the rationale for an inclusive asset-building policy, and provide several specific recommendations for both federal and state policymakers to move IDAs and other asset-building tools forward.

Given (1) the increasing use of tax policy to achieve social policy goals (including the success of the tax-based anti-poverty EITC); (2) the popularity and asset-building precedent of IRAs; (3) the Treasury Department's responsibility for *EFT '99* and CRA; and (4) the Treasury Department's strong interest in IDAs, we firmly believe that the Treasury Department is best suited to assume the key leadership role in forging broad-scale asset-building opportunities for low-income families.

In our view, the fundamental policy challenge is to provide both the <u>incentive</u> and <u>institutional supports</u> (especially from government, employers, and the non-profit sector) that encourage and facilitate saving and the accumulation of productive assets among the poor (see the enclosed *20 Promising Ideas* for a fuller discussion). Some of our key policy recommendations are as follows:

a. Create Children's Savings Accounts CFED recommends the creation and support of legislation in the U.S. Congress for progressively funded Children's Savings Accounts (CSAs) that could be used for post-secondary education and training and,

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eventually, small business capitalization, first-home purchase and retirement. CSAs are a logical starting point for a new, progressive, universal asset-building policy. Some possible policy design features of a CSA are as follows:

- A CSA would be established by the government for every child born in America, with an initial deposit of $500 or $1,000. Additional yearly deposits would be encouraged and possibly tied to achievements such a completion of each year of school or community service.
- Voluntary savings from families with no more than $75,000 of AGI would trigger refundable tax credits ranging from 50% to 100% of the amount deposited, depending on household income. The goal would be to enable kids to accumulate $5,000 to $10,000 by the age of majority.
- Funds would be restricted to higher education and training, small business capitalization and first-home purchase.
- Matching deposits for children of low-income families could come through refundable tax credits or encouraged from the private sector through a federal tax deduction; equivalent income tax deductions could be available for children of middle-income families.
- Schools, churches, and non-profit organizations could compete for grants to provide economic literacy.
- Banks and other financial institutions could receive CRA credit or tax breaks for holding the accounts of low-income children on a low- or no-cost basis. Preferably, CSAs would enjoy the same investment options now available for IRAs and 401(k)s.

b. Support policies that will expand the number of Individual Development Accounts at the federal, state and local levels. In addition to passing and funding the *Assets for Independence Act*, CFED recommends that:

- Tax policy be clarified to ensure that any savings deposits, matching deposits, or earnings in a federally defined IDA are exempt from taxation.
- Tax credits be provided to individuals or corporations that contribute to IDA programs run by 501(c)(3) organizations, similar to Neighborhood Assistance Programs at the state level.

c. Create payroll tax-based savings system that includes low-income workers and small businesses. There are, we believe, several advantages to promoting saving and asset-building through employer-based programs:

- About half of the U.S. workforce is presently not covered by an employer-based retirement program, so the potential for reaching millions of people (and improving the national savings rate) is great.
- Employers are often viewed as the first source of economic security; this relationship or trust could thus be used to introduce savings.
- Linking savings plans to payroll greatly facilitates savings because it is automatic; that is, people can save without having to make several choices with each check — they make one choice to save, and it is done automatically each payday.
- Initiating an employer-based, tax-benefited savings program would combine the power of two powerful institutions — government and private-sector employers — to promote saving.
- The success of 401(k)s, 403(b)s, and the federal government's Thrift Savings Plan provides an important programmatic precedent, as do SEP-IRAs and SIMPLE-IRAs.

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d. "Democratize" incentives in publicly funded asset accounts such as IRAs, 401(k)s, Medical Savings Accounts, etc.

The 1997 tax bill greatly increases the regressivity of IRAs by allowing more higher-income people to save in backloaded Roth IRAs and IRA Plus accounts. According to Citizens for Tax Justice, the new law will, when fully in effect, channel 32 percent of the tax benefits to the one percent of the population with the highest incomes and the top 20 percent of the population will garner 78 percent of the benefits. The new law also increases the income limits below which taxpayers covered by employer-sponsored retirement plans may make deductible deposits to IRAs.

Any further proposal to expand IRAs, 401(k)s, 403(b)s, Medical Savings Accounts (MSAs) or any other account-based asset subsidy should, therefore, be "democratized" — savings incentives and tax benefits must also be made available to poor and working-poor Americans. This democratization can be achieved by:

- Making these tax incentives refundable — that is, if the deduction for saving in, for example, an IRA creates a negative tax liability, that family would receive a check from the federal government equal to that negative tax liability; or
- Providing direct matching deposits for amounts saved in IRA-type accounts. An ideal system would offer a sliding scale of incentives — from tax deductions for people with higher incomes to matching deposits (or refundable tax credits) for people with lower incomes. Another possibility here is to provide matching deposits to families that save all or a portion of their EITC in an IDA.

We look forward to discussing with you these and any other issues related to IDAs and asset-building strategies for low-income Americans.

Enclosures:

- *HHS Definition of "Assistance" May Discourage States from Using TANF Dollars to Fund Individual Development Accounts*, by Mark Greenberg, CLASP
- Letters to and from Mr. Michael Bylsma on CRA and IDAs
- Formal comments on *EFT '99* (letter to Ms. Cynthia L. Johnson)
- *Electronic Benefit Transfer's Potential to Help the Poor*, by Michael Stegman
- *Building Assets for Stronger Families, Better Neighborhoods, and Realizing the American Dream*, by Ray Boshara, Ed Scanlon, and Deborah Page-Adams (draft)
- *Universal Savings Accounts – A Route to National Economic Growth and Family Economic Security*
- *20 Promising Ideas for Savings Facilitation and Mobilization in Low-Income Communities in the US*, by Ray Boshara and Robert E. Friedman

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
Research Utilization Division

TELECOPIER COVER SHEET

DATE: 9/9

NUMBER OF PAGES (INCLUDING THIS PAGE): 2

TO: ANDREA KANE FROM: ~~Debby~~ GREENSTEIN

PHONE NUMBER:

FAX NUMBER:

SUBJECT: Andrea — Here is rural $ language from HUD FY'99 Senate approps. bill. No comparable language in House. No firm plans yet on how to use. I sent Mercedes Marquez an e-mail about the Oct 9 Olivia Golden meeting. Debby

CR
FYI
per John Bohn

John - Thinks House will go along.
HUD has concerns abt to staff ~~it~~, but not actively opposing it.
Mac Liang Sames of savings - ↑ FHA loan limits, property disposition.

THE PHONE NUMBER FOR THIS FAX MACHINE IS (202) 708-4481

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available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed $68,881,000.

RURAL HOUSING AND ECONOMIC DEVELOPMENT

(INCLUDING TRANSFER OF FUNDS)

For an Office of Rural Housing and Economic Development to be established in the Office of Housing in the Department of Housing and Urban Development, $35,000,000, to remain available until expended: *Provided*, That of the amount under this heading, $10,000,000 shall be used to establish a clearinghouse of ideas for innovative strategies for rural housing and economic development and revitalization, of which $8,000,000 shall be awarded by June 1, 1999 directly to local rural nonprofits and community development corporations to support capacity building and technical assistance: *Provided further*, That of the amount under this heading, $5,000,000 shall be awarded by June 1, 1999 as seed support for nonprofits and community development corporations in states which have limited capacity in rural areas: *Provided further*, That of the amount under this heading, $20,000,000 shall be awarded by June 1, 1999 to state housing finance agencies to support innovative community development initiatives in rural communities: *Provided further*, That all grants shall be awarded on a competitive basis as specified in section 102 of the HUD Reform Act: *Provided further*, That all funds unobli-

$10

$5

$20

$35