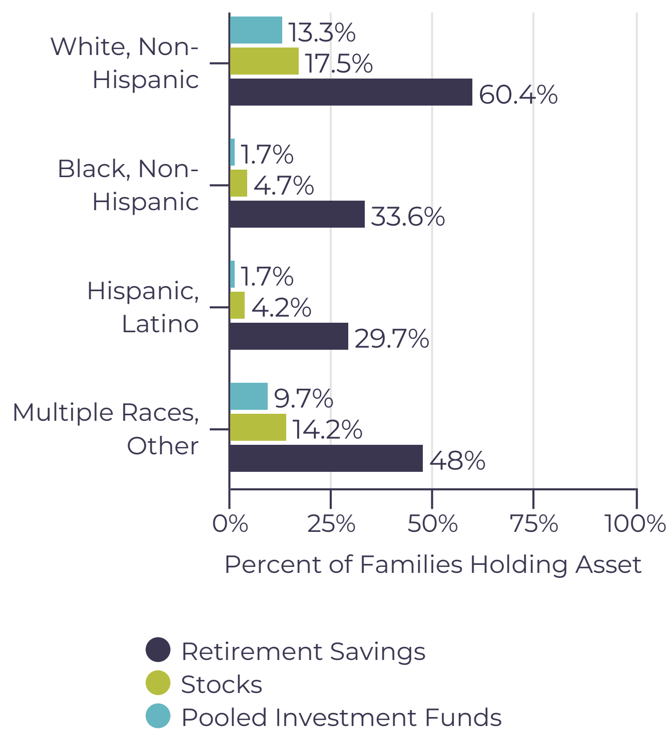
Asset Building: Cultivating Wealth

While income is critical and determines how families meet basic needs, building assets is one of the key drivers to help families move into the middle class and build a stable and prosperous economic future. Assets cushion families against temporary setbacks and provide the foundation for investments that help families get ahead over the long term. Plus, they can be passed on from one generation to the next, adding to a family's wealth.

Assets consist of checking accounts, stock mutual funds, 401(k) plans, and other financial accounts. They can also be nonfinancial items such as homes, vehicles, and businesses. National data shows families with higher incomes have more assets and assets with greater value. The number, value, and type of assets owned also varies by race, with whites having more on average than blacks and Hispanics.

Minorities Hold Less Assets



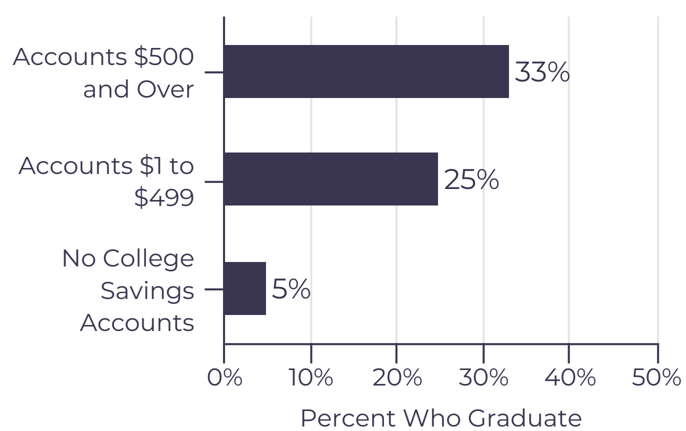
Source: The Federal Reserve 2016 Consumer Finances Survey

Help Coloradans Create College Savings Accounts

The future of work and automation clearly shows all workers will need continuous training and education throughout their careers. However, Colorado students from low- and middle-income families are less likely to enroll in college than students from other income levels. In 2015, 42 percent of Colorado students whose family incomes were low enough to qualify for free and reduced lunch enrolled in college right out of high school, compared to 62 percent of the students whose family incomes were higher.

One way to turn this around is to help low- to middle-income families create education savings accounts. Considerable research shows having even small amounts of college savings helps. Children from low- to middle-income families with $500 or less in savings are three times more likely to enroll in college than children with no savings, and four times more likely to graduate.

College Savings Accounts Increase Likelihood of College Graduation



Source: Center for Social Development, Small-Dollar Children's Savings Accounts, Income, & College Outcomes, Washington University in St. Louis, CSD Publication 13-06, 2013

Make It Easier to Save Income Tax Refunds

In 2016, 2 million Coloradans received a state income tax refund averaging $471. That amount only stands to grow for hardworking families with children, thanks to Colorado's Earned Income Tax Credit (EITC) becoming permanent.

For most low- to middle-income families, their annual tax refund is the single largest payment they will receive all year. These tax refunds can help families build wealth, but many families cannot afford to save their entire refund because they have immediate expenses. Families can choose to save a portion of their refund after they receive it, but behavioral economics suggest an automatic, pre-commitment to save will result in greater savings.

In Colorado, families can directly deposit their tax refund into just one of three accounts or receive their refund as a check. Allowing families to split and directly deposit their refund among the three types of accounts — checking, savings, and 529 college savings accounts — would make saving for college easier, encourage overall savings, and help families meet immediate needs.

Taxpayers can already split federal tax refunds after a pilot test showed doing so encouraged saving among more families. Arkansas, California, Hawaii, Maryland, Ohio, and Oregon allow taxpayers to deposit their state refunds into multiple accounts, resulting in increased savings.

Legislation was considered in the 2016 (HB16-1371) and 2017 (SB17-149) sessions to allow Coloradans to directly deposit their income tax refunds in up to four different accounts, but each failed in Senate committees. If Colorado taxpayers used this option at the same rate as federal taxpayers, then 14,682 Colorado taxpayers would split their income tax refunds. This is a relatively easy and inexpensive way for the state to promote savings.

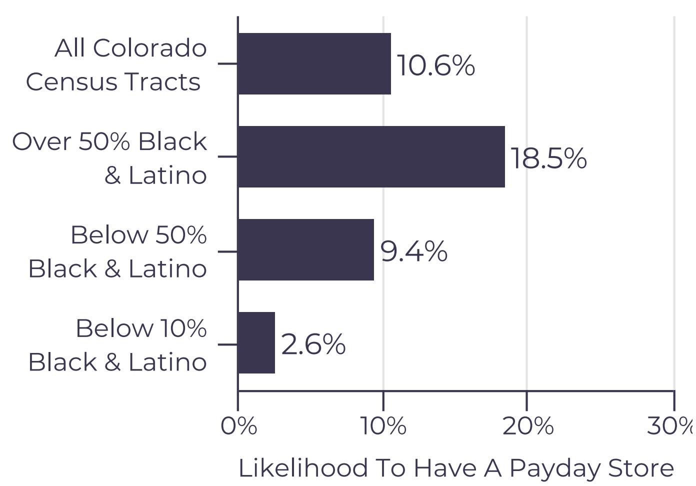
Protect Coloradans From Predatory Lending

Saving and building assets is hard enough for many families without having their savings stripped away by predatory lenders. High-cost lenders, check cashers, rent-to-own stores, and pawn shops seem to be everywhere in low-income neighborhoods. This is particularly true for minority neighborhoods, which are home to more of these businesses even after accounting for income, age, and gender.

The Center for Responsible Lending finds areas with over 50 percent black and Latino residents are seven times more likely to have a payday store than predominantly white areas (less than 10 percent black and Latino).

In 2010, Colorado reformed its payday lending laws, reducing the cost of the loans and extending the length of time borrowers could take to repay them. The rates on Colorado payday loans are lower than those in other states and borrowers in Colorado save $40 million per year over what they paid under the old rules. However, these loans are still expensive, having an average effective interest rate of 129 percent in 2016.

Payday Stores More Prevalent in Colorado's Communities of Color



Source: Center for Responsible Lending, analysis based on licensed locations from Colorado Attorney General's Office

Payday lenders are exempt from Colorado's 36 percent limit. Instead, they charge a series of fees along with a 45 percent interest rate on these loans.

Colorado also allows high-cost installment loans that average almost $9,000 with terms ranging from three years to six years and average interest rates of about 22 percent. While lenders have lobbied the legislature to increase the rates they can charge, the Attorney General's office, which regulates them, found the rate increase was not needed.

Recommendations

Colorado should help set up a 529 college savings account for every student in the Colorado Preschool Program and match the first $50 of deposits and any additional savings made to the accounts dollar-for-dollar up to $100. A bill (HB16-1196) to create a pilot program like this was considered in 2016 with the goal of creating 2,000 savings accounts per year for three years. It died in Colorado's State Senate. A portion of the tax savings from reforming and limiting the subsidy provided to large corporations for collecting state sales taxes could be used to fund these accounts.

Colorado should revise its income tax administration to allow taxpayers to split their refunds and directly deposit them into up to four accounts.

Colorado should end the exemptions payday lenders receive and cap the interest rate on these loans at 36 percent APR.

Colorado shouldn't raise the rates charged on high cost installment "supervised loans," because hardworking Coloradans shouldn't be required to pay more for these loans just so lenders can pad their profits.