

# Assets and Opportunity in the Midwest: A comprehensive look at the 7th District based on the CFED Scorecard

by Ida Rademacher and Kevin Keeley

There is perhaps no better or more tangible indicator of the strength of an economy than the measure of assets and protections – financial, business, home, education, and health – built by families and society. Not only does an accounting of the amount, range, and distribution of assets of an economy provide an incisive picture of the current health and resilience of an economy, but more importantly, it reflects the ability of an economy and the families within it to adapt, to find advantages, and to shape the future.

The Corporation for Enterprise Development, now known as CFED, a national nonprofit that works to promote economic opportunity, has long been an advocate for asset building and the role it plays in alleviating poverty and bolstering financial security for individuals and families. Assets move families beyond living paycheck to paycheck and give them tools to plan for the future. “Getting by” may require only a paycheck, but getting ahead requires a variety of assets, a financial safety net, education and healthcare.

CFED’s 2007-2008 *Assets and Opportunity Scorecard* (Scorecard) continues CFED’s far-reaching examination of asset accumulation and asset policy. The Scorecard, which is available in full at [www.cfed.org/go/scorecard](http://www.cfed.org/go/scorecard), presents a comprehensive look at wealth, poverty and the financial

security of families in the United States. The Scorecard ranks the 50 states and the District of Columbia on performance measures in the areas of financial security, business development, home ownership, health care, and education. These measures provide an expansive and detailed view of the variation in net worth, ownership, and debt – not only geographically, but along race and gender lines. The Scorecard also details state-by-state information on 38 key policies in these areas that can help or hinder

job that pays a good income. It also has been effective in breaking down some of the disconnected thinking that advocates and planners can fall into, and it has brought together proponents from diverse fields to discuss the interrelationship of their causes. But at its core, the Scorecard aggregates data, and is an excellent tool for researchers, consumer advocates, and policymakers to assess the strengths and weaknesses of state economies. It can also help to define steps to address shortcomings.

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citizens’ abilities to succeed financially, and identifies 12 core policies that are important in creating a hospitable environment to building assets and keeping them.

This comprehensive view is important for many reasons. First, it draws attention to the various factors that affect personal economies beyond simply having a good

Using the Assets Scorecard, we will look at the strength of the economies in the states comprising the Federal Reserve System’s 7th District<sup>1</sup> and how residents of the District’s five states are doing in terms of building and preserving assets. We will also identify policies that are in place among the states to support and protect asset building among the most vulnerable populations and detail

how advocates and policymakers are acting on findings of the Scorecard to improve asset policy in their states.

## Regional Highlights from the 2007-2008 Assets and Opportunity Scorecard

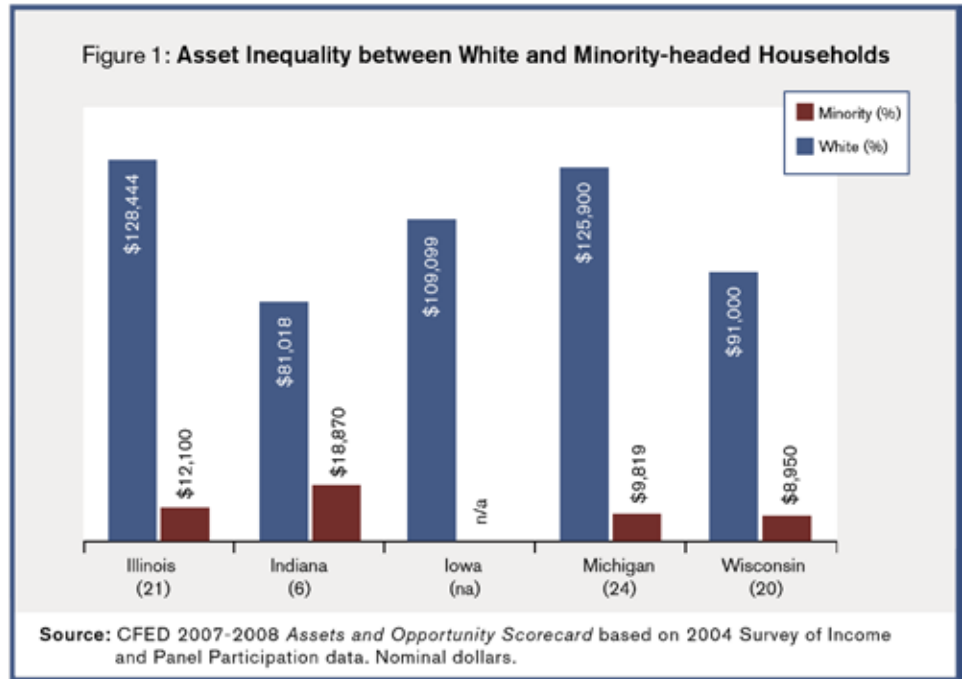
Just as savings and assets help families move toward brighter futures, the Scorecard was created to help guide states as they work to build better economic futures for their residents. Looking across the states of the Federal Reserve's 7th District, the Scorecard tells the story of a region where families are facing serious threats to financial security, and where states are pursuing strategies with mixed success to help families protect and build assets that can serve as the basis for upward mobility. The following analysis gives a brief snapshot of how the states in the region performed on key outcome and policy measures in the Scorecard.

### Net Worth

Measurement of median net worth provides a basic indication of the level of wealth that families possess that can help them weather crises and build a solid basis for a better future. All five states in the Federal Reserve's 7th District ranked among the Scorecard's top 20 for net worth. Despite the District's relative wealth, two states, Illinois and Wisconsin, actually recorded slight reductions in household net worth between 2002 and 2004, a time when national averages were trending sharply upward due to expanding home ownership and rising home values.

### Asset Equality

While wealth inequality has narrowed among different groups, large disparities persist. The Figure 1 illustrates the level of asset inequality that exists between White- and minority-headed households in each state in the 7th District. For every dollar in net worth held by White households, minority households in three



of five states have less than 10 cents. That magnitude of disparity underscores the need for focused efforts to reduce racial wealth inequality. Indiana's minority households have 23 cents in assets for every dollar held by Whites, giving them a top ten ranking for highest level of minority asset equality. Indiana also has the number one ranking for gender-based asset equality; it is the only state in the country where women and men have equal net worth.

### Asset Poverty

Given the importance of assets for household economic self-sufficiency, the Scorecard expands the notion of poverty to include a minimum threshold of wealth needed for both security and mobility. Our definition of asset poverty measures the proportion of households in a state who lack sufficient net worth to sustain themselves at the poverty level for three months, should they lose their primary

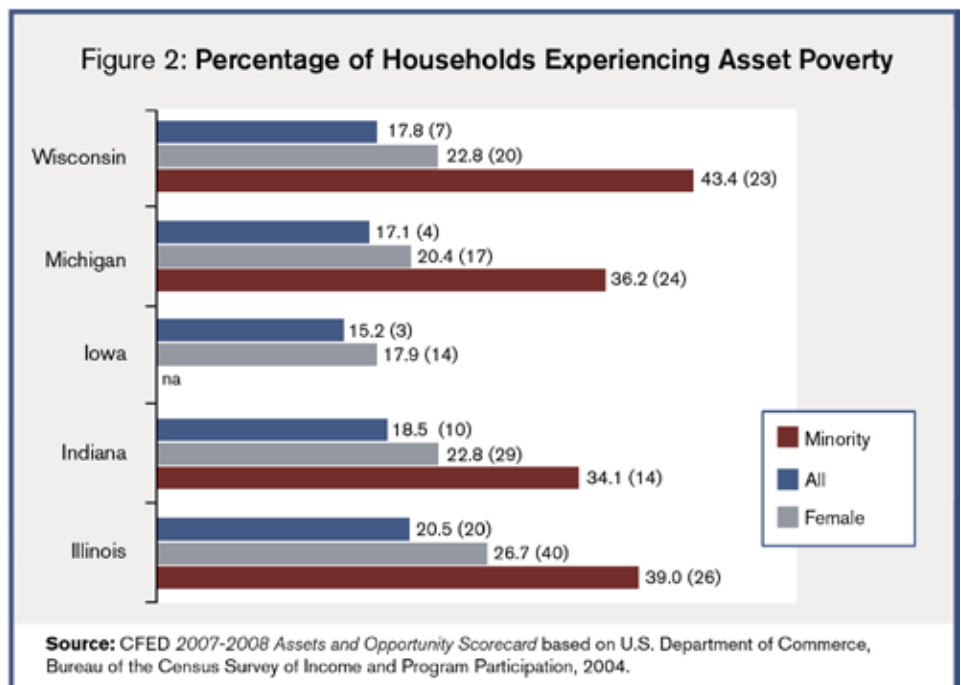
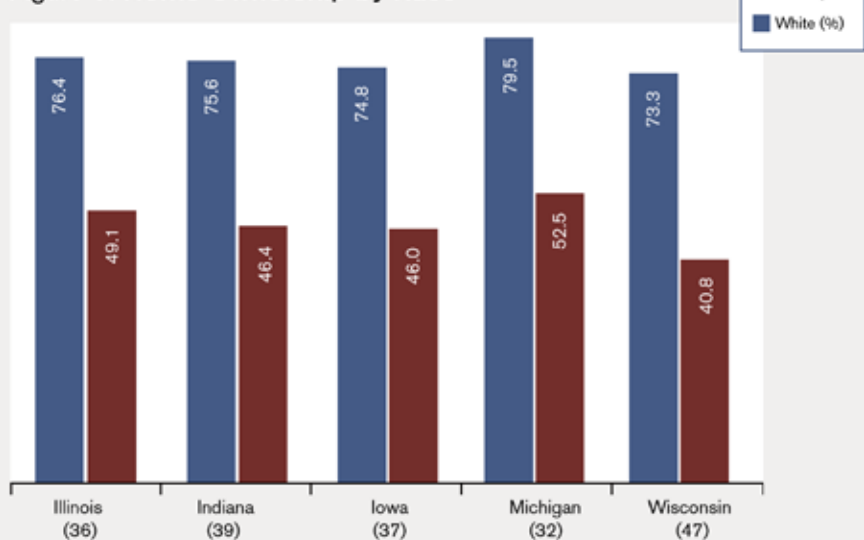


Figure 3: Home Ownership by Race



Source: CFED 2007-2008 Assets and Opportunity Scorecard based on 2004 Census Bureau, American Consumer Survey data. State ranks (in parentheses) are calculated by computing the home ownership rate among households headed by someone self-identified as White divided by the home ownership rate of households headed by someone self-identified as non-White.

source of income. Nationally, CFED found that 22 percent of all U.S. households and nearly 40 percent of minority households are asset poor. The 7th District states look relatively strong in comparison to other regions with regard to this measure. Four out of five states rank among the top ten for their relatively low incidence of asset poverty. But disaggregated by race or gender, every state in the group falls down the rankings by notable margins. Disparities in asset poverty between male- and female-headed households are narrowing in the region, as is the gap among minorities. Still, minority households remain more than twice as likely to experience asset poverty as White households.

### Bankruptcy and Debt

Bankruptcy is included in the Scorecard as an indicator of the prevalence of wealth erosion among a state's population. Per capita consumer bankruptcy filings increased in all five states in the region between 2003 and 2004. Four of the five states in the 7th District ranked among the 20 states with the highest bankruptcy rates, and Indiana experienced the highest filing

rates in the country at 12.5 percent. Bankruptcy results when a household's expenses far exceed its income, whether from medical debt, job loss, death, divorce, or other factors. In the Midwest, rising unemployment and mortgage interest rates appear to be key factors contributing to the growing incidence of bankruptcy. Families who were once self-sufficient are being overwhelmed by debt.

### Home Ownership

While not directly measuring home equity, the home ownership rate provides an indication of how many families in a state have the opportunity to build wealth in the form of home equity. Home ownership rates in all five states exceed the national average of 68.9 percent. Unfortunately, the region also has some of the highest foreclosure rates in the country. All five states in the region ranked among the top ten states with the highest foreclosure rates in the country during 2006, and 2007 statistics show additional increases in foreclosure rates across the region. The incidence of subprime lending contracted slightly in all five states between 2006 and 2007, but remains in double digits for all but Iowa.

Minority home ownership also continued to lag substantially behind that of White households. All five ranked among the 20 states with the worst racial disparities in home ownership rates.

### Education

Education is one of the key building blocks for financial security and economic mobility. Those with a college degree earn significantly more than those with just a high school diploma. Moreover, data from the Federal Reserve's Survey of Consumer Finances indicate that, in 2004, families in which the head of household had a college degree had more than three times the net worth—at the median—as families whose head of household had only some college. In the 7th District, college attainment rates increased in Illinois, Iowa, and Michigan between 2002-2004, and decreased in Indiana and Wisconsin. Wide disparities in college attainment continued to persist among individuals of different means. The wealthiest 20 percent of Americans in the five states complete college at a rate almost five times that of the poorest 20 percent.

### Health Care

One of the greatest threats to a family's financial security is an unexpected – and uninsured—medical emergency or illness. For families without health coverage, particularly those with low-incomes, the use of credit cards or other forms of debt to cover major medical expenses is a leading cause of bankruptcy. Nationally, nearly one in five low-income children and one in three low-income parents is uninsured. Although all states in this analysis exceed the national statistics in their efforts to insure low-income families, progress across the region has been mixed since the 2005 Scorecard. Indiana, Illinois, and Michigan all have improved rates of insurance among low-income children, and Michigan now ranks third best in the country for its efforts to

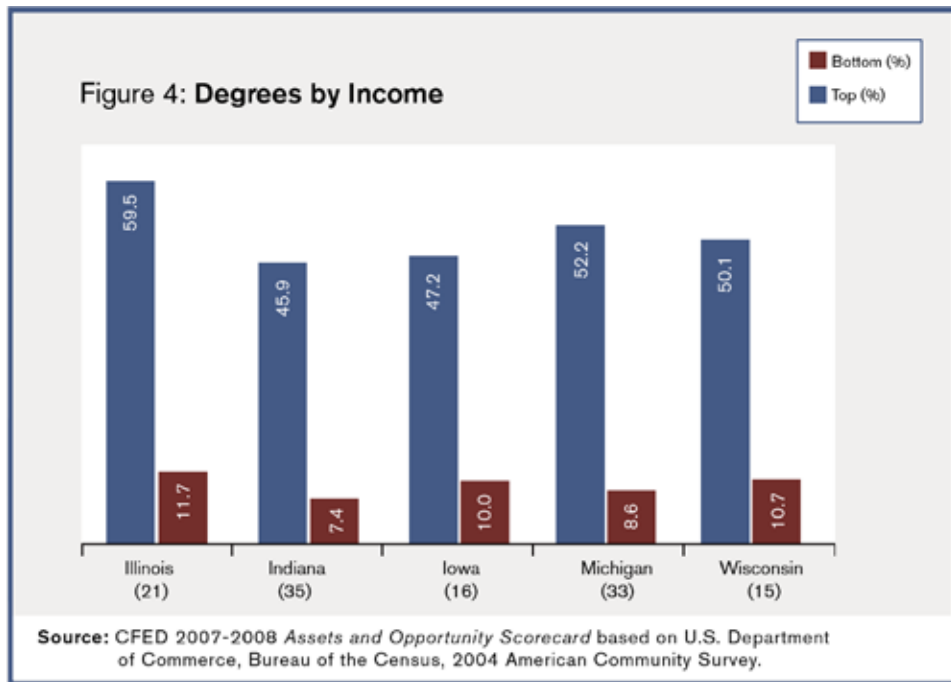
lower the population of uninsured children to 9 percent.

Overall, the Scorecard shows that families in the region exhibit relatively strong levels of financial security in comparison with other parts of the country. But that financial security is not evenly shared among all families, and increasing foreclosure, bankruptcy, and unemployment rates in the region pose real threats and remind us of the fragility of the asset base that protects families from crisis and enables them to shape their future. The next section highlights several policies that states in the region are pursuing to help families preserve and protect the assets they have, and to build and strengthen their financial resiliency.

### State Policy Options for Asset Building and Asset Protection

Increasingly, states are leading the way in promoting asset building and developing policies that help families build and protect financial assets. Through the Scorecard, CFED works with partner organizations across the country to develop state asset-building agendas, educate advocates and policymakers on key asset-building policies, and broaden the number of stakeholders who see asset building as relevant and important to their work. Below we highlight some of the key policy efforts underway in states in the 7th District.

- Illinois, in particular, is emerging as a national standard bearer on policies to support home ownership and affordable housing, expand access to wealth-building opportunities, and broaden health care coverage. In 2007, Illinois enacted legislation to create AllKids, which provides affordable, comprehensive health insurance for all children in the state. Illinois lawmakers also allocated funding for the state's Individual Development Account (IDA) program to create incentives to help low-income

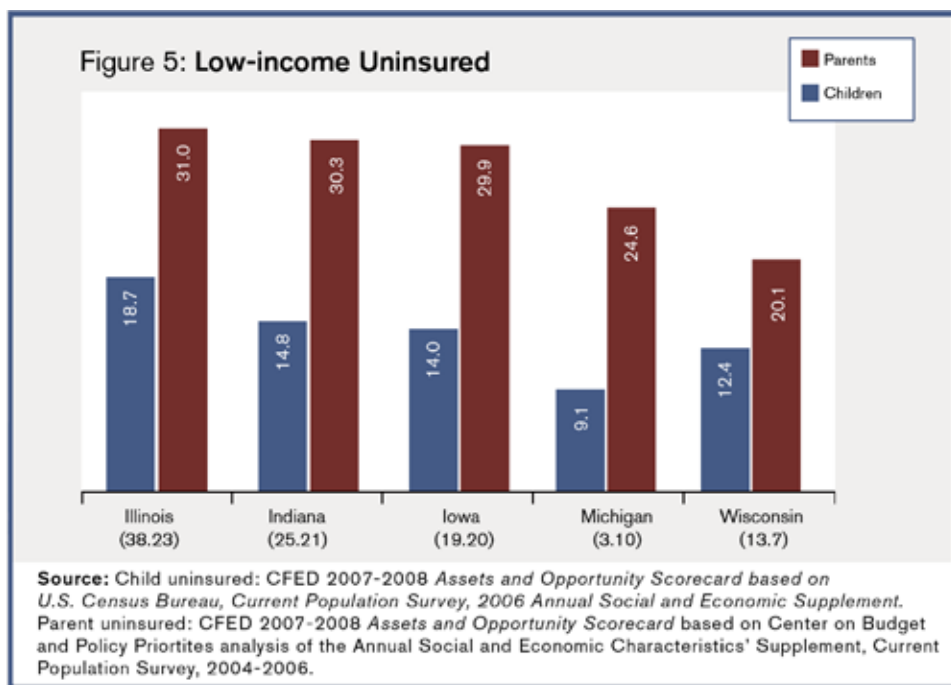


families save for home ownership, education, and business ownership.

- Also in Illinois, the Sargent Shriver National Center for Poverty Law is using Scorecard findings to support its work on a policy agenda covering an array of asset-building issues including: an expanded state Earned Income Tax Credit (EITC); asset limits in public benefits programs; consumer protection bills; children's savings account policy; and payday

lending regulation. The Shriver Center has been instrumental in the establishment of a legislative task force to review and make recommendations on savings accounts at birth for all Illinois children. The task force will issue its report and recommendations by September 2008.

- In Indiana, affordable health care coverage is at the top of advocates' 2008 policy agenda. The same is



true in Iowa, Wisconsin, and in many states across the country. Indiana and Michigan also boast two of the nation's strongest IDA programs, with stable funding at or near \$1 million annually. Both states were pioneers in IDA policy, and their programs are held in high regard among asset-building advocates and IDA practitioners around the country.

- Iowa lawmakers made impressive strides on asset-building policy in 2007, as they made the state's existing EITC refundable and passed legislation to establish a voluntary, statewide preschool program for four-year-olds. That program is expected to provide preschool access to 90 percent of Iowa four-year-olds by 2012. Iowa is also focused on curbing predatory lending, increasing state support for microenterprise, and increasing transparency and accountability in state budgeting and tax expenditures.
- In Michigan, the Community Economic Development Association of Michigan (CEDAM) has made predatory mortgage lending its highest priority for 2008 in response to the state's particularly acute foreclosure crisis. CEDAM has taken a leadership position in convening a variety of statewide partners on this issue, resulting in the introduction of a legislative package that covers an array of mortgage and predatory lending issues. Another CEDAM goal is modifications to the state's IDA tax credit. Michigan also has removed asset limits for participants in the state's Food Stamp program.
- Wisconsin has taken significant action to increase asset protections and reduce disincentives to save for low-income families. Like Illinois, the state provides Medicaid coverage to parents up to 192 percent of the federal poverty level, and has eliminated asset limits for its state Medicaid program. Wisconsin

policy-makers also are considering expanding state supported preschool programs for four-year-olds. Wisconsin also has sought to boost asset-building opportunities for low-income families through microenterprise support; the state allocated more than \$600,000 in CDBG<sup>2</sup> funds for microenterprise last year. In addition, Wisconsin has effectively eliminated asset tests for Food Stamp applicants.

The states of the 7<sup>th</sup> District have established clear precedents for promoting and enacting policies to support asset development and expand economic opportunity, and the Scorecard findings have provided a framework and a frame of reference for this work. In light of enduring inequalities and families' tenuous financial standing revealed by the Scorecard data, it is clear that considerable work remains to be done in the realm of asset-building policy.

## NOTES

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- 1 The Federal Reserve's 7<sup>th</sup> District comprises roughly the northern two-thirds of Illinois and Indiana, the southern peninsula of Michigan, the southern two thirds of Wisconsin, and the entire state of Iowa.
- 2 Community Development Block Grant

## BIOGRAPHIES

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### Ida Rademacher

Ida Rademacher is CFED's Research Director. In addition to the Scorecard, she is responsible for the development of key research publications and for working with CFED's research partners in government, academia and community-based institutions.

### Kevin Keeley

Kevin Keeley is a Policy Associate at CFED. He led the state asset-building policy research for the Scorecard.