

Earning a Decent Living and Building Wealth

Earning a decent living and building wealth is our next important gateway to opportunity. A job with benefits that pays at least enough for a family to be self-sufficient and to build assets is the surest path into the Cycle of Opportunity.

Individuals and families who earn enough to be self-sufficient and to build assets are more likely to enjoy financial stability through retirement and be able to pass on opportunities to future generations.

Individuals and families who do not earn enough to be self-sufficient are likely to cut corners, such as going without insurance, threatening their overall well-being. They are also less likely to be able to prepare for retirement by building wealth, and less likely to be able to help their children get ahead.

To measure how well Coloradans are doing getting well-paying jobs and building wealth through asset accumulation, we have selected the following four indicators:

Indicator 1: Earning a self sufficient wage

Earning a self sufficient wage is critical to moving families and individuals onto the Cycle of Opportunity.

Indicator 2: Home ownership

Owning a home provides shelter for a family and is the largest source of wealth for many.

Indicator 3: Families experiencing asset poverty

Families need savings to allow them to weather an emergency, such as the loss of a job or an illness.

Indicator 4: Households with bank accounts

Traditional bank accounts help provide financial stability and tools for building savings and home ownership.





Indicator 1: Earning a self-sufficient wage

For individuals and families to enter and remain in the Cycle of Opportunity, they need to earn at least enough to pay their expenses without help from outside sources.

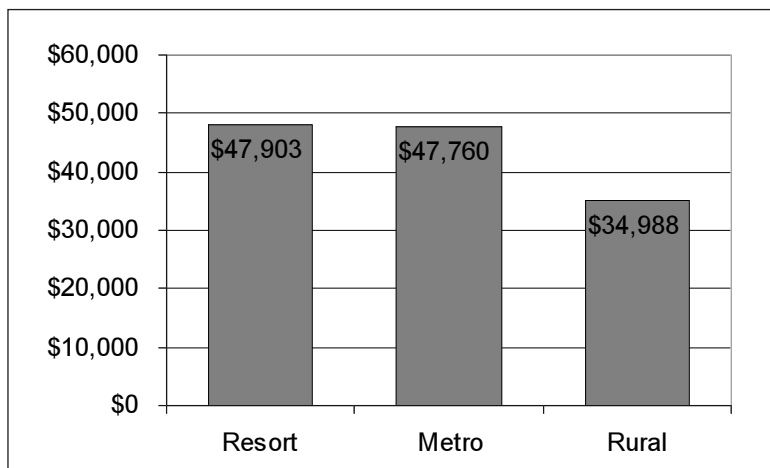
The Colorado self-sufficiency standard, developed by the Colorado Fiscal Policy Institute and discussed in more detail on pages 5-6, is the best tool for measuring which families are meeting this goal.

The federal poverty level does not adequately measure what it takes for a family to make its own way. The self-sufficiency standard more accurately measures the average income a family or person needs to meet basic needs without public assistance.

The standard takes into account the size and composition of the family, the broad range of expenses each type of family incurs, and variables in the cost of living in different areas of Colorado.

The self-sufficiency wage for all types of families of four ranges between \$35,000 in rural areas and \$48,000 in the resort and metro areas of Colorado.

Figure 1. Self-sufficiency standard for a family of four in Colorado, by region, 2004



Source: Colorado Fiscal Policy Institute. "The Self-Sufficiency Standard for Colorado 2004: A Family Needs Budget." 2004. Note: The Self-Sufficiency Standard is adapted for all types of families of four.

Of Colorado's 1.78 million households, 36 percent earn less than \$35,000 a year, and 24 percent earn less than \$25,000.

These data suggest that while a large majority of Colorado families earn enough to be self-sufficient, a third or more of Colorado's families may not be able to make ends meet on their own.¹

Female-headed households and minority households find it more difficult to meet the self-sufficiency standard for Colorado. In 2004, 27.6 percent of female-headed households had incomes below the federal poverty level.²

The median incomes of African-Americans at \$37,729, Asian Americans at \$37,565 and Hispanics at \$33,512 fell below the self-sufficiency standard for a family of four in the metro and resort areas of Colorado. Median incomes for white families, at \$54,118, were above the rate for all areas.³

In 2004, the federal poverty standard for a family of four was \$18,850, far below the actual amount it takes to cover all necessities for a family of four anywhere in Colorado.

A worker making \$10.30 per hour, or twice the \$5.15 per hour minimum wage in Colorado, would make \$21,000 a year – more than the poverty level for a family of four but far less than what is required to be self-sufficient.

Two adults in the same household, both making twice the minimum wage, would earn \$42,000 a year, still below the self-sufficiency wage for a family of four in the metro and resort areas of Colorado.

Indicator 2: Home ownership

Home ownership is the most common form of wealth accumulation for families, accounting for 32 percent of their total net worth in 2000. It represents 56 percent of the net worth of the poorest families, those with average household incomes of \$15,650, and 39 percent of the net worth for families with average household incomes of \$45,750.⁴

Home ownership is a relatively stable investment and the primary means to pass wealth from one generation to the next.

Federal tax breaks, such as mortgage interest deduction, makes home ownership an attractive investment.

Home ownership also ties people to their communities. Cities and towns with high rates of home ownership enjoy greater neighborhood stability, better school systems and lower crime rates.⁵

In 2003, 71 percent of Colorado households owned their homes, above the national average of 68 percent. Colorado’s rate of home ownership increased more than two percentage points from the 2001 data used in our first opportunity report, while the national rate increased only slightly.

Home ownership rates continue to vary significantly based on income and race, with 73 percent of white families and 52 percent of minority families owning their own homes.

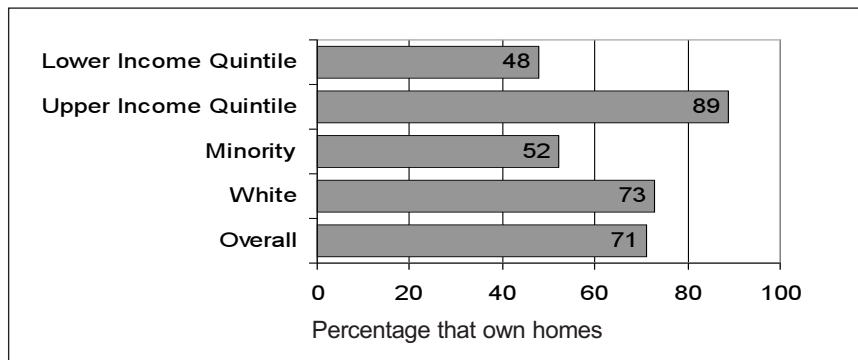
As can be expected, home ownership rates increase with income. While less than half of families earning up to \$25,000 per year own their homes, more than 80 percent of families making more than \$60,000 are home owners.

Rental costs are higher in Colorado than other states, making it difficult for low-wage workers to save enough to buy a home. According to the National Low-Income Housing Coalition, a person must work a 40-hour week at \$16.64 an hour to afford the statewide average market rent on a two-bedroom unit.⁶

Almost two thirds of the families in Colorado that earn less than \$35,000 a year and rent their homes pay almost a third of their total income on housing.

Colorado had the seventh highest rate in the nation of residents who paid 30 percent or more of their income on rent in 2004.⁷ Paying up to a third or more of annual income on rent makes it difficult for low-income households to save and become economically self-sufficient.

Figure 2. Colorado homeownership rates by race and income in 2003



Source: Corporation for Enterprise Development, 2005 Assets and Opportunity Scorecard.





Indicator 3: Families experiencing asset poverty

All families, particularly those with low-incomes, need assets to cushion against sudden financial emergencies, such as an illness, the loss of a job or a costly automobile repair, which can push them into poverty.

“Asset poverty” is defined as the proportion of households who don’t have enough net worth to subsist at the poverty level for three months without income. This indicator shows how many families do not have even a minimal financial cushion against hard times.

In Colorado, 74 percent of all families have enough saved to subsist for at least three months at the federal poverty level. That leaves 26 percent lacking this minimum cushion.

There are notable variations based on race, income and gender. Of white households, 23 percent lack enough assets to handle an emergency, compared to 43 percent of minority households. Twenty-eight percent of female-headed households experience asset poverty compared to 25 percent of male-headed households.

According to the U.S. Census Bureau, net worth varies across income levels and race.

Households in higher income brackets have more net worth, including home ownership, stocks, bonds and retirement accounts. Low-income households consume most of their income to survive, making it difficult to build wealth by saving.⁸

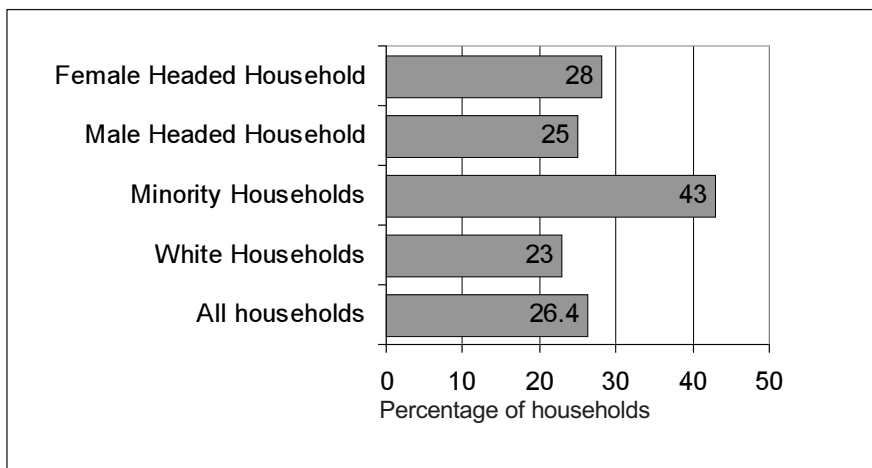
Nationally, white households had median net worth of \$79,400 in 2000, compared to \$9,750 for Hispanic households and \$7,500 for African-American households.

The median net worth for households in the highest income quintile was \$185,500 in 2000, compared to \$7,396 for the lowest income quintile.⁹

Saving and building wealth helps families get into the cycle of opportunity and keep them there. Having sufficient savings protects families from falling out of the cycle of opportunity when emergencies strike.

Many families living paycheck to paycheck can be pushed into poverty even by fairly minor unanticipated economic problems.

Figure 3. Percent of households with asset poverty in Colorado in 2002



Source: Corporation for Enterprise Development, 2005 Assets and Opportunity Scorecard.

Indicator 4: Households with bank accounts

Setting up a bank account is one of the first steps to saving and building assets. Developing a customer relationship with a bank or credit union allows a person to build a credit history and grow savings. These assets are important for managing money, buying a home, and getting a business or personal loan.

People without bank accounts often rely on far more expensive options for simple transactions such as cashing checks or borrowing money.

In 2001, 91 percent of all families in the nation had some type of transactional account, comprised of checking, savings, and all types of money market accounts. Nine percent of families had no bank account.

According to the FDIC, nearly half of the nation's 40 million Hispanics have no bank account. In 2001, the Federal Reserve found that 43 percent of families without bank accounts were white, while 57 percent were Hispanic or a racial minority.¹⁰

In 2002, the Corporation for Enterprise Development found that 69 percent of families in Colorado had some kind of interest bearing saving, checking or money market account and that 28.7 percent had a non-interest bearing checking account.¹¹

No reliable data exists to approximate the exact number of households in Colorado with no bank account, however, the CFED data suggests that there maybe a significant number of households that either hold a non-interest bearing checking account or are completely “unbanked”.

Bank accounts are essential to providing financial stability, acquiring assets and saving. It costs less to use a bank account than to cash payroll checks at check cashers, purchase money orders to pay bills, or borrow from payday lending companies.

Some low-income people either do not have enough money to open a checking account, or the transaction costs are too high.

Often, people do not understand how to compute the annual costs of what appear to be fairly low transaction costs at check cashers and payday lenders when comparing them with bank fees. This is particularly the case for those new to the banking system or with limited English skills.

As the types of financial products expand and become more complex, financial literacy is critical for families.

Why do people avoid using banks? These are the main reasons:¹²

- Privacy (especially among undocumented immigrants)
- Not writing enough checks to make it worthwhile
- Minimum balance is too high
- Do not like dealing with banks
- Service charges are too high
- Cannot manage or balance a checking account
- No bank with convenient hours or location
- Credit problems
- Do not need or want an account.





What is Colorado doing?

Tax Credits

The federal Earned Income Tax Credit (EITC) is an effective policy that bolsters the wages of low-income working families. It lifts more families with children out of poverty than any other program and helps compensate for the stagnant minimum wage.

In effect, the EITC adds about \$2 per hour to the wages of working families with two kids earning between \$10,000 and \$17,000 a year.¹⁵ In 2004, approximately 250,000 Coloradans received an average federal EITC of \$1,500.

Colorado supplements the federal Earned Income Tax Credit with a state credit equal to 10 percent of the federal credit. However, the state credit is only available in years when there are surplus revenues above the limits imposed by the TABOR amendment to the state Constitution.

Colorado also supplements the federal Child Tax Credit by providing a credit of \$200 to \$300. This credit also is available only in years when there are excess TABOR revenues.

With the passage of Referendum C, all TABOR rebates will be suspended for five years and there will be no state EITC or Child Tax Credit until at least 2011.

Promoting entrepreneurship through micro-enterprise development

The epitome of the American dream is to own your own business. Self-employment is risky, but it can be a significant and rewarding path to opportunity for people with entrepreneurial talent, business skills or a trade that can be turned into a business.

Long-term, successful business ownership is a significant source of assets and equity for many Americans; as a source of personal wealth it is second only to home ownership.¹³

State policies to help people start small businesses by providing loans and capital investments would give people another path into the Cycle of Opportunity and promote economic development in the community.

Micro-enterprises are the smallest of small businesses, with one to four employees. Due to high risk and small loan amounts, micro-entrepreneurs frequently are excluded from traditional commercial loans and must look for alternative sources of funding. Most micro-borrowers in the United States are women; many are single parents or minorities.

Micro-enterprise development can:

- Increase entrepreneurship, promote economic self-sufficiency and encourage the accumulation of financial assets.
- Allow workers in low-wage jobs to launch small ventures, to supplement income and get through hard times.
- Enable low-income workers to move towards self-sufficiency at a lower cost to society than public assistance.
- Stimulate economic growth and employment in underdeveloped communities and rural areas.
- Foster broad participation in economic activity.

Colorado already boasts a strong entrepreneurial climate.

The state ranks fifth in the nation in the number of self-employed business people per 100 workers in the labor force.¹⁴ Almost 20 percent of Colorado's workforce is employed by micro-enterprises.

Home ownership

Resources are available to help lower-income families buy homes. The federal HOME Investment Partnership Program provides funds to the Colorado Division of Housing to distribute grants to local government, non-profit, and private developers for purchase, rehabilitation, new construction and rental assistance. In 2005, the program invested \$9.3 million for affordable housing for low-income families.

Several local housing trust funds help low-income families buy homes, but Colorado is one of 16 states without a state-level trust fund. In 2005, the Legislature passed HB05-1331 to set up a state housing trust fund, but Gov. Owens vetoed the bill.

Financial literacy

Understanding the basics of personal finance helps people make smart decisions about spending and saving so they can acquire assets with long-term value and achieve economic stability. Studies consistently show many Americans, particularly low-income and minority families, do not fully understand key principles of personal finance.

The state Department of Education's standard for economics includes teaching the basics of financial literacy from kindergarten through high school. Even with the standards, the department found that many high school seniors and college students don't understand basic economics or personal finance principles.

In 2004, the Legislature passed HB04-1360, requiring the state Board of Education to help school districts design a financial literacy curriculum.

Individual development accounts

In 2000, the Legislature authorized Colorado non-profits to create Individual Development Accounts. An IDA is a

dedicated savings account that can be used to buy a home, pay for college or job training, or start a small business. Contributions for low-income participants are matched by foundations and private donors.

The state government matches up to half of the contributions to IDA accounts by allowing contributions to be deducted from state income taxes in years when there are surplus TABOR revenues. With the passage of Referendum C, all such TABOR rebates will be suspended for five years, so there will be no state match for IDA contributions.¹⁶

Unemployment insurance.

Low-income workers could fall out of the cycle of opportunity if they are laid off. Unemployment insurance provides a protection for them.

In 2005, the Legislature passed HB05-1020 to adjust the base period under the unemployment system to allow workers to use more recent earnings in proving eligibility for benefits. Gov. Owens vetoed the bill. The alternative base period bill would have helped about 900 workers who make, on average, about \$9 per hour. They are primarily workers who recently returned to work or had intermittent work histories.

Micro-enterprise development

In 2003, the Legislature passed HB03-1354, creating the Colorado Micro-Enterprise Development Advisory Council. The council was charged with exploring the feasibility of a state-supported intermediary program to support micro-enterprise development.

In 2004, Colorado's advisory council reported that nearly 75 percent of the state's micro-enterprise business owners and 66 percent of organizations that assist micro-enterprises support the creation of a state micro-enterprise intermediary.





What more should Colorado do?

Minimum wage

The Colorado minimum wage is set at the federal rate, and has not increased since 1997. The federal minimum wage is now at its lowest level relative to overall wages in 50 years.

According to the Economic Policy Institute, an increase in the minimum wage from \$5.15 to \$7.25 an hour would boost the wages of 7.3 million workers nationally. The largest group to benefit would be women: 7 percent would get a raise with an increase in the minimum wage.

Recommendation: If the federal government fails to raise the minimum wage, Colorado should raise its minimum wage to at least \$6.15. More low-wage jobs are held by minorities and in particular, women of color. Raising the minimum wage would help low-income families, and narrow the wage gap between men and women of all races.

Self-sufficiency measure

The federal poverty level is an inadequate measure of what it takes to be economically self sufficient in Colorado. Using it to determine eligibility for programs that help low-income families limits families whose earnings top the federal level but who still need help making ends meet. Many programs already recognize this by setting higher eligibility levels.

Recommendation: Colorado should stop using the federal poverty level as a measure for deciding eligibility for public assistance programs, and instead use the more accurate self-sufficiency standard. While the state should not necessarily limit eligibility for programs to 100 percent of self-sufficiency, setting eligibility levels as a percentage of that level is a more accurate, effective and realistic method of determining eligibility.

Exempting retirement assets

A number of means-tested assistance programs in Colorado count family assets in determining eligibility. For example, some programs count the value of a family car or retirement savings. While families of means should be excluded from programs meant for the needy, it also is important that all families, particularly low-income families, save for financial emergencies. Denying benefits for public assistance programs to families with minimal assets discourages savings and puts these families at greater risk of falling back into poverty if an emergency hits.

Recommendation: The Legislature should exempt assets in retirement accounts such as 401(k) plans from eligibility limits and raise or waive the assets limits for other means-tested programs for public assistance.

Financial literacy

Increasing financial literacy helps people make better decisions about savings and investing. This is particularly important for low-income families, many of whom do not have bank accounts and often pay exorbitant fees for basic financial transactions.

Recommendation: The Colorado Department of Education should continue to study and recommend guidelines and standards to teach financial literacy to all students attending Colorado high schools.

Recommendation: Colorado should work with the financial services industry and nonprofit groups to offer financial literacy education and services to Colorado's unbanked population.

State housing trust fund

State housing trust funds dedicate a steady stream of money to help first time home buyers with down payments and advice. The Colorado Department of Housing estimates more than 42,000 people would buy homes if they could find housing in their price range and had the help of homebuyer assistance programs. DOH also estimates that with a housing trust fund, as many as 3,300 low- to moderate-income families could buy affordable homes.¹⁷ Side effects benefit the whole state. Helping renters buy homes creates new jobs through construction, generates more tax revenues and creates more stable communities.

Recommendation: The Legislature should create and fund a state housing trust fund.

Earned Income Tax Credit

The Earned Income Tax Credit lifts millions of low-income working families out of poverty every year. Colorado's state EITC is a valuable supplement to the federal credit. However, Referendum C suspends all TABOR rebates for five years, including the state EITC.

Recommendation. The Legislature should make the Earned Income Tax Credit a permanent tax credit not dependent on TABOR rebates for funding. The Legislature should also increase the value of the credit from 10 percent to 20 percent of the federal credit.

Micro-enterprise development

Helping people start their own business opens an alternative avenue to the cycle of opportunity for those with entrepreneurial talent, business skills and desire. Providing micro-loans to people who cannot borrow from traditional sources can create viable new businesses. These businesses provide opportunity for their owners and expand economic activity in their communities.

Recommendation. The Legislature should create and adequately fund a state intermediary for micro-enterprise development. It would award grants to qualifying organizations, leverage additional funding sources, and provide an information network and state advocate for micro-enterprise organizations and micro-business owners.

Alternative base period for unemployment

Low-wage workers are most vulnerable when they are laid off because many depend on their paychecks to survive. Deferring unemployment benefits for up to six months, because workers cannot count their more recent earnings toward eligibility, imposes an unnecessary financial hardship.

Recommendation: The Legislature should pass and the governor should sign legislation allowing for an alternative base period for workers who do not qualify for unemployment insurance benefits using the standard base period.

Information online:

Colorado Fiscal Policy Institute: www.cclponline.org

Economic Policy Institute: www.epi.org

Center for Budget and Policy Priorities: www.cbpp.org/

CFED (formerly the Corporation for Enterprise Development): www.cfed.org

Colorado Division of Housing: www.dola.state.co.us/doh/index.htm

