

Testimony Supporting:

Committee Bill 5624, *An Act Concerning the Connecticut IDA Initiative*

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To the Committee on Labor and Public Employees
March 6, 2008

Senator Prague, Representative Ryan, and distinguished Members of the Committee:

We are testifying today on behalf of Connecticut Voices for Children, a statewide, independent, research-based organization dedicated to speaking up for children and youth in the policy making process that has such a great impact on their lives.

Connecticut Voices for Children supports Committee Bill 5624, *An Act Concerning the Connecticut IDA Initiative*. This bill would add, as an allowable purpose for which savings in individual development account (IDA) accounts can be used “the costs of education or job training for a dependent child of the account holder.” We would urge that this bill be amended, however, to increase funding provided to Connecticut’s IDA program, or – at the least – maintain it at current levels (rather than reduce it as the Governor has proposed in her FY 09 budget revisions).

While initiatives such as a state earned income tax credit play a critical role in helping hard working families make ends meet, IDAs provide a mechanism through which families can begin to build an asset base which is critical both for helping families get ahead, and for enabling them to weather various economic storms.

There exists a long history of encouraging asset building in this country. The *Homestead and Land Grant Acts of 1862* and the *GI Bill of 1944* demonstrated the important role government can play in helping Americans build assets and thereby invest in their futures. The federal government today remains very active in subsidizing asset accumulation, although those efforts are directed to a very large extent at wealthier families. Importantly, two studies show that the vast majority of federal support for asset building goes to those with high incomes, despite the fact that it is lower income families who are clearly most in need of assistance in building a solid asset foundation.

- A CFED study found that in 2005, the federal government invested \$357 billion in asset development, including \$72.6 billion in support of homeownership through the deductibility of interest payments on mortgages⁴. The CFED study notes that households with incomes in the top fifth nationally received the vast bulk (88.7%) of the asset-building benefits.⁵

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⁴ Lillian Woo and David Buchholz, *Subsidies for Assets: A New Look at the Federal Budget* (CFED, 2007).

⁵ Woo and Buchholz, 9.

- In February 2008, Pew Charitable Trust's Economic Mobility Project reported in *How Much Does the Federal Government Spend to Promote Economic Mobility and for Whom?*⁶ on federal "mobility" spending, which includes asset-building supports. This report found that federal mobility spending in 2006 that benefits higher-income households (\$540 billion) was 2.6 times greater than spending that benefits lower-income households (\$205 billion). It also found that much federal mobility "spending" is through the federal tax code through employer-related work subsidies, homeownership subsidies, and savings and investment subsidies, and these tax benefits even more preferentially benefit the highest income families. Indeed 68.8% of these benefits accrue to the wealthiest fifth of families (by income) and another 12.3% to the second wealthiest fifth. By comparison, the poorest fifth of families (by income) receive just 3.4% of these benefits.

Connecticut Voices for Children has been working for several years with CFED (formerly the Corporation for Enterprise Development) to advance family asset-building policies in Connecticut. Most recently, we released in December the third *Connecticut Family Asset Scorecard*⁷. This scorecard paints a sobering picture of Connecticut, showing that fully one in five Connecticut families lacks the financial assets needed to subsist for even three months if income is interrupted, even if the family reduces its living expenses to living at the federal poverty level. Moreover, the Scorecard highlights the stark disparities that exist in this prosperous state. For example, Connecticut's white-headed households enjoy a median net worth that is almost 27 times greater than the net worth of minority-headed households.

The CFED report on which our Connecticut report is based identifies twelve core policy areas that states should adopt to build a society in which all families have sufficient assets to weather such economic storms as a job loss, a sustained family illness, or a divorce. A strong IDA program is one of those core policies.

Connecticut's IDA initiative has two of the four features of a strong IDA program – earning positive grades for having a "steward" within state government [the Department of Labor], and for providing funding to cover administrative operating costs.

However, the report criticizes the Connecticut IDA Initiative for having a funding stream that is both grossly inadequate and unstable. This situation is further exacerbated by the Governor's budget revisions, which would decimate FY09 funding for the Connecticut IDA Initiative; the Governor proposes to reduce funding by \$250,000 (42%).

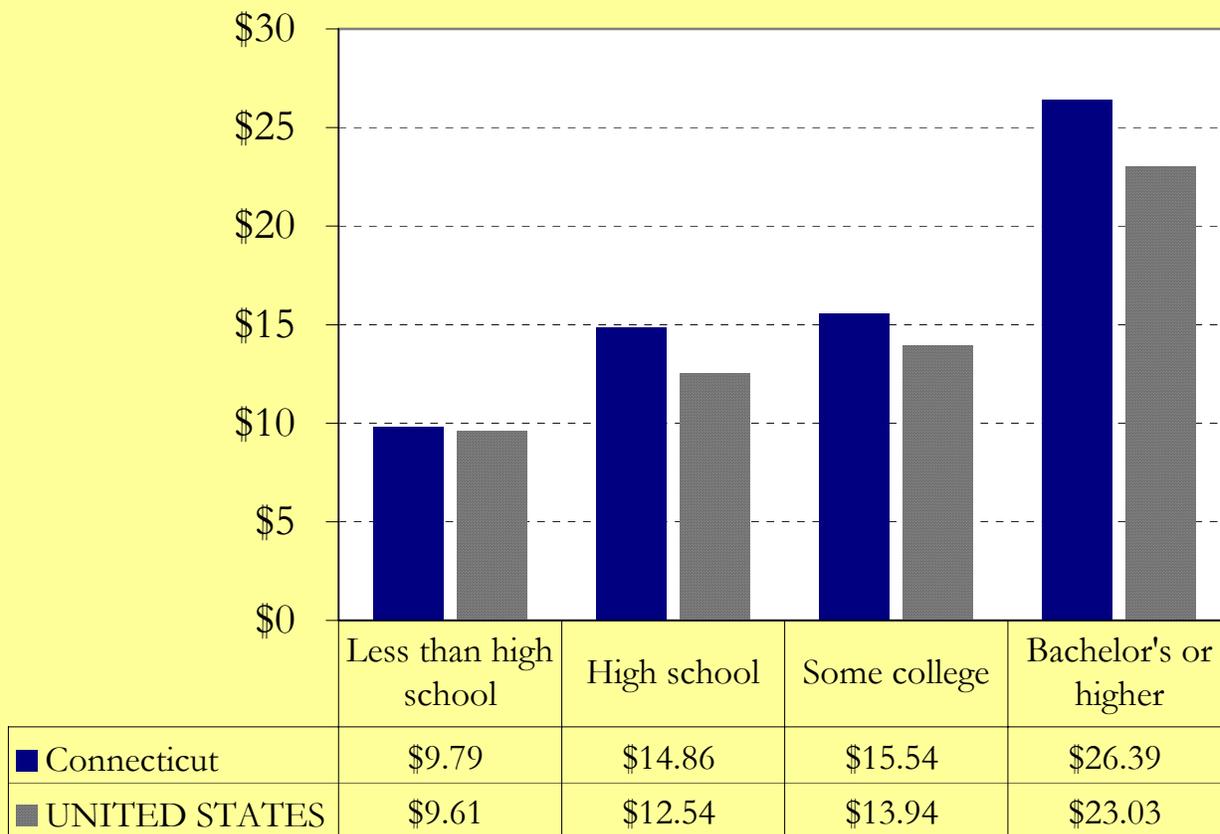
Committee Bill 5624 focuses on, perhaps, the most important asset building strategy available to families, and that is investment in human capital. Ensuring that every Connecticut resident is able to pursue the advanced educational opportunities is the long term answer for families struggling to move up the ladder of economic opportunity, and is also imperative for the future well-being of the Connecticut economy. We cannot afford to leave a sizeable portion of the Connecticut workforce behind if we want to be able to compete in today's global economy.

⁶ A. Carasso, G. Reynolds, & CE Steuerle, *How Much Does the Federal Government Spend to Promote Economic Mobility and for Whom?* (Pew Charitable Trusts, Economic Mobility Project, February 8, 2008). Available at: www.economicmobility.org/assets/pdfs/EMP_Mobilty_Budget.pdf.

⁷ Joachim Hero, Douglas Hall, and Shelley Geballe, *Connecticut Family Asset Scorecard* (Connecticut Voices for Children, 2007).

The dividends available through higher education can be seen in the chart below, which highlights the wage premium associated with various levels of educational attainment.

Education Pays: Median Hourly Wages by Educational Attainment: Connecticut and United States, 2006



Source: Hero, Hall, and Geballe, *The State of Working Connecticut*, 2007.

This graph clearly shows that with each step up the educational ladder, a comparable jump in wages can be expected. The ‘wage dividend’ available from achieving a bachelor’s degree or higher is particularly striking, and is even more pronounced in Connecticut than at the national level. This bill will enable low income families to save for the higher educational needs of their children, and thus enable more low income young people to achieve their full academic potential. This is important in general, but particularly so given the inadequate funding of need-based higher education aid in Connecticut.

Connecticut Voices for Children also believes that Connecticut’s IDA Initiative is an important component in what needs to be a strategic focus on encouraging a savings society. Now that Congress and the White House have agreed on an economic stimulus package to spur spending and try to keep the United States economy from going into recession (if it isn’t there already), we need to think about ways to encourage higher rates of savings, particularly for families that currently lack a foundation of assets to help them weather economic storms such as the current foreclosure crisis and the looming recession. By encouraging

investment in human capital, through attainment of higher education, Bill 5624 takes a significant step, helping low-income families to save and build wealth.

Thank you for hearing our testimony today in support of Committee Bill 5624. We look forward to working with this committee to encourage further family asset building in Connecticut.

