

Los Alamos Monitor

Opportunity accounts: Building savings for working poor

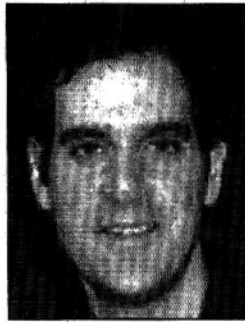
The national savings rate is now at its lowest point since the Great Depression, according to a report issued last week by the Commerce Department. Last year, Americans' personal savings actually fell into negative territory (at minus 0.5 percent) for the first time since 1933.

With fewer and fewer companies providing pensions, both the federal and state governments need to find ways to create incentives to spur personal savings. While IRAs and 401(k)s encourage savings for middle and upper income people, working low-income New Mexicans benefit little from these tax deferral incentives because they have relatively little tax liability.

Individual development accounts (IDAs) fill this void. IDAs are interest bearing savings accounts that are targeted to working, low-income families. To create incentives to save, the accounts are matched, up to \$2,000 annually, by public or private sources on two conditions.

The first condition is that the accounts are primarily restricted to placing a down payment on a home, starting or expanding a micro-enterprise or paying for college or vocational school tuition.

The second condition is that in order to receive the match, the account owner must successfully complete a financial literacy course. The course is designed to teach the basics of how to reduce debt, budget, manage a checking account, save, invest and avoid financial pitfalls like



Fred Nathan

predatory lending. IDA owners also receive training targeted to their specific asset goals, such as a class for first-time homebuyers.

In this way, IDAs are an incentive to work, save and build assets, an often overlooked step to climbing out of poverty. They also provide account owners with the financial literacy tools to stay self-sufficient for the long-term.

By contrast, traditional anti-poverty programs have generally focused on income transfers, which address day-to-day emergency needs, but the recipients remain low-income even when their emergency needs have been met.

The evidence from other states and communities indicates that 59 percent of IDA owners are more likely to stay employed and over 40 percent of IDA owners are more likely to work longer hours, according to a study commissioned by the Ford Foundation and others.

Not surprisingly, IDAs have

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grown rapidly nationwide in the past decade. There are now more than 500 IDA initiatives reaching approximately 25,000 Americans. In New Mexico, however, there are only about 200 active IDAs in New Mexico, which are funded with private and federal dollars.

Given the level of poverty in New Mexico and given that IDAs have demonstrated strong results in addressing poverty, now is the right time to develop a comprehensive model IDA initiative for New Mexico.

That is why Speaker Ben Lujan has introduced HB 112, the "Family Opportunity Accounts Act," along with Senate sponsors Sue Wilson-Befort (R-Albuquerque) and Tim Jennings (D-Roswell). It appropriates \$2 million of General Fund dollars to build an IDA initiative that will reach more New Mexicans and leverage a greater commitment from the private sector and the federal government.

HB 112 gives priority to households with children - hence the name, the Family Opportunity Accounts Act - because children usually realize the greatest benefits from asset building.

For example, children in families that own their homes demonstrate a 9 percent lower high school dropout rate and up to a 4 percent lower teen pregnancy rate than children

of renters with identical socioeconomic characteristics, according to a 1997 national study conducted by economists at the University of Michigan.

HB 112, which builds on the work of Representative Patricia Lundstrom who has pioneered asset-building policies in New Mexico, enjoys the support of both business and labor groups. The Association of Commerce and Industry and the AFL-CIO as well as the New Mexico Council of Churches.

Owning assets gives working, low-income New Mexicans a bigger stake in New Mexico's future and a better shot at realizing the American Dream. Any New Mexican willing to work hard, commit to saving and learn the basics of financial literacy, deserves access to a college education, the opportunity to start a business and the security of owning a home.

Please take a moment to contact your state representative, state senator and Governor Richardson and ask them to support HB 112 as well as the \$2 million appropriation to make it work.

Fred Nathan is Executive Director of Think New Mexico, an independent, results-oriented, think tank serving New Mexicans. To learn more about the Family Opportunity Accounts Act, please go to www.thinknewmexico.org.