

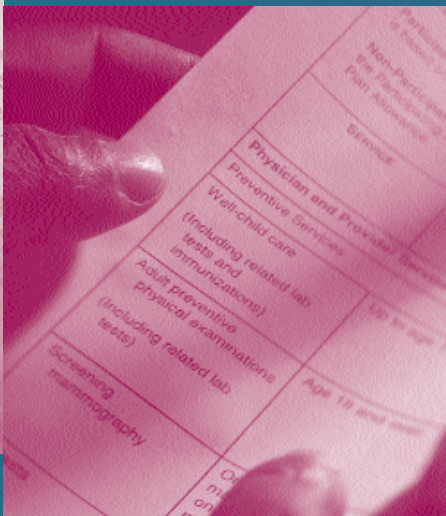
ESSAY



The Annie E. Casey Foundation

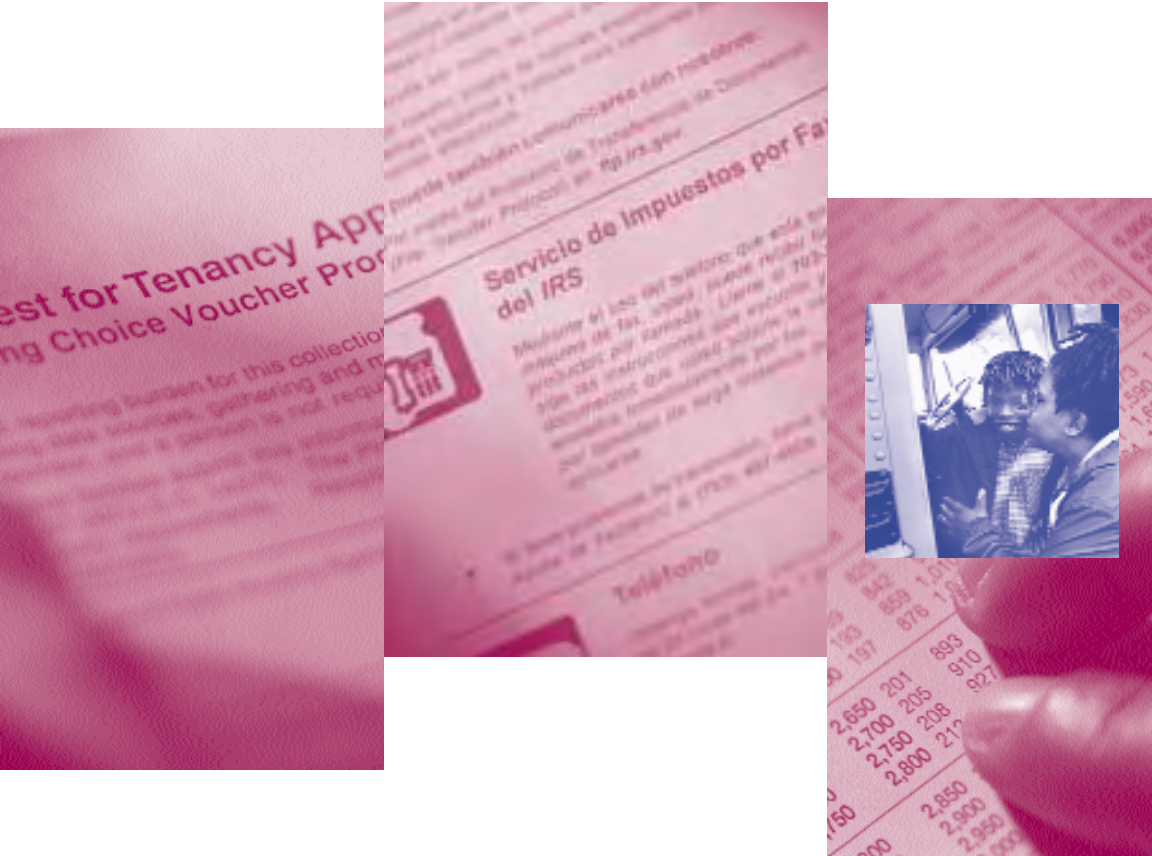
kids count

2003



Service	Age 18 and over
Physician and Provider Services	
Preventive Services	
Well-child care (Including related lab tests and immunizations)	
Adult preventive physical examinations (Including related lab tests)	
Screening mammography	

ESSAY



THE HIGH COST OF BEING POOR

Another Perspective on Helping Low-Income Families Get By and Get Ahead



Welfare-to-Work



STANDARD OF CARE FOR WELFARE TO WORK

by law, rate, but not the amount of the benefit. The amount of the benefit is determined by the Agreement with the Agency and the State.

Annual Percentage Rate	8.9%
Minimum Monthly Payment	
Cash Advance App	

7% Introductory Rate
Cash Card C
your bill
under a
Use a

Since 1990, the Annie E. Casey Foundation's *KIDS COUNT Data Book* has been a steady reminder of the risks that our nation's poorest kids face. Each year, it confirms the fundamental link between poverty and a range of negative outcomes—illness, academic failure, early pregnancy—outcomes that can powerfully diminish a child's chances of adult achievement and success. For us at Casey, it also reinforces our long-held conviction that, in general, the best way to reduce negative child outcomes is to strengthen our nation's most vulnerable families and, in particular, to increase their ability to provide some real economic security for their kids.

Much progress has been achieved on this front. Most significant, social policy reforms have helped almost 2.5 million parents transition from welfare into the workforce; and a range of important social policy investments are helping them succeed in this important transition.¹

Today, more low-income parents are holding down jobs and bringing home paychecks than at any other time in recent memory. Like all parents, they believe that their hard work and sacrifice will translate into a better life for themselves and for their children.

At the same time, even with this good news, far too many low-income parents still find severe obstacles blocking their path out of poverty. Despite their best efforts to succeed in the workplace, many find it nearly impossible to build the savings and assets that are critical for all families to achieve genuine economic security. Even though low-income parents are working harder and longer, too many continue to find it exceedingly difficult to get by and get ahead.

Clearly, many recognize and accept the importance of helping low-wage workers build the skills required to advance to higher paying jobs, particularly since many enter the labor force with limited educational credentials. However, even the best skill-building and job-advancement efforts may not be enough to move these workers to economic security unless we also address another critical—and largely ignored—issue: the very high cost of being poor in America.

The simple fact is that many low-income families, especially those living in

Buying and owning a car can be extremely expensive for low-income workers in poor communities—not only because they have less money to pay for a reliable car, but also because they are likely to incur excessive fees and interest rates to finance and insure their purchase.

high-poverty communities, end up paying far too much for many of life's necessities: food, shelter, transportation, credit, and financial services. Not only are the prices they pay routinely more costly, but they are often downright predatory as well. Compounding this problem is the fact that many low-income families still see their income excessively “taxed” as a result of lost or diminished financial benefits due to improved job earnings. Combined, these factors make it tough for many low-income parents to translate their increased work efforts into the economic security that they and their kids so desperately need.

In the following pages, we examine this serious issue—The High Cost of Being Poor—in greater depth and, in the context of a Casey-proposed framework, highlight how states and communities are implementing numerous programs to address the problem.

How the Poor Pay More: A Closer Look at the Issues

The High Cost of Going to Work

All working Americans face some built-in costs associated with “going to work”—transportation, child care, payroll taxes, work clothes. Although these costs are incidental for many workers, they constitute a real employment disincentive for scores of low-wage workers.

Simply getting to work, for example, can be much more expensive. For many inner-city families, owning a car is a

Essay

necessity because so many jobs have moved from cities to suburban locations unconnected to public transportation systems. For example, a 1998 study of Boston welfare recipients found that nearly all of them lived within a quarter mile of a bus stop or subway train, yet less than one-third of potential employers were located within a quarter mile of a public transit destination.²

In rural areas public transportation is rarely an option since available jobs, especially those paying above the minimum wage, are located in distant communities. In one study, almost 98 percent of rural working families relied on personal cars for all of their local transportation.³

However, buying and owning a car can be extremely expensive for low-income workers in poor communities—not only because they have less money to pay for a reliable car, but also because they are likely to incur excessive fees and interest rates to finance and insure their purchase. Many low-wage workers, particularly those transitioning from welfare to work, have no credit or poor credit histories. Consequently, they're less attractive to mainstream lenders affiliated with franchise dealers than they are to subprime financing companies that charge much higher rates. Subprime lending refers to loans made outside the low-priced so-called prime market that serves consumers who have well-established and unblemished credit histories. Those who don't qualify for even these subprime lenders resort to "buy here/pay here" dealers who sell less costly (and often less reliable) used cars and offer initial financing to their

customers at interest rates that are commonly very high.

These options often are quite costly. In general, interest rates on subprime finance company car loans are about double or triple the interest of prime-rate new car loans. For a 5-year loan with an initial principal balance of \$10,000, the difference between 6 percent interest and 20 percent interest translates into monthly payments of about \$195 versus \$265—a significant amount of grocery money. Over the life of a 5-year loan, the extra interest totals \$4,200.⁴

Added transportation costs also result from the comparatively high price of auto insurance in low-income communities. Research indicates that drivers from inner-city neighborhoods are consistently charged higher rates, despite state laws barring car insurance redlining. For example, based on a report from Consumers Union and Public Advocates, Inc., a driver from South Central Los Angeles would pay almost five times more for car insurance than a resident of a suburb such as San Luis Obispo would pay—even if the drivers, driving records, and cars were identical in every other respect.⁵

The costs of child care—a necessity for working single moms and parents who have multiple jobs to make ends meet—also can be tough to absorb on modest earnings. Child care averages \$4,000 to \$6,000 per year in cities and states around the country, and families with younger children or with more than one child in care face even greater costs. To put this in perspective, the average annual cost of child care for a 4-year-old in an urban area



center is more than the average annual cost of public college tuition in all but one state.⁶

Low-income working families have the most difficulty covering the costs of child care. Consider the example of a two-parent family with both parents working full-time jobs at minimum wage (\$21,400 a year before taxes). According to a recent survey, even if they managed to budget 10 percent of their income for child care (nonpoor families, on average, budget about 7 percent), they still would be several thousand dollars short of what they need to afford *average-priced* child care, much less the higher prices that many better quality centers and family child-care homes charge.⁷ Although many families qualify for subsidy support through the federally funded, state-administered Child Care Development Fund, it's estimated that only 1 in 10 eligible families actually receives help.⁸

In addition to the high cost of participating in the workforce, low-income workers frequently end up paying a lot more for family health care costs than higher paid workers who are covered by their employers. In a 2002 annual survey by the U.S. Census Bureau, 83 percent of people earning \$75,000 or more reported that their employers offered health insurance, compared with only 26 percent of those earning \$25,000 or less.⁹ Low-income rural workers and their families are particularly likely to be uninsured. Nearly one-quarter of rural people under age 65 were not covered by any type of insurance.¹⁰ Many low-income families do get medical coverage, but surprising and

growing percentages do not and end up buying high-cost coverage or paying out-of-pocket. The out-of-pocket costs paid by the uninsured averaged \$420 for each uninsured member of the family.¹¹ Medical coverage issues become even more significant for the 54 percent of low-wage parents who have neither paid sick leave nor vacation leave, since these workers also face potential loss of income due to family illness.¹² Low-income parents who do not have public insurance often must make difficult financial trade-offs between getting health care for themselves and their children and buying groceries, paying rent, or paying for car repairs. Even workers on Medicaid can find themselves in a quandary because if they earn too much, then they no longer qualify for coverage.

For many uninsured workers and those who have gaps in insurance, medical *care* can quickly become medical *debt*. The Commonwealth Fund's 2001 Health Insurance Survey found that half of the uninsured have problems paying for their medical care, and a significant portion of those had been contacted by collection agencies.¹³ The average amount of medical debt was about \$9,000; however, the amount owed by those surveyed ranged from less than \$1,000 to more than \$100,000.¹⁴ For a lot of families, these medical debts become a lifetime obstacle to ever accumulating any real assets or savings.

But higher prices for transportation, child care, and health care are not the only ways the working poor end up paying more. Many of these workers also confront an "earning tax": the reduction of

Although mainstream retailers may steer clear of poor neighborhoods for a variety of reasons, exploiters often are quick to jump into the void. For example, low-income neighborhoods are flooded with “rent-to-own” outlets that have prospered in the marketplace by targeting families at the bottom third of the economic ladder.

needs-based assistance—such as Temporary Assistance for Needy Families (TANF), child-care help, housing subsidies, and Medicaid—after they reach a certain level of income. Thus, many who previously have benefited from these support programs actually wind up losing income by working.

For example, research on welfare reform indicates that for many families in transition, benefit loss can cancel out the increased earnings derived from salaries. For example, MDRC’s 6-year evaluation of Connecticut’s Jobs First program¹⁵ found that the program¹⁶ group’s higher earnings and gains from the Earned Income Tax Credit (EITC) were largely offset by reduced welfare and Food Stamps, and increased payroll taxes. As a result, though they worked hard, their average income was about the same as when they were fully dependent on welfare. Similar findings emerged from MDRC’s 6-year evaluation of Florida’s Family Transition Program (FTP).¹⁷

The poor also face barriers to income-building due to income and asset restrictions associated with some supplemental government benefits that, ironically, originally were designed to move them out of poverty. For example, until recent changes to the federal rules, families seeking Food Stamps were penalized for acquiring or possessing such basic family assets as a car or savings account. Under federal rules, a family owning a vehicle worth more than about \$4,500 could be denied assistance based on the value of that asset.¹⁸ Complicating this problem was the fact that Medicaid, child care,

energy assistance, and other programs applied different, and sometimes contradictory, asset and income rules.

Working parents also incur considerable costs—such as transportation, child care, and lost wages—simply applying for and attending to often complicated and redundant certification and recertification procedures. As a result, too many needy families choose not to apply for the financial help that they need. For example, more than 40 percent of households who should be eligible for Food Stamps were not receiving them in 2000.

In the end, these complicated, fragmented, and time-consuming rules can frustrate families and weaken the power of social policy reforms that promote the value of work as the most viable road to economic security.

Paying More for Basic Needs

Because many low-income families live in economically or geographically isolated neighborhoods, shopping near home means paying more for food, clothing, furniture, or any of the myriad items that all families need. Small-scale local businesses do make some essential goods available to residents in low-income neighborhoods, yet these retailers must operate outside the economies of scale that enable larger mainstream businesses to offer more and charge less. Rural merchants' greater distance from wholesalers entails higher costs so they must charge more to cover costs and make a modest profit.

For example, families in low-income rural communities who lack access to supermarket chains pay 17.5 percent more

and inner-city families pay up to 22 percent more than the U.S. Department of Agriculture-recommended budget for basic food items.¹⁹ Even when residents in low-income communities do have access to neighborhood supermarkets, they're likely to pay higher prices for similar items sold in more affluent locations. In Baltimore, a city that lost 15 percent of its supermarkets between 2000 and 2002, residents in the poorest neighborhoods sometimes pay twice as much as suburban shoppers.²⁰

Although mainstream retailers may steer clear of poor neighborhoods for a variety of reasons, exploiters often are quick to jump into the void. For example, low-income neighborhoods are flooded with "rent-to-own" outlets that have prospered in the marketplace by targeting families at the bottom third of the economic ladder. According to a recent Federal Trade Commission survey, there are more than 8,000 rent-to-own stores serving an estimated 3 million customers.²¹

The rent-to-own industry offers credit to consumers for a variety of merchandise, such as furniture and home electronics, for weekly or monthly payments that can be applied toward ownership. Rent-to-own customers routinely pay two to three times what merchandise would cost if they could afford to pay cash. Yet, according to the industry's own figures, only about one-fourth of its customers achieve their goal of ownership.²² These outlets avoid regulation under usury laws because the customer always has the option of returning the merchandise, if, after months or even years of keeping up with the inflated

rental costs, they find that they can no longer make the payments.²³

For many low-income consumers, one alternative to exploitive rent-to-own payment plans is a retail merchant-issued credit card. But the costs still can outweigh the benefit. These cards typically carry interest rates that average 21 percent, about 3 percentage points higher than bankcards, although rates vary by state.²⁴

Housing also can carry very high comparative costs for poor families, particularly for those who must rent. Although low-income people constitute the majority of renters in this country, most private market-rate rents are far higher than these families can afford. Put simply, there is no housing market in the country where a family earning today's full-time minimum wage can afford a modest two-bedroom rental, without far exceeding the accepted standard of paying 30 percent of one's income toward housing. According to the U.S. Department of Housing and Urban Development (HUD), more than 5.4 million renter families either spend more than half of their income for housing, or live in severely distressed housing.²⁵ In the growing number of "expensive" cities, like Oakland and Boston, a family would have to earn a full-time wage of more than \$25 an hour in order to afford a two-bedroom apartment at HUD's 2003 fair market rent.²⁶

Even where affordable rental housing does exist, the demand far exceeds the supply. A shortage of affordable housing, including rental housing, is an increasing problem particularly in rural America. A quarter of rural families, 5.5 million, pay more than 30 percent of their income on

housing.²⁷ According to estimates, there are only about 4.8 million assisted-housing units currently available for the 13.3 million renter households earning 50 percent or less of the area median income.²⁸ One recent report estimated that in 1999, there were only 39 available and affordable units for every 100 poor renter households.²⁹

The high cost of utilities also makes it difficult for low-wage workers to stretch their incomes to meet family needs. In 2000–2001, low-income families spent almost 20 percent of their annual income on energy bills. For all other consumers, the proportion was about 4 percent. In winter, particularly in regions such as the Northeast and Midwest, the energy burden on poor families is even higher. Despite programs designed to help keep the power on for low-income families, many find themselves simply unable to pay the bill. Most states do not have regulations prohibiting utility shutoffs other than during 24-hour periods where the temperature remains below freezing. During the winter of 1997, more than 1.1 million low-income families had their heat shut off for 10 days or more because they could not pay their utility bills.³⁰

Paying More to Get Ahead

For any family, real financial security is dependent on their ability to build savings, accumulate assets, and protect themselves from emergencies and risks. Yet, for a variety of reasons, low-income families have fewer opportunities to take advantage of the basic financial mechanisms—such as savings plans and reasonable credit—that most Americans take for granted.



Vehicle Year

01

Income Credit (EIC) Table

table

EIC

One critical factor is that low-income consumers are not well served by the mainstream financial institutions that commonly provide savings and asset-building mechanisms. The fact is that low-income communities are more isolated from institutions like banks and credit unions and more likely to be served by subprime and predatory financial outlets. Between 1985 and 1995, the number of bank branches per capita declined slightly nationwide, but branches in low- and moderate-income communities accounted for most of the decline.³¹ Rural areas also have seen steep declines in mainstream banking services. In 2000, almost one in four of nonmetropolitan counties was served by two or fewer banks.³²

The Federal Reserve estimates that about 13.2 percent of American households don't have a checking account and that about 9.5 percent of American households don't have any type of bank account. As one recent report detailed, the demographics of the "unbanked" are striking. The unbanked are disproportionately poor, minority, younger, and less educated than the general population.³³

As mainstream financial institutions pulled out of poor urban and rural communities, check-cashing outlets, payday lenders, and other fringe industries often moved in. Clearly, many unbanked residents appreciate these services because they provide convenient ways to cash paychecks, make payments, and draw cash in an emergency. In addition, checks clear without a waiting period so customers get their money immediately. However, the high fees and business practices of these

outlets, which tend to strip rather than build consumer wealth, can counterbalance these conveniences.

The alternative financial service industry has grown dramatically, and the check-cashing industry, in particular, has exploded in scale and profitability in recent years. In many low-income communities, it's much easier to find a check-cashing outlet than a bank. In Chicago's poorest neighborhoods, the ratio of check-cashing outlets to banks is nearly 10:1.³⁴ One study found that about 11,000 check-cashing stores were in business in 2000, almost double the number 5 years before.³⁵

Although low-income consumers can cash checks without the maintenance fees and minimum balances required by many banks, they may end up paying much more, piecemeal, than if they had a bank account. For a worker who takes home \$16,000 a year, for example, average check-cashing fees (2.34 percent of face value) add up to about \$374 a year.³⁶ In other words, lots of low-wage workers spend 2 percent to 3 percent of their income simply to get their salary. Immigrants who also send significant portions of their income to family abroad incur additional costs in wire and transfer fees, typically around \$15 for \$200 (the usual monthly amount, for example, sent by Latino immigrants who earn less than \$25,000 a year).³⁷

Another burgeoning wealth-stripping business gaining ground in many poor neighborhoods is expensive professional tax-preparation services that help eligible families navigate the complex EITC application process and get a quick electronic

refund. This expedited refund is actually a “refund anticipation loan” (RAL) with a very high annualized interest rate, ranging from 67 percent to close to 800 percent.³⁸ In reality, the average \$200 fee enables claimants to receive their money only about 8 to 10 days sooner; and error rates across these services are about the same as when consumers complete the application themselves. Overall, in 1999, at least \$1.75 billion in EITC benefits to poor families were used to pay for these preparation and quick-refund services.³⁹

Due to the absence of available and affordable mainstream credit options, the payday loan industry also dominates low-income financial markets by providing services for high fees. In the 1990s, the number of payday lenders expanded from about 300 stores to more than 8,000 stores.⁴⁰ Payday loans are small cash advances based on a personal check held by the lender for future deposit (alternatively, the lender may require electronic access to a consumer’s bank account). These loans range from \$100 to \$500 and are due in full on the borrower’s next payday or within 14 days.⁴¹ The problem arises when the borrower cannot make the repayment on time—a common scenario, given that these loans are targeted to consumers living paycheck-to-paycheck, often with no reserve. In these instances, the loan is rolled over again and again, so that the borrower ends up in perpetual debt, sometimes paying an average Annual Percentage Rate of 470 percent.⁴²

For example, if a borrower takes a loan for \$200, the payday lender holds their personal check in the amount of

For any family, real financial security is dependent on their ability to build savings, accumulate assets, and protect themselves from emergencies and risks. Yet, for a variety of reasons, low-income families have fewer opportunities to take advantage of the basic financial mechanisms—such as savings plans and reasonable credit—that most Americans take for granted.

Too many Americans pay more because their incomes are low. They pay more to participate in the workforce; they pay more to provide the basics for their families; and they pay more for the basic financial mechanisms that families need to save, build assets, and get ahead.

\$200 plus fees for a total of \$230. If, at the end of 2 weeks, the overextended borrower cannot repay the loan, then they are faced with two options: allow the check to bounce, or pay to extend the loan. The first option carries with it the threat of “bad” check charges or prosecution—which can add to already poor credit histories. The second option will cost the borrower an additional fee of \$30 each time the loan is carried forward. If it takes 3 months to repay the principal, then the borrower will pay a total of \$180 in fees for a \$200 loan.

Insufficient access to mainstream credit, however, can have its most dramatic effect when low-income consumers try to make the type of asset purchases that build long-term equity, such as homes. Homes constitute an important source of wealth for all Americans and the most important one for homeowners in lower income brackets. Among homeowners with incomes under \$20,000, half held nearly 72 percent of their wealth in home equity. Homeownership constitutes an even greater share of personal wealth for minorities than for white Americans: Home equity represents more than 80 percent of the net worth for African-American and Hispanic homeowners.⁴³ Not only does equity provide homeowners with a relatively stable investment, but it also gives them an asset that can be leveraged to survive crises (such as illness or unemployment), or to help themselves or their children get ahead (for example, by financing a college education, or buying the car needed to drive to a better job).

A lot of low-income families, however,

find the path to home ownership filled with pitfalls—not because real estate prices in poor neighborhoods are so high, but because of the often-scandalous credit rates they’re required to pay. Inner-city neighborhoods have become the favored market for subprime lenders who offer loans that can cost a borrower up to \$20,000 more in interest than, for example, a Fannie Mae loan. Increasing numbers of rural low-income families are being pushed into mobile homes. Since such homes must be financed as personal property, they are more expensive to finance and do not appreciate in value. Subprime lenders market aggressively in low-income communities, steering otherwise qualified borrowers away from prime loans and into the high-cost market.

The difference between a prime and subprime loan for the borrower’s pocketbook is substantial. For example, a homebuyer paying a subprime 13 percent mortgage interest rate on a loan of \$107,500 will owe \$514 a month *more* than the homebuyer holding a prime 7 percent mortgage. Over the life of a 30-year mortgage, the holder of the subprime loan will pay \$184,997 more than the prime-rate borrower of the same amount.⁴⁴

Particularly since the early 1990s, lenders who take advantage of borrowers by inducing them to agree to mortgages with terms that they cannot realistically meet increasingly have targeted low-income homebuyers and refinancers. These “predatory lenders” differ from the legitimate subprime lenders who provide access to credit to genuinely high-risk borrowers on honest terms. In contrast, predatory

lenders exploit the flexibility allowed in the largely unregulated subprime market and zero-in on customers who have limited information and experience in the area of credit and banking. These victims, including many borrowers who actually could qualify for prime interest rate loans, are sold high-interest loans hedged with crippling conditions—including excessive fees and balloon payments—that can strip them of cash and equity and ruin borrowers in the long term.

According to the Mortgage Bankers Association, in the 3 months that ended in June 2002, creditors across the country began foreclosures on 134,885 mortgaged homes, or about 4 in every 1,000—the highest rate in the 30 years that the association has been monitoring mortgages. The backlog of foreclosed homes reached 414,772, another record.⁴⁵ In the city of Baltimore alone, foreclosure rates rose 400 percent between the early 1990s to the end of the decade, as a result of corruption and predatory lending in FHA-insured mortgages, conventional loans, and refinancing.⁴⁶

Foreclosures among the 26.4 million families with conventional loan terms are relatively rare, but among those with subprime rates and especially those with “predatory” terms, the rate is dreadfully high. On average, consumers with subprime mortgages, which were rare 5 years ago but are commonplace now, were eight times more likely to lose their home in default than those with prime, conventional mortgages.⁴⁷ For those who do not lose their homes to default, there are still very high costs in the forms of hefty fees,



penalties, and inflated interest rates. The costs of predatory lending practices (equity stripping, rate-risk disparities, and excess foreclosures) to American consumers top \$9 billion a year.⁴⁸

Overall, the amount of money lost to low-income families and to communities themselves as a result of income-stripping financial services and predatory practices is enormous. The Fannie Mae Foundation put the total annual costs of fees paid from four high-cost financial service industries at more than \$5.45 billion.⁴⁹

The Implications of the High Cost of Being Poor

Too many Americans pay more because their incomes are low. They pay more to participate in the workforce; they pay more to provide the basics for their families; and they pay more for the basic financial mechanisms that families need to save, build assets, and get ahead. They have less to spend and have to work even harder to get the most value for their money. Above all, they are least able to develop an economic cushion to help them through tough times.

The modesty of their earnings, combined with the failures of their local markets and public policy, leave low-wage workers and their families in a state of asset poverty. They can't save enough to acquire assets because a disproportionate share of their income goes into paying for subsistence. And, they frequently can't borrow to acquire assets because the business practices of the credit industry—both mainstream institutions and predatory lenders—work against them.

Low-income families are commonly one crisis away from economic catastrophe. Even in the best of times, they can't leverage their earnings into real, lasting prosperity for themselves and their kids. Lack of assets means entrenched, intergenerational poverty for millions of Americans, no matter how hard they work.

More mainstream banks need to tailor their fee structures and services to customers who need ready access to cash from their paychecks, are likely to keep very low levels of deposits in their accounts, and are unfamiliar with or distrustful of traditional banking services.

As a result, low-income families are commonly one crisis away from economic catastrophe. Even in the best of times, they can't leverage their earnings into real, lasting prosperity for themselves and their kids. Lack of assets means entrenched, intergenerational poverty for millions of Americans, no matter how hard they work. In the end, despite their efforts, far too many low-income workers find themselves with few options that can help them build the economic security that they aspire to and that their families desperately need. Given this, it's easy to understand why so many hard-working, low-income Americans feel more vulnerable to crises and less confident of ever getting ahead.

Leveling the Playing Field for Low-Income Families

Clearly, a range of issues contribute to why the poor pay more to participate in the workforce, provide for their families, and build the assets they need. All help to create an unequal economic playing field for those who require the most help.

Consequently, we believe that it's important to tackle this affordability problem on several fronts. In the following pages, we propose a four-part platform that we hope can serve as a model for stimulating new thinking and action. In addition, we discuss an array of promising efforts that we believe are moving in the right direction. For more information, see the 2003 KIDS COUNT Resource Kit.

Encourage Quality Retailers to Locate in Low-Income Communities

If low-income consumers living in economically and geographically isolated neighborhoods are to make the most of scarce resources, then they need greater access to the affordable retail goods that most American families enjoy.

One way to achieve this is to help mainstream businesses see the market potential in low-income neighborhoods. At least three major studies in the past few years suggest that low-income urban markets remain underserved because retailers base their business decisions on research that significantly underestimates the potential profitability of inner-city customer bases. Mainstream retailers themselves acknowledge the widespread perception that inner-city neighborhoods lack the purchasing power and customer concentration they need to do business.⁵⁰

Much of this stems from commercial marketing analysis that is driven by an emphasis on average individual household income. Recently, a number of tools and techniques that use new data compilation, analysis, and forecasting models are helping to paint a more accurate and very different portrait of inner-city markets by focusing on the concentrated buying power of densely populated urban neighborhoods, rather than average income. Work done by **MetroEdge (Chicago)**, the **Crossroads Research Center (Minneapolis)**, **Social Compact (Washington, DC)**, and the **Employment and Training Institute (University of Wisconsin, Milwaukee)** shows that the aggregate buying power of many neigh-

borhoods matches or surpasses that of more prosperous, but sparsely settled, suburban locales.

In addition to new research tools, there are projects that work directly with community-based groups, helping them use new marketing techniques to promote the economic viability of their neighborhoods. The **Initiative for a Competitive Inner City's Neighborhood Business Development Methodology**, for example, enables local nonprofits to assess and map neighborhood assets and strengths and then market these in ways that can attract new neighborhood business activity more successfully. This model and others are bringing together residents and local businesses to help lay the foundation for increased investment in ongoing, community-based, retail development strategies.

New York City's Economic Development Corporation (EDC) works directly with private developers to revitalize vacant or underused urban-core land. The EDC recently developed Peartree Square, a shopping center that has brought a number of mainstream retailers, including a major supermarket, to an underserved city neighborhood. Similarly, **Baltimore**, using almost \$14 million in state, city, and private funding, recently broke ground on one of the few supermarkets to come to the city in several years. The project was a collaborative effort among the city, the business community, and surrounding neighborhoods and will create 150 new jobs and develop adjacent retail space.

Targeted public/private initiatives also can help promote inner-city business development. Examples can be found in

state efforts designed to develop or expand the **Community Development Financial Institutions (CDFI)** industry. CDFIs are financial institutions—community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds, among others—that have community development as a primary mission. To accomplish this goal, CDFIs make loans and provide services to individuals, businesses, and organizations that may be considered risky by conventional industry standards. As of 2001, 12 states had taken steps to promote a state CDFI industry.³¹

For example, in **Illinois**, a nonprofit organization (the **Illinois Facilities Fund**) recently took the lead to establish a coalition of financial institutions, nonprofit organizations, and employment projects that influenced state lawmakers to create a statewide program for strengthening and expanding the CDFI industry. Illinois has since approved a state-based CDFI that will attract additional federal funds; provide financing, grants, and technical assistance to CDFIs; foster partnerships with the private sector; and support CDFI expansion and services throughout Illinois.

Cities and states that do not have a strong CDFI network also can work to ensure that existing financial institutions better meet the financial service needs of low-income and minority communities by complying with and even exceeding the requirements of the Community Reinvestment Act. For example, in **Milwaukee**, the city comptroller annually evaluates financial institutions operating in the city by developing a report card that includes scores for performance in lending to

minority communities. Only those that receive a high grade are eligible to receive city financial deposits.

Provide Consumers With the Tools They Need: Financial Education, Access to Basic Financial Services, and Opportunities to Build Credit

For many low-income consumers, using retail and financial markets that operate on the fringe is commonplace. Many living on the economic edge are induced to accept fees that are far too excessive, credit terms that are unnecessarily burdensome, and payment terms that are unreasonable—particularly when they're packaged in marketing schemes that make them sound too good to refuse. Given this, it is critical that low-income consumers have the tools to succeed: financial education that provides information to help them make sound decisions; greater access to fair financial services; and opportunities to build credit so that they can move beyond the grasp of predators and begin acquiring assets.

Financial Education

There are numerous good financial literacy programs nationally that help families avoid common and costly mistakes when buying a home, securing a consumer loan, or starting a savings plan. Although financial literacy programs vary in their approach and curricula, all aim to empower families with good information about how to evaluate the costs and benefits of financial transactions—including those found only in the fine print—and to help them achieve better financial man-

l Rent Stabilization and
AFFIDAVIT OF ORAL NOTIC



1000-	+	
750-	+	
500-	+	
250-	+	
100-	+	
75-	+	
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agement. It is widely acknowledged that one way to attract families to financial literacy education programs is to tie participation to the conditions of using a particular financial service. The following examples illustrate this approach:

- The **Corporation for Enterprise Development (CFED)** is the leading national group in the field of Individual Development Accounts (IDAs), savings plans in which consumer contributions are matched and used for expenditures such as education and home purchases. The CFED has found that one key to successful IDA programs is effective and mandatory financial literacy training. Families enrolling in IDA programs have strong motivation to learn to save in order to maximize the benefit of the matching dollars deposited in these certified accounts. The CFED and partner organizations have developed a curriculum that provides each new enrolling family with credit counseling and credit repair. They also require families to commit to a reasonable spending plan and set up savings accounts outside the IDA.
- Several community credit unions are now promoting financial literacy. By tying low-cost loans (that serve as alternatives to payday loans) to participation in financial literacy programs, they're servicing the short-term financial needs of their customers while ensuring that at the end of the loan term, families have improved credit ratings, active checking accounts, and small savings accounts.
- Government agencies also are encouraging financial institutions to offer financial

literacy training, especially to those consumers without a previous relationship with a bank. The **Federal Deposit Insurance Corporation** runs a national **Money Smart Program** that provides a curriculum and training to collaborative ventures between banks and local nonprofits. Taking part in **Money Smart** can help banks fulfill part of their Community Reinvestment Act obligations.

- Some employers are incorporating financial literacy into the workplace for the benefit of their employees. In January 2000, **United Parcel Service (UPS)** launched a financial education program. Those eligible for this opportunity include 42,000 full-time managers, specialists, and nonunion administrative employees. The program will deliver more than 1,500 workshops over a 2-year period, and employees will be allowed to attend on company time.

Financial Services

While financial literacy training is an effective way to help consumers make more prudent choices, low-income consumers also need practical, wealth-building financial products from which to choose. More mainstream banks need to tailor their fee structures and services to customers who need ready access to cash from their paychecks, are likely to keep very low levels of deposits in their accounts, and are unfamiliar with or distrustful of traditional banking services. Community banks whose mission is service may lead the way in developing technology-enabled, cost-effective services for these customers.

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Some banks already have opened neighborhood-based “outlets” that provide check-cashing services, money orders, and savings accounts. **Union Bank of California** has pioneered such an approach with 12 “Cash & Save” outlets, which began operating in 1993. They offer a creative combination of check-cashing and banking services in the same location. Among the banking services are low-cost, modified savings accounts designed to help check-cashing customers build savings.⁵²

Other mainstream banks have begun to tailor their services to the needs of high-poverty rural populations. The **Southern Development Bancorporation**, a \$350 million development bank holding company, now serves the Arkansas and Mississippi Delta with a full line of financial products and development services, including bank credit, housing development, small-business assistance, workforce training, asset building, and advocacy.

Credit unions also are devising alternatives to high-cost financial services for low-income families. The **Landmark Credit Union** in Milwaukee, for example, has a pilot program to steer borrowers away from payday lenders and toward longer term, lower interest loans that are packaged with financial education and a credit union savings account.⁵³ Overall, **Community Development Credit Unions (CDCUs)** offer financial products that meet the immediate needs of low-income customers and simultaneously build their credit and assets.⁵⁴ CDCUs provide short-term loans that are structured to compete favorably with the high-cost payday loan industry, offering these loans to borrowers

Financial literacy and a greater range of available mainstream financial services certainly can help low-income families spend and save more shrewdly. However, real asset development will depend on their ability to build a positive credit history and access fair and affordable borrowing opportunities.

One appropriate mechanism for combating predatory lending on a national scale would be to draw on the FHA's support and resources to promote regulations that protect borrowers and neighborhoods from the effects of predatory lending.

at 20 percent to 40 percent of the cost of standard payday loans.

The **Latino Credit Union**, a project of the **Center for Community Self-Help** in North Carolina, is a unique financial institution that has designed services that meet the needs of low-income working families. They helped pioneer the use of ATM cards to streamline and reduce the cost that immigrants must pay to send money home to family members.

Philanthropies also are investing in efforts aimed at providing better financial services to low-income communities. For example, the Casey Foundation recently deposited \$1 million into the **Harbor Bank of Maryland** to support low-income community development and revitalization in East Baltimore. The money enables the minority-owned Harbor Bank (which serves communities largely ignored by commercial financial institutions) to become even more active in revitalizing low-income neighborhoods by increasing the number of loans to residents, businesses, and nonprofits. Harbor Bank also will conduct economic literacy seminars that offer low-income residents consumer, credit, and banking information, with incentives to open accounts.

Finally, employers also are beginning to fill the financial services gap, with some offering a wide spectrum of benefits, including payment and payroll deduction options. Many are responding to the strong economic payoff that results from providing these benefits to low-wage workers. According to American Payroll Associates, the average payroll check costs employers \$1.07 to process, whereas direct

deposit costs about 5 cents per employee.⁵⁵ Some employers, like **Sears, Ruth's Chris Steakhouse**, and **WHSmith** booksellers, are reducing administrative costs through payroll debit cards. Under this program, an employee's salary can be transmitted to the card each pay period. The card can be used to withdraw funds from an ATM or as a method of payment.

Another recently introduced employer financial benefit is the employer-backed line of credit. For example, the "Clear Card" is an employer-provided credit line being used by, among others, **Reliance Standard Life Insurance** and **Whirlpool**.⁵⁶ Employees receive a credit line of 2.5 percent of their annual salary that they can repay through payroll deductions spread over the year, without ever facing interest or late fees.

Corporate Voices for Working Families, a national coalition of 32 corporate leaders, advocates corporate programs that provide employer-based work supports and access to affordable, nonpredatory financial services for low-income workers. This group offers good evidence that many large employers view these investments as contributing to a "dual bottom line" that benefits both employers and employees.

Credit Building

Financial literacy and a greater range of available mainstream financial services certainly can help low-income families spend and save more shrewdly. However, real asset development will depend on their ability to build a positive credit history and access fair and affordable borrowing opportunities. Otherwise, their chances to invest

in homes, transportation, business, and education—investments with the asset-building potential that can advance family economic security and help halt the spiral of intergenerational poverty that permeates so many communities—will be severely compromised.

Currently, credit-reporting systems focus almost exclusively on the failures of low-income families to pay their bills on time; such systems ignore other evidence of regular, responsible payment. Thus, a delinquent utility fee can permanently damage a family's credit rating, but no amount of consistent, timely payment can be recorded as positive credit behavior in the existing system.

One promising idea to address this issue is the **Pay Rent, Build Credit Data Network**, which will function as a consumer reporting agency under the Fair Credit Reporting Act and make rental payment data available to authorized subscribers. The potential value of this effort is significant, since rental histories are overlooked as predictors of future ability to pay a mortgage, despite the fact that rents often are as high or higher than monthly mortgage payments. It's been shown that good payment habits can reduce interest rates by 25 to 30 basis points and save a low-income family \$30,000 over the life of a typical home loan.⁵⁷

Another approach, which also helps guard against potential discrimination toward low-income borrowers, is the use of advanced, computerized risk-assessment technology (automated underwriting). Although they don't totally eliminate income and racial bias, technological

advances in mortgage lending have demonstrated that the risk of default among low-income borrowers is nowhere near as widespread as lenders traditionally have supposed. Automated underwriting uses a much broader range of variables to evaluate a loan applicant's credit worthiness; income is only one among many other factors. Since the mid-1990s, this process has enhanced lenders' ability to identify good and bad credit risks in their applicant pool, and loan approval rates have risen for low-income and minority customers.

For example, tests of automated underwriting demonstrate that this system can increase loan approvals substantially for many low-income and minority loan applicants compared to manual systems.⁵⁸ However, this innovation can help only a limited sector of low-income borrowers because the data source that fuels the assessment program is bank records. This is one more reason why it is critical to help the “unbanked” connect to mainstream financial institutions and products.

Promote Regulatory Reforms That Protect Low-Income Consumers

In addition to promoting financial literacy and access to quality financial products, it's also clear that stronger regulatory reforms are required to combat predatory practices that strip wealth and prevent asset development, especially in high-poverty communities.

The Community Reinvestment Act (CRA), passed in 1977, has been the nation's most important regulatory tool for ensuring that financial institutions

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Beyond tax credits, low-income workers also would gain a significant boost through subsidies aimed at core areas that tend to take the biggest bite out of already scant paychecks and savings: food, housing, and child care.

fairly serve the credit needs of low- and moderate-income families. However, since the 1970s, the business of banking and mortgage lending has evolved dramatically, limiting the efficacy of an increasingly outdated CRA. Currently, less than 30 percent of home purchase loans are subject to intensive review under CRA. In some metropolitan areas, this share is below 10 percent.⁵⁹

This lack of review translates into a lack of reliable and relevant data to assess the application of fair lending principles and effectively regulate practice. For example, data from the Home Mortgage Disclosure Act neither reflect annual interest rates nor fully capture the points and fees that lenders must pay. The result is that regulators can consider only the number of loans that banks originate to low- and moderate-income borrowers, not their quality. In fact, the regulatory function of the CRA actually may reward banks that make high-cost or predatory loans by tracking only the number of loans that they make to less affluent consumers. This insufficient regulation at the federal level sometimes has allowed predatory practices to proliferate. Fortunately, a number of states and cities around the country have responded to the growing problems in federal regulations by passing their own, more effective, ordinances to curb these exploitive practices in their jurisdictions.

North Carolina, with the support of a broad coalition of banks, credit unions, mortgage industry representatives, and consumer advocates, has enacted the nation's first state law to curb predatory lending. The law was driven by research

indicating that more than one-third of all subprime home loans had predatory features that actually stripped equity or imposed hidden costs on borrowers.⁶⁰ In 1999, the reform saved the state's homeowners an estimated \$232 million by prohibiting predatory practices and ensuring that borrowers have relevant information.

Cities and community-based organizations also have launched efforts to protect their neighborhoods from predatory practices. The following examples illustrate such initiatives:

- In one low-income neighborhood in **Des Moines** (part of Casey's *Making Connections* initiative), a local nonprofit, **Citizens for Community Improvement (CCI)**, reached out to residents to uncover widespread predatory practices. CCI worked with neighborhood leaders, government officials, financial institutions, and housing advocates to pass a city ordinance enacting new protections for homebuyers trapped by "contract sales"—unregulated "rent-to-own" transactions fraught with inflated and hidden costs and heavy penalties for nonpayments. CCI formed a Predatory Lending Task Force, which negotiated a groundbreaking agreement with one company to halt their predatory practices and restructure existing loans to eliminate predatory features. The task force also helped enact a moratorium on all Iowa foreclosures until questionable loans were reviewed. CCI plans to press other finance companies to sign similar agreements. Meanwhile Fannie Mae has committed \$3 million to a pilot program launched by CCI to help refinance preda-

tory home loans.⁶¹

- In Baltimore, grass-roots community organizers from **ACORN (Association of Community Organizations for Reform Now)** with Casey support, built the largest community-union coalition in recent Baltimore history and sought legal and regulatory redress from city and state officials. HUD established Baltimore as a laboratory to demonstrate how mortgage fraud and predatory lending can be prevented and how families and communities can recover their losses.⁶² The efforts of the **Baltimore City Flipping and Predatory Lending Task Force**, a coalition of consumer advocates, industry representatives, and government agencies, generated intense publicity on predatory lending that has resulted in numerous criminal convictions, revocations of real estate licenses, and major concessions from key financial institutions (such as agreements to restructure bad loans, halt foreclosures, and increase prime lending).
- Similarly, **New York City** passed an ordinance in late 2002 that prohibits the city from doing business with institutions that engage, directly or indirectly, in predatory lending practices and that regulates the participation of home improvement contractors in the home-loan market. Under this new legislation, financial institutions that practice unfair lending cannot receive city contracts, deposits of city funds, or subsidies of any kind from the city.⁶³

Local reforms do provide concrete examples of ways to improve the functioning of credit markets; however, predatory lenders operate outside the bounds of

individual jurisdictions. They exploit victims even in jurisdictions with strong protections, simply by basing their operations in a different state, county, or city with weaker laws. For example, although some states have tried to protect consumers from payday lenders through usury laws and small-loan rate caps that prohibit triple-digit interest, lenders have found creative ways to circumvent these laws, even to the point of obtaining exemptions by partnering with out-of-state federally regulated depositories.

Therefore, national reform is necessary to control and eradicate predatory lending—provided that these reforms strengthen, rather than override, local ordinances geared to local practices and conditions. One appropriate mechanism for combating predatory lending on a national scale would be to draw on the FHA's support and resources to promote regulations that protect borrowers and neighborhoods from the effects of predatory lending.

In addition to more effective prohibitions against predatory lending, low-income workers, in particular, would benefit from more prudent regulation of tax-preparation services that prey on families filing for the Earned Income Tax Credit and other refundable credits that successfully have bolstered income for millions of working families. Tax-preparation services often bypass state usury laws (when they exist) by partnering with financial institutions that have federal charters and are, therefore, not subject to local regulations. Several states, including Wisconsin, California, New Mexico, and Massachusetts,

are now taking a hard look at these practices and moving toward efforts to provide more protection to consumers.

Finally, revisions to the Fair Credit Reporting Act are needed. While current regulations require credit-reporting agencies to convey accurate and complete information to creditors and to inform the consumer if his or her application for credit has been denied, they do not require creditors to report when a customer actually pays their debts on time.⁶⁴ The credit-reporting system focuses exclusively on the payment failures of low-income families and ignores other evidence of regular, responsible payment, thereby denying consumers the opportunity to demonstrate evidence of positive credit behavior.

Reinforce the Financial Benefits of Work

If low-income families—like all families—are simultaneously to provide basic necessities, respond to emergencies, and still build a nest egg for the future, then we must not only level the consumer playing field, but also help them bolster and stretch their income and earnings.

One approach is through refundable tax credits for workers whose earnings are so low that they currently have little or no income tax liability. The Earned Income Tax Credit, for example, has lifted almost 2.5 million children out of poverty since 1998. Given this success, it makes sense to protect and expand the EITC and other important tax credits such as the Child Tax Credit and the Child and Dependent Care Tax Credit. Similar to tax deductions for businesses and more affluent workers, these credits provide a concrete strategy



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for bolstering income and enhancing the value and payoff of work. We also need to extend their reach. One way is to simplify and consolidate the credit for the EITC, the Child Tax Credit, and the Additional Child Credit, plus other family tax benefits. This would encourage more eligible workers to apply, help discourage reliance on professional tax services, and minimize errors that potentially delay refunds.⁶⁵

An additional tax credit opportunity would be to expand the “Savers Credit” (which extends the federal match for IRA contributions to families that earn too little to owe income taxes) and make it refundable. Analysis indicates that this could have a major impact in helping low-income families build assets.⁶⁶

Beyond tax credits, low-income workers also would gain a significant boost through subsidies aimed at core areas that tend to take the biggest bite out of already scant paychecks and savings: food, housing, and child care.

Promote Greater Use of Food Subsidies

Although a family of three, in which a parent works 30 hours per week for the minimum wage, qualifies for up to \$247 worth of Food Stamps, only about half of all eligible families actually receive this benefit. In the fall of 2002, the federal government, under the latest Farm Bill, passed a number of new state options designed to help the Food Stamp program reach more eligible families. These options reward states that have more effective outreach efforts and that provide better service to families in need.⁶⁷ They also promote simplified applications and

recertifications, waivers for unemployed childless adults, and the restoration of eligibility to legal immigrants and align the asset and vehicle test in the Food Stamp program with TANF and Medicaid. Several states are actively taking advantage of this new opportunity.

For example, last November, **Massachusetts** streamlined application and reporting requirements, expanded immigrant eligibility, provided exemptions for child support payments and deductions for home utility costs, raised the asset cap for cars and savings, and automated transitional Food Stamp eligibility for families leaving welfare for work.⁶⁸ The state also initiated the Coordinated Food Stamp Outreach Program, and applications from families eligible for Food Stamps doubled in Boston one month after this campaign began.⁶⁹ In addition to Massachusetts, other states that are moving forward in this area include **Pennsylvania, Washington, Illinois, and Wisconsin.**

Put Affordable Housing Within Reach

The cost of housing has climbed, and the supply of affordably priced housing has shrunk, yet subsidies to assist low-income renters have not kept pace. The number of new federal housing vouchers funded in FY 2002 was lower than the number funded in any year between 1983 and 1994.⁷⁰ We believe that it is critical to address this pressing need, particularly given the growing body of research linking housing subsidies to employment and job retention. According to one study, subsidized families are 16 percent less likely to return to the

welfare rolls in the following year than families without housing assistance.⁷¹ The link between housing subsidies and improved employment outcomes has been demonstrated in studies conducted in several states, including **Minnesota, Massachusetts, Georgia, Ohio, Michigan, California, Oregon, and Oklahoma**, as well as in some cities and counties (**Milwaukee and Los Angeles County**).

In addition to direct subsidies, some states, like **Indiana and Michigan**, are providing renters with tax deductions to compensate for some rental costs. **New Jersey** requires landlords to give tenants a portion of any property tax rebate on a unit. In **Minnesota and New Jersey**, employers receive incentives to develop affordable housing for employees.⁷²

Help Working Parents Get Needed Child Care

In recent years, both the need and the demand for low-cost, high-quality child care have increased, particularly as greater numbers of low-income parents have moved from welfare to work. States have recognized that access to quality child care is critical to help low-income working families get by and get ahead. As caseloads have declined, states are allocating significant TANF funds to child care. TANF funds and the Child Care Development Fund (CCDF) are the two main sources of federal assistance for low-income child care. The number of children served through federal programs has increased from 1 million in FY 1996 to an estimated 2.45 million in FY 2000.

Despite increases in funding for

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Clearly, if we are to level the “affordability” playing field for our most vulnerable families, much needs to be done. The good news, as indicated by the range of efforts taking place nationally, is that many are recognizing that paying more simply because your income is low is a practice that is out of sync with our country’s core values. At the same time, we believe that the complex issues behind this problem require responses that go beyond anything currently being done.

subsidies, demand always has outstripped supply, and states have been faced with many unmet needs for affordable, quality child care, even at the height of economic boom. In 2004, states will be less able to address the funding gap, as both TANF caseloads and CCDF funding level out, and states face budget deficits projected to range from \$70 billion to \$85 billion for FY 2004. Increasingly, states are placing families on waiting lists, raising income eligibility restrictions for assistance, raising parent fees, and reducing investments in quality care.⁷³

With declining federal subsidies and intense budgetary pressure, states must find ways to meet the needs of increasing numbers of working parents. As welfare caseloads level off, it will be essential to compensate for the decline in redirected TANF funds by ensuring that all eligible parents make use of CCDF subsidies. Many parents are either unaware of their eligibility, or overwhelmed by the complex application process. Enhancing outreach efforts and assistance to these parents is crucial, as it becomes even more essential to make maximum use of scarce funds.

Moreover, as states strive to do more with less, they should give high priority to turning back the tide on rising eligibility requirements. In order to help low-income families meet their obligations as both workers and parents, we believe it’s prudent that states consider expanding income eligibility for child-care assistance up to 75 percent of the state median income. In addition, we recommend that parent co-pays for child care remain below 10 percent of family income (low-income

families pay an average of 14 percent of earnings, compared to 7 percent for higher-income families) and that co-pays be waived for families below the poverty line.

Reduce the Hidden Tax on Going to Work

Although subsidies can help make the difference between getting by and getting ahead, their impact often is undermined by government rules and regulations. For example, former welfare recipients who might have depended on housing subsidies, Medicaid health insurance, child-care assistance, and Food Stamps actually could become more financially disadvantaged when they find work because their increased job earnings are cancelled out by reduced program benefits. In effect, we're financially punishing some low-income families who turn to work, rather than welfare, to meet their needs because their overall income drops, even though their work hours and employment earnings rise.

Clearly, penalizing work effort or ambition is neither the intention nor the policy of any of these social programs. Rather, families earning their way off public benefits are caught up in a frustrating tangle of regulations that govern a patchwork of fragmented programs. The cumulative impact of these regulations on families is left out of the often complex calculation, with sometimes tragic effects. Although unfortunate, this situation is not surprising. However, a number of innovations are underway that can help policymakers and agencies collect the data and predict the effects of rising earnings and falling benefits on overall family income,

help smooth the financial transition to independence, and ensure that work pays.

One project currently underway at the **National Center for Children in Poverty (NCCP)** will help policymakers get the information they need to align regulations with the goal of promoting economic self-sufficiency. NCCP has developed a method for analyzing the interaction among earnings, benefits, and taxes on family income and calculating for each state the potential resources available to families as their earnings change. Now being piloted in **Illinois, Alabama, Maryland, Connecticut, and Georgia**, the project may be expanded to 25 states over the next 3 to 5 years.

Even with better data about the potential effect of earnings on critical family subsidies, states need the flexibility to develop strategies that can address these issues. Given this, we believe that it makes sense for the federal government to allow states to waive, on a limited basis, rules that restrict the amount of income that workers can earn before subsidy eligibility and benefit levels for federal programs are negatively affected. This practice already is in effect for TANF and will soon be permitted for Food Stamps, under the 2002 Farm Bill. States' success in moving parents from welfare to work suggests that many would use such an opportunity to develop creative pro-work policies that simultaneously protect earnings and provide families with the supports they need.

Finally, we need strategies to reduce the high cost of compliance with agency requirements. One approach is to "package" supports for working-poor families.



A few states have begun to address this issue by implementing an application process that reduces the previously mentioned costs by allowing working families to apply or recertify for the Food Stamp program, Medicaid/state Child Health Insurance Programs, and other programs at the same time. These strategies become increasingly possible as states realign their eligibility criteria and lengthen their certification periods (sometimes for up to 12 months) for many of these programs. Helping more states to adopt this strategy also might reverse the trend in declining participation rates for these programs.

Conclusion

Clearly, if we are to level the “affordability” playing field for our most vulnerable families, much needs to be done. The good news, as indicated by the range of efforts taking place nationally, is that many are recognizing that paying more simply because your income is low is a practice that is out of sync with our country’s core values. At the same time, we believe that the complex issues behind this problem require responses that go beyond anything currently being done.

The federal government, states, cities, and local communities are addressing various dimensions of this issue yet, to date, none has put into action the comprehensive responses required. If we are truly to deliver on the fundamental promise that hard work, self-sacrifice, and prudent investment are the building blocks of economic security, then we must promote

approaches that demonstrate a new national seriousness about leveling the cost of living for low-income families. None of the proposals advanced in this essay is strong enough by itself to help America’s most vulnerable working families become economically self-sufficient. Taken together, however, we believe that they offer a more powerful, realistic, and rational approach to addressing this critical national goal.

Meeting this challenge will require unprecedented public *and* private commitment; national, state, and local collaboration; and policies, programs, and resource allocations that are both complementary and reinforcing. Though difficult, we believe that it can be done. Over the past decade, our nation mustered the will, policies, and resources to move millions of parents into the workforce. Now let’s apply that same level of determination and focus to the challenge of moving them—and their kids—out of poverty and closer to real financial security.

**Douglas W. Nelson, President
The Annie E. Casey Foundation**

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