July 2017

On Track or Left Behind?

Findings from the 2017 *Prosperity Now Scorecard*

PROSPERITY NOW SCORECARD

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Acknowledgements

The authors thank Prosperity Now staff and consultants—Dedrick Asante-Muhammad, Pamela Chan, Aoife Coady, Kamolika Das, Dara Duratinsky, Jeremie Greer, Kristin Lawton, Sean Luechtefeld, David Newville, Doug Ryan, Amy Saltzman and Leigh Tivol—for their guidance and contributions to the report. The authors also thank Roberto Arjona and Sandiel Grant for their creativity in designing this report.

The 2017 Prosperity Now Scorecard and its promotion were made possible by the generous support of the Ford Foundation, JP Morgan Chase & Co. and the Northwest Area Foundation.

About Prosperity Now

Prosperity Now (formerly CFED) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

"I mean, it's life. I'm trying to roll with the punches, and it's really hard. I'm trying to keep my head above the water. And it's really hard to do. I don't even understand how I'm able to make it."

Meet Tasha.[1] She dreams every day of moving from her grandmother's house into a home of her own with her children. But for now, her goal is simply getting through to the end of the month. She saves when she can, negotiates bill payments to manage her debt and is frugal with her purchases. Tasha has done her best to move up the ladder, trading in one job in hopes of landing a better one. Her current gig? Store security at a major retailer. A traffic accident, several car repairs and having her vehicle repossessed put her in significant debt. She's still trying to recover from a bad spell where she lost her job and filed for bankruptcy, but it's tough to get back on track—much less get ahead—on her income of $18,000 a year. Her children inspire her to stay determined, but Tasha can't help but feel that her goal of being financially stable—let alone buying her own home—is becoming more and more distant.

Achieving prosperity means not just getting by, but getting ahead. But for too many people like Tasha, getting ahead seems like a pipe dream. Families such as Tasha's who work hard and set goals should be able to get by *and* get ahead. After all, that's what prosperity is all about: being able to make ends meet day to day and month to month, *and* being able to invest in our own future and our children's future.

Our belief that people should be able to get by *and* get ahead is simple—but unfortunately, it's not the reality for Tasha, and for millions of people in our country like her.

This is the harsh reality revealed in the 2017 *Prosperity Now Scorecard.* The *Scorecard* is a data and advocacy tool that measures prosperity broadly in the United States, assessing all 50 states and the District of Columbia on 113 measures in five issue areas. The *Scorecard* is unique in that it not only offers data and analysis about the *current* state of households' financial well-being, but also provides a forward-looking set of state-level policy solutions that could potentially put prosperity within reach for millions more low- and moderate-income families.

Financial Assets & Income | **Businesses & Jobs** | **Homeownership & Housing** | **Health Care** | **Education**

This summary of the 2017 *Scorecard* highlights some of the year's biggest stories about financial insecurity and wealth inequality, and offers recommendations for policy actions that states can take *now* to open the doors of economic opportunity for all.

Who's On Track for Prosperity: Key Findings

Data always tell a story. The story told by this year's *Scorecard* data reveals a classic good news/bad news scenario. Like a train picking up speed as it heads down the tracks, the economy shows signs of gaining momentum—but only for a lucky few. Progress in a few areas is carrying some passengers to a brighter economic destination, but for many others it remains a bumpy ride with numerous delays—assuming they're lucky enough to get on board at all. Indeed, far too many hard-working people are stranded on the platform, watching as the train disappears into the distance, and—given the current unpredictable environment—wondering if another train will ever come along to pick them up.

Consider these key findings from the 2017 *Prosperity Now Scorecard*:

- Unemployment is down to almost pre-recession levels, but there has not been an accompanying increase in the number of *quality* jobs—those that pay enough to cover the bills *and* enable workers to save for the future.

- Employment increasingly fails to provide families with a reliable and steady stream of income. This volatility leaves many working families vulnerable to jarring ups and downs in their finances, particularly for those who struggle to set aside a nest egg to help manage month-to-month expenses or navigate through an emergency.

- Although the jobs and income data suggest that more families are finding it a bit easier to *get by*, the *Scorecard* offers little good news about families' prospects of *getting ahead*. Indicators of wealth and homeownership—factors that make it possible for families to enjoy real prosperity and upward mobility—have not improved nationally, and the enormous disparities by race are deeply troubling.

- Indeed, the lingering effects of generations of discriminatory, wealth-stripping practices and policies are evident in the outcomes for households of color, particularly Black and Latino households, across *all* of the *Scorecard* issue areas. For these families, making it to our metaphorical train platform in the first place is a challenge; boarding the train and enjoying a smooth ride can seem all but impossible.

The *Scorecard's* overall state outcome rankings also reveal the impact of policy decisions on the ability of families to both get by and get ahead. For example, since the *Scorecard* began publishing annually in 2012, Louisiana's outcome ranking has fallen 15 spots to 50th place—more than any other state—as the impact of cuts to safety net programs such as Medicaid and Temporary Assistance to Needy Families took hold. A similar scenario played out in Kansas, which has seen its outcome ranking fall 10 spots to 21st place since 2012, a period when tax cuts for the wealthy and businesses forced dramatic shrinkage of programs for low-income families.

On the flip side, the *Scorecard* shows the positive results of strong state policy. For example, California moved up 16 spots in the outcome rankings since 2012 to 26th place—more than any other state. During that period, an improving economy allowed the state to increase investments in education, health and a range of safety net programs that help families achieve financial security.

In the remainder of this report, we explore how and why so many people continue to be left behind even as the economic engine presses forward—and what we can to do ensure *everyone* has the opportunity to climb aboard.

Working More for Diminishing Returns

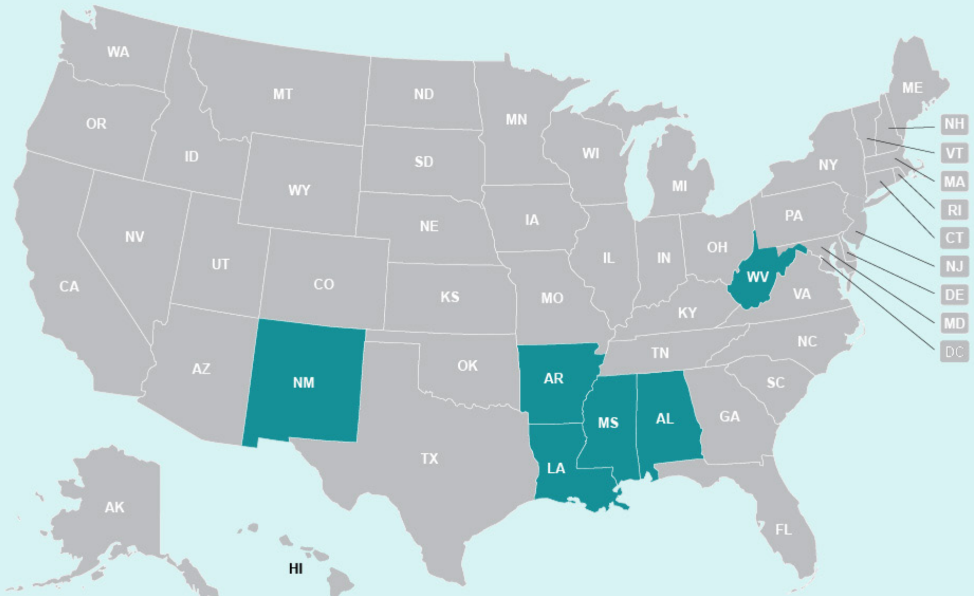
The 2017 *Scorecard* finds more people employed compared to recent years, which, on the surface, suggests progress. Unemployment in the United States has now declined for more than six years. The annual rate of 4.9% in 2016 has nearly reached the 2006–2007 low of 4.6%. Additionally, underemployment, a broader measure that also includes "discouraged workers" not actively seeking employment and those working part-time because they cannot find full-time employment, dipped to 9.6%—the first time since 2007 that this rate has fallen below 10%. The number of "disconnected youth" aged 16-24 who are neither working nor in school also declined significantly from 13.8% in last year's *Scorecard* to the current rate of 12.3%.

Digging below the surface, however, unemployment is persistently higher for workers of color, particularly Black workers, nearly everywhere in the United States. Nationally, Black workers are more than twice as likely as White workers to be unemployed (8.7% vs. 4.0%, respectively).

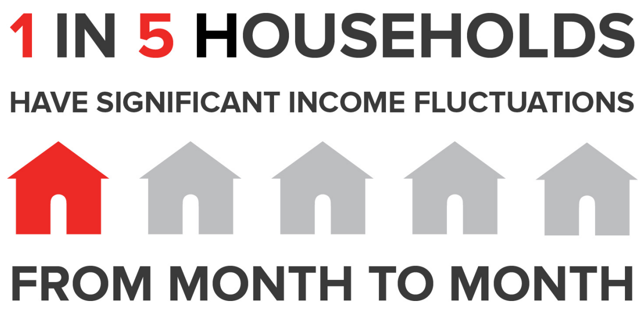
The trends are similar with income poverty (the percentage of households earning less than the federal poverty line annually), which fell from 14.5% in the 2016 *Scorecard* to 13.8%, the first measureable decline since 2011. Despite this improvement, poverty remains disproportionately high among communities of color. Income poverty is more than twice as high for Black (24.8%), Latino (22.2%) and Native American (26.2%) households than for White households (10.4%).

Overall, the *Scorecard* shows that lower unemployment and poverty rates mask the day-to-day financial reality experienced by millions of families. Many people remain stuck in low-wage jobs that make just getting by a continuous challenge. One in four jobs in the United States is in a low-wage occupation, which means that at the median, these jobs pay below the poverty threshold for a family of four—and not nearly enough to cover the cost of living, even for a full-time worker. The rate of low-wage jobs has remained relatively stagnant since 2012, and in six states, more than one in three jobs is in a low-wage occupation.

MORE THAN 1 IN 3 JOBS ARE LOW WAGE IN 6 STATES



Source: Occupational Employment Statistics



Source: FDIC

The 2017 *Scorecard* also includes a new measure—income volatility—which examines the stability of household income from month to month. Generally, income volatility has increased in the United States over recent decades,[2] and the *Scorecard* finds that nationally, one in five households experiences moderate to significant income fluctuations from month to month. The percentage varies by state, from a low of 14.7% of households in Virginia to a stunning 29.8% of households in Wyoming. While some income volatility can be the result of positive events, such as receiving a bonus at work, a 2016 survey conducted by the Board of Governors of the Federal Reserve System found that the most common cause of income volatility is unreliable employment. Forty-three percent of adults with volatile incomes attributed their income challenges to irregular work schedules, while 16% reported periods of unemployment. Meanwhile, only 15% of adults with volatile incomes reported receiving bonuses. Some 40% of those experiencing volatility reported that they had struggled to pay their bills at least once because of the ups and downs in their incomes.[3]

How can working families manage their finances when income volatility means a particular expense in February is only a minor financial setback, while a similar expense in August could leave them in deep debt? Savings are often the first line of defense to smooth the jolts of income volatility and unexpected household expenses. In the *Scorecard*, we measure savings in two ways: the percentage of households putting aside money for emergencies and the size of their nest eggs.

Unfortunately, the data show that barely half of households are saving. And, many of those households that can save have such minimal savings that they would struggle to weather financial shocks. Fully 44% of households did not set aside any savings for emergencies in the past year. And households that need to tap into existing savings, including those earmarked for longer-term purposes (such as retirement accounts), often lack the resources to keep their heads above water for long if crisis strikes.

In fact, this year's *Scorecard* reveals that 36.8% of households in the United States live in the financial red zone of "liquid asset poverty," meaning they don't have enough in liquid savings, such as cash or assets that are easily converted to cash, to replace income *at the poverty level* for three months if they lose their jobs or can't work. This amount ($6,150 for a family of four in 2017) is an extremely conservative measure of what families need to get by—yet more than one-third of all families don't have even this modest cushion to fall back on if they find themselves without income.

While low-income households are the most likely to be liquid asset poor—71.9% of households in the lowest income quintile and 52.4% in the second-lowest income quintile—significant numbers of higher-income households are also unprepared to weather a financial crisis. Nearly 18% of households earning $64,632 to $106,788 annually are liquid asset poor, as are 7.2% of households earning more than $106,788 a year.
Unsurprisingly, the story is even grimmer for households of color, as these households are less likely to have saved for emergencies in the last year and have meager savings balances. African American, Latino and Asian households are all less likely to save for emergencies than are White households (45.6%, 42.5% and 52.9%, respectively, compared to 61.3% of White households).[4] More than 28% of White households are liquid asset poor, compared to just over half of households of color (50.5%), including 60.7% of Latino households and 56.7% of African American households.

The Gap Grows: Getting Ahead Proves Elusive for Many

Beyond providing a cushion to get families through emergencies, savings and wealth are a key factor in a family's ability to get ahead and invest in their future and that of their children. But the data on net worth in the 2017 *Scorecard* show that modest economic gains nationally have not translated into greater household wealth for the majority of Americans.

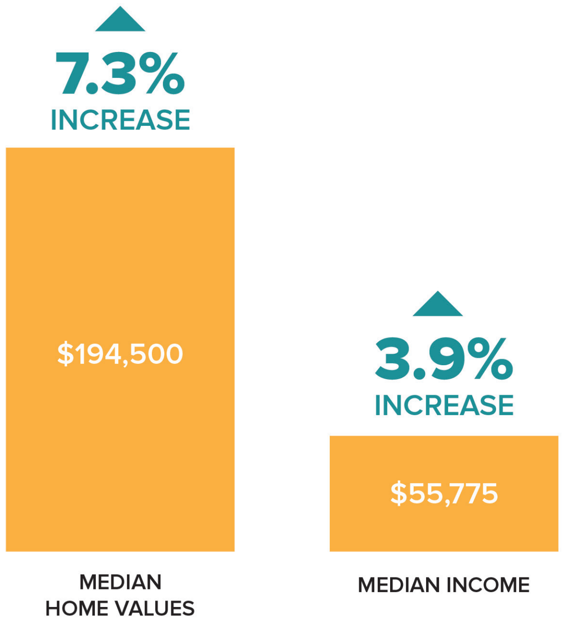
Median net worth in the United States is $76,708—a figure that has not changed significantly over the previous three years.[5] Additionally, 25.5% of households are asset poor, meaning that even if they sold their non-liquid assets, such as a home, car or business, they would not have enough wealth to replace income at the poverty level for three months. In fact, nearly 20 million households (16.9%) have zero or negative net worth, meaning that they owe more than they own.

The disparities in net worth between White households and households of color are the starkest of any measures in the *Scorecard*. At the median, households of color hold 14 cents for every dollar of net worth held by White households. More specifically, Black households have seven cents in net worth on the dollar, while Latino households have 10 cents and Asian households have 86 cents. Prior research conducted by Prosperity Now and the Institute for Policy Studies has shown that this racial wealth divide has grown over the last three decades, exacerbated by the Great Recession and the collapse of the housing bubble.[6]

For the majority of American households, the largest component of net worth is home equity. Thus, stagnant wealth is at least partially attributable to a homeownership rate that did not improve nationally from the previous year. In fact, homeownership rates have declined since 2006, despite a falling foreclosure rate, which is now below two percent of mortgages for the first time since 2007. The median value of homes rose 7.3% from last year's *Scorecard* to $194,500, but during that same period, median incomes increased by just 3.9% to $55,775, meaning that homeownership is less affordable for those who don't already own a home. Additional evidence of this trend is revealed in the percentage of income households are spending on housing. Housing is considered affordable when it costs 30% or less of household income (those paying more than 30% are considered "cost burdened"). The percentage of cost-burdened homeowners dropped to 29.6%—eight percentage points below the high of 38% in 2010. However, half (50.6%) of renters are cost-burdened, a rate that has languished above 50% since 2009.

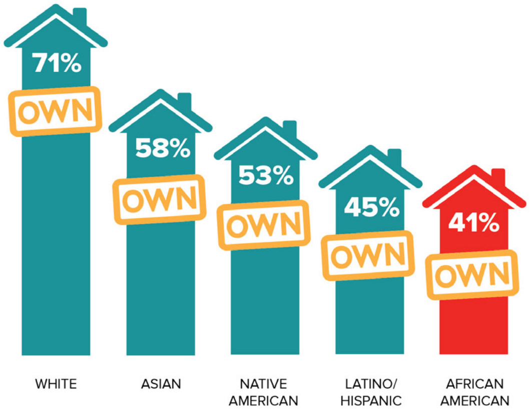
Homeownership rates also help explain much of the disparity in net worth between White households and households of color. Due to decades of discriminatory

UNAFFORDABLE HOUSING PUTS HOMEOWNERSHIP OUT OF REACH



Source: American Community Survey

practices in the real estate and financial services industries, along with unhelpful and unfair policies at all levels of government, households of color own their homes at a far lower rate than White households.[7] Seventy-one percent of White households are homeowners, compared to only 40.9% of Black households, 45.2% of Latino households, 57.7% of Asian households and 53.1% of Native American households. Unaffordable housing prices, high costs for renters and the lack of savings combine to create significant roadblocks to homeownership for many households of color.



Source: American Community Survey

Getting Back on Track: Policy Solutions

Strong local, state and national policies are critical to help households achieve prosperity today and sustain it through generations. Those policies need to create more opportunities for financial resilience and address persistent racial inequities. Current attacks on the Consumer Financial Protection Bureau, federal safety net programs and health care all work to undercut economic gains and exacerbate wealth inequality.

Efforts in Congress to replace or roll back proven, effective programs underscore the need for strong local and state policies to ensure families don't lose the gains they've made—and for continued vigilance against policy proposals that hurt consumers. Fortunately, many promising efforts at all levels of government have the potential to significantly change the financial trajectory for low- and moderate-income families. This section highlights a few such efforts.

Providing an income boost. Families need reliable income to cover predictable expenses and to build a reserve when faced with unexpected expenses, such as medical care, car and home repairs, and legal fines and fees that often unfairly impact those who can afford them least. Policies like the federal and state Earned Income Tax Credit not only offer a boost in income, but help families pay off debt and save for a rainy day. Eleven states have established a state EITC that is at least 15% of the federal credit and refundable.

Encouraging saving. With more workers facing unreliable income over the course of the year, savings becomes even more important to cover short-term expenses, avoid lengthy cycles of debt and plan for longer-term goals. State leadership is critical to encouraging and facilitating savings, especially given that in 2017, Congress gutted the Assets for Independence program, a matched-savings program that helps low- and moderate-income families save for longer-term assets like a home or education. Oregon is leading the way as a model of state support by authorizing $7.5 million in state funding for its Individual Development Account program in 2016.

Improving job quality. Policies that increase the minimum wage (especially for those in the service industry); that ensure workers receive family, medical and paid sick leave; and that create access to reliable health care all contribute to a smoother, steadier stream of household income. State policymakers and voters are starting to fill in the gaps where employers are falling short. The 2017 *Scorecard* finds that three states improved their paid leave policies and nine states made advances in minimum wage, either through legislative action or ballot measures.

Creating access to homeownership. Homeownership remains perhaps the most powerful vehicle for building wealth in our country. Many of the racial wealth disparities we see today result from lack of access to homeownership that allow families to build assets and wealth over time. First-time homebuyer support at the federal and state levels, programs that increase access to affordable mortgage products, incentivized matched savings products and property tax relief all help families buy and keep their homes and pass on the value of their investments to future generations. Forty-seven states and the District of Columbia now provide some form of first-time homebuyer support through downpayment assistance, direct lending or homeownership counseling, with 15 states offering all three of these forms of support. This, coupled with housing trust funds established in nearly every state (including active revenue commitments to these trust funds in 34 states and DC), helps families find affordable opportunities for homeownership and wealth building through housing equity.

Increasing retirement security. Retirement security is elusive for the 55 million workers without access to an employer-sponsored retirement plan. Of those workers, 41% are Black, Latino or Asian.[8] Automatic-enrollment Individual Retirement Accounts help families shore up their savings and decrease the likelihood that income volatility and unexpected expenses will derail plans to invest in their future. Despite congressional rollbacks on retirement savings regulations, five states are pushing ahead to implement retirement security plans that are already on the books. More states should follow their lead and encourage long-term savings.

We need to continue pushing for these and other policies that help close the racial wealth divide and give everyone in our country the opportunity to prosper. Policymakers and advocates need to support legislation that provides families with livable and steady wages, and opportunities to save for their futures. And together we need to acknowledge and address the systemic barriers that have prevented millions of people from achieving prosperity.

Conclusion: Helping Everyone Climb on Board

The story of the 2017 *Scorecard* is a story about families trying to get ahead but feeling like they're falling farther and farther behind. The data point to a widespread financial fragility in our nation. For too long we have allowed too many people to remain on the platform while the engine of economic opportunity speeds by. This not only prevents families from prospering—it hurts our economy as a whole.

While the situation is dire, it is far from hopeless. The *Scorecard* lays out a range of opportunities for states to create prosperity for their residents. For many states grappling with ever-tightening budgets, this will be a challenge. States may flirt with the idea of cutting spending on programs that help residents get ahead. That would be a mistake. State economies will thrive in the long run if they invest now in programs and policies that help working families get ahead.

Throughout this report, we argue that the onus has shifted to the states because the federal government has failed to heed the call of those eager for change. Although the *Scorecard* focuses on what states can do, Prosperity Now also calls on federal policymakers to push for a range of programs that will put more households on a path to financial stability, wealth and prosperity. Prosperity Now coordinates four federal policy campaigns designed to mobilize advocates looking to promote affordable homeownership, strengthen consumer protections, shield safety net programs from damaging cuts and make the tax code more equitable. Learn more and join these campaigns at **prosperitynow.org/advocate**.

Financial Assets & Income

Income and assets constitute the fundamental elements of a family's balance sheet. Without wealth—in the form of savings, home or business equity, and more—households have no foundation upon which to retire, pass something down to their children or contribute to a prosperous community. While some households are rising out of poverty, wealth inequality continues to drive significant gaps in opportunity. Households of color are especially vulnerable in the sense that small-dollar emergencies or financial missteps can lead to financial ruin. Strong policy responses that facilitate savings and wealth building are necessary for creating resilient households that can get by and get ahead.

The nation experienced its first demonstrable decline in **income poverty** in nearly a decade, with the income poverty rate falling from 14.5% in last year's *Scorecard* to 13.8% this year. Four states—Colorado, North Dakota, South Dakota and Texas—now have lower income poverty rates than they did in the year before the recession. The recovery has also extended to household credit markets. After experiencing a tightening of credit availability following the recession, borrowers are finally seeing increasing access to household credit. According to data from Equifax published by the Federal Reserve Bank of New York, the percentage of consumers with "scorable" credit files who have a **prime credit score** (above a 720 Equifax Risk Score) rose above 50% for the first time, while the rate of borrowers with **access to revolving credit**, such as having a credit card, has increased to 71.9% nationally following a seven-year trend of decline.[9]

Yet the average American family has not seen these improvements translate into greater financial security, let alone prosperity. Fewer people are gaining ground on America's richest households, who make almost five times the average annual income of the lowest-income households.[10] While **income inequality** has decreased slightly compared to last year's *Scorecard*, it has widened since 2008, a trend driven both by losses at the bottom and gains at the top of the income distribution. Just two states—North Dakota and West Virginia—have seen gains in household income for the bottom 20% of households, whereas 31 states and the District of Columbia have seen gains in income among the top 20% of households.

This lack of income growth for all but the highest-earning Americans, coupled with the **income volatility** described previously, makes it more difficult for households to get by day to day. The depth of the savings crisis across the South is especially stark. In a handful of states, nearly half of all households are living in **liquid asset poverty**, including Arkansas (48.4%) and Mississippi (53.4 %). Furthermore, roughly one in six American households (16.9%) has **zero or negative household net worth**, a figure that exceeds even the 13.8% of households living in poverty. In seven states, 20% or more of households have zero or negative net worth, including in North Dakota, where more than a quarter of all households have no net worth.

These vulnerabilities are even more pronounced among households of color, a quarter of which have zero or negative net worth, including 30% of Black households, compared to 13% of White households. Of particular note is Missouri, where 40% of the state's households of color have zero net worth. Additionally, more than 60% of the households of color in seven states are liquid asset poor. Nearly three-quarters (71%) of Ohio's Black households are liquid asset poor, the highest rate of any racial or ethnic group for which estimates were available. This lack of a savings cushion makes it nearly impossible for these families to save for life's milestones such as homeownership, college and retirement. More importantly, it leaves them and future generations more vulnerable to long-term insecurity.

STATE POLICY RESPONSES

Financial distress readily defers dreams of wealth and prosperity for many families, but state and federal policies can pave a better path forward. The **Earned Income Tax Credit (EITC)** is a proven example of government assistance that allows families to pay down debts, smooth out income volatility and save for future financial goals. Although the EITC is most widely claimed at the federal level, states can enact a credit as well. While 26 states and the District of Columbia had some form of a state EITC on the books in 2016, only 11 states and DC have enacted refundable state EITCs that are of large enough scale (at least 15% of the federal credit) to significantly help low- and moderate-income working families achieve financial stability. In 2016, Rhode Island became the most recent to join these states by enacting legislation to increase the value of its EITC to 15% of the federal credit.

Growing uncertainty about the availability of federal government resources to support household financial security means states will need to play a larger role, especially in the form of income supports. For instance, in order for programs like Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP) and the Low Income Home Energy Assistance Program (LIHEAP) to best serve state residents, states must **eliminate asset limits** in these programs that undermine a family's ability save. As of the end of 2016, eight states had eliminated assets limits for TANF, 34 states and DC had eliminated them in SNAP, and 39 states and DC had eliminated asset limits in LIHEAP.

Likewise, unemployment benefits are critical in supporting individuals in their greatest time of need. As such, states should eliminate high fees associated with the prepaid debit cards used to disburse benefit payments. Thirty-two states now offer **unemployment benefits through a low-fee prepaid card**, including eight states—Delaware, Louisiana, Maine, Nevada, New York, North Carolina, Utah and Virginia—that began offering such a card in 2016.

After eliminating barriers to savings, states can create incentives for families to save and reward deposits in accounts earmarked for a rainy day or longer-terms goals. Funding for **Individual Development Account (IDA) programs** is one important way states can encourage low- and moderate-income families to save for future financial goals—including entrepreneurship, homeownership or higher education—while also connecting savers with important financial capability services. As of 2016, 13 states and DC had funded an IDA program, either through direct state appropriations, tax credits or federal block grant dollars.

Prize-linked savings is another area where states can lead the way. These savings products allow financial institutions to offer rewards, such as cash, for savers who make monthly deposits into low-minimum-balance savings products. Adding an entertainment component to savings can help financial institutions increase their pools of savers and encourage customers to save more, even if they don't win a prize. Recent changes in federal law have led to significant movement on this state policy, with Kansas, Louisiana, Massachusetts, Missouri, New Jersey and South Carolina joining 16 other states in 2016 in permitting prize-linked savings.

States also can promote **retirement security and long-term saving** by enacting state-run automatic-enrollment Individual Retirement Account (Auto-IRA) programs. Auto-IRA programs extend opportunities to save for retirement to pools of savers previously shut out of such benefits, especially low-income workers and workers of color, by automatically enrolling nearly all of them in a state-sponsored IRA program that makes saving easy. Despite recent congressional rollbacks of regulations that pave the way for states, five states will continue to implement legislation to create Auto-IRA programs, with California, Connecticut and Maryland the most recent to do so in 2016. More states should be encouraged to continue pushing for such reform.

Businesses & Jobs

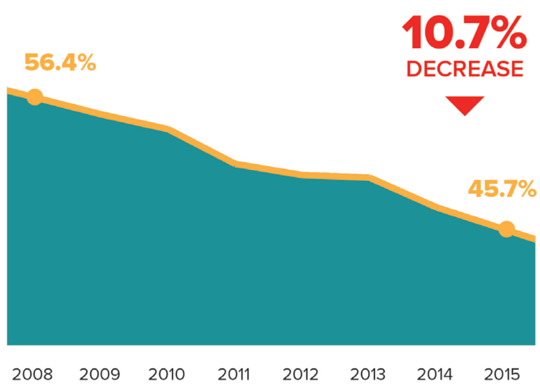
A good job with decent wages and benefits used to be the surest way to secure a spot in the middle class. For some, starting a businesses was a promising alternative, allowing people to create their own jobs, provide employment opportunities to others in their community and build an asset that could be passed down to future generations. While this year's *Scorecard* reveals growth in both employment and business ownership, many of those opportunities no longer provide a ticket to financial stability, wealth and prosperity. Policies need to acknowledge this new reality and help ensure that a steady job and business ownership translate into economic security.

Many features of job quality have eroded, including essential benefits like health insurance. The percentage of **employers offering health insurance** to their employees (45.7%) has plummeted by more than 10 percentage points since 2008. In only nine states and the District of Columbia do more than half of all employers offer health insurance. This was primarily driven by decreases in the rate of small employers—those with fewer than 50 employees—providing health insurance.[11] Meanwhile, declines in this important employment benefit were not offset by a related increase in compensation. **Average annual pay** did increase marginally at the national level ($52,942 in this year's *Scorecard* compared to $51,425 in the 2016 edition) after remaining relatively stagnant since 2006. But the percentage of jobs in occupations paying below the poverty threshold was unchanged at nearly a quarter (24.2%). This estimate of **low-wage jobs** is based on median pay, which may suggest that the increases in state estimates of average annual pay are driven by gains at the higher end of the income distribution.

When there aren't quality job opportunities, workers may turn to entrepreneurship. Microbusinesses (businesses with fewer than five employees) comprise over 90% of all enterprises and are responsible for 31% of all private-sector employment in the US.[12] Yet, for all the talk nationally and at the state level about economic growth and an improving climate for small business, the microbusinesses that power our national economy remain under-resourced and undercapitalized.

The national **microbusiness ownership rate** increased from last year's *Scorecard* from 16.6% to 18.2% of the labor force. However, this growth occurred entirely among businesses without paid employees. This suggests that growth in new

EMPLOYERS OFFERING HEALTH INSURANCE CONTINUE TO FALL



Source: Medical Expenditure Panel Survey

Source: Association for Enterprise Opportunity

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business development is having a minimal effect on reducing unemployment, especially considering that the average value of a business without employees is $46,914[13]—less than the average household income, and certainly not enough to serve as a wealth-generating vehicle for the owner, let alone the community. In fact, only 14 states saw growth in the total number of microbusinesses with paid employees, even as all 50 states and the District of Columbia experienced growth in non-employer firms.

This pattern was also borne out across racial lines: business ownership has increased among workers of color relative to white workers, but the value of White-owned businesses has increased by more than double the rate experienced by **businesses owned by people of color** (22.6% and 10.8%, respectively). This is driven largely by the percentage of firms without paid employees: 96% of Black-owned businesses and 91% of Latino-owned businesses have no paid employees, compared to 79% of White-owned businesses. White-owned businesses have an average value of over $656,000—nearly three times the average value of a business owned by people of color ($224,530).

STATE POLICY RESPONSES

Without targeted investments at the state and local level, including financial and technical assistance, microbusinesses and their employees will continue to be squeezed out. States can support these entrepreneurs by leveraging federal funding received through the Community Development Block Grant (CDBG), the Workforce Innovation and Opportunity Act (WIOA) or Temporary Assistance for Needy Families (TANF). Twenty states currently use CDBG dollars to support low-income entrepreneurs and microbusiness development. Eleven states use funding from WIOA, TANF or both sources to support these goals. Unfortunately, five states—Hawaii, Maryland, Minnesota, Ohio and Utah—chose to withdraw CDBG funding for microbusiness in 2016, placing vulnerable entrepreneurs in a precarious position and leaving others without ample opportunity to grow their enterprises. Federal grants are expected to become increasingly scarce in future federal appropriations, so states must remain vigilant in defending such funding sources. CDBG funds, when used for microenterprise development in particular, are estimated to generate 183 jobs for every million dollars invested, demonstrating a true return on investment through economic growth and job creation.[14]

To support the growth of quality jobs, states should continue to show leadership at a time when the federal government has demonstrated little interest in increasing the **minimum wage** or indexing it to inflation, or in guaranteeing **paid leave** for workers facing the birth or adoption of a child, unforeseen long-term illness and the like. Fourteen states and the District of Columbia have surpassed the federal government by guaranteeing workers are paid at least $15 per hour by 2022 or by indexing their minimum wages to inflation to ensure the value of wages do not decrease over time. Ten states and the District of Columbia require employers to offer paid medical, family or sick leave. Twelve states and DC have also expanded the benefits guaranteed under the federal Family Medical Leave Act by covering employees of businesses with fewer than 50 workers, by covering employees who have less tenure or have worked fewer than 1,250 hours in the year, and by including employees' domestic partners, siblings, grandparents and grandchildren in the definition of family.

WEALTH INEQUALITY in AMERICA

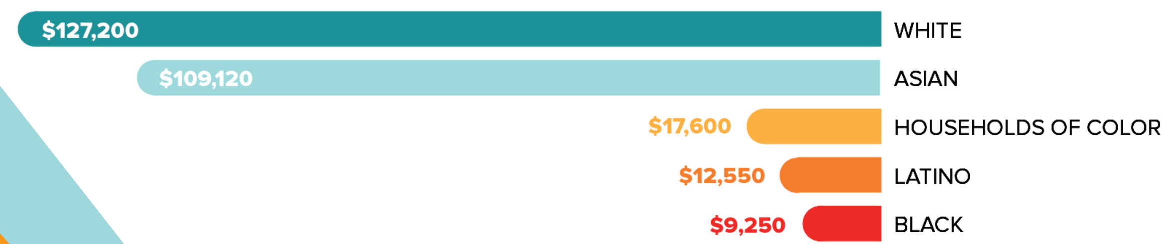
Wealth empowers families to get ahead. It's about opportunity: the downpayment on your first home, tuition to send your kids to college, startup capital to launch and grow your small business, and something to pass on to the next generation. Net worth is the assets you own (e.g., savings, a home or investments)—which ideally grow over time—minus the debts you owe. Unfortunately, wealth inequality has soared in recent decades, and too many households, particularly households of color and those with limited incomes, are being left behind.

$76,708 is the **median net worth** for a household in the US

but nearly...

20 MILLION HOUSEHOLDS have zero or negative net worth

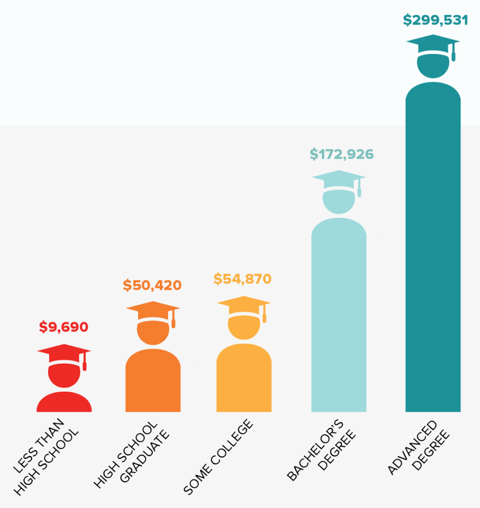
NET WORTH BY RACE AND ETHNICITY



$43,390

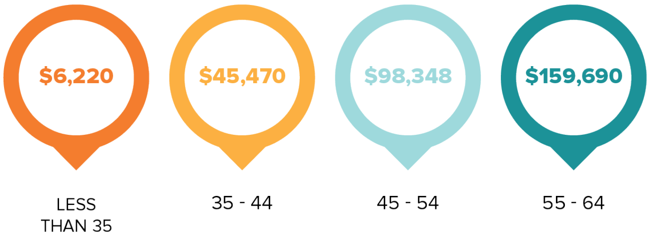
IS THE MEDIAN NET WORTH FOR A HOUSEHOLD WITH AN ADULT WITH DISABILITIES

NET WORTH BY EDUCATION

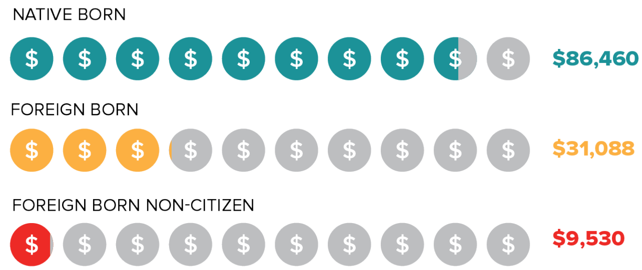


Source: Survey of Income and Program Participation, 2014 Panel Data points report median household net worth by demographic characteristic or location of the householder in 2013.

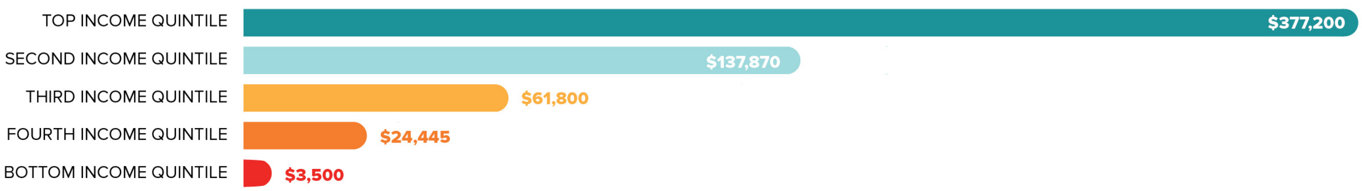
NET WORTH BY AGE



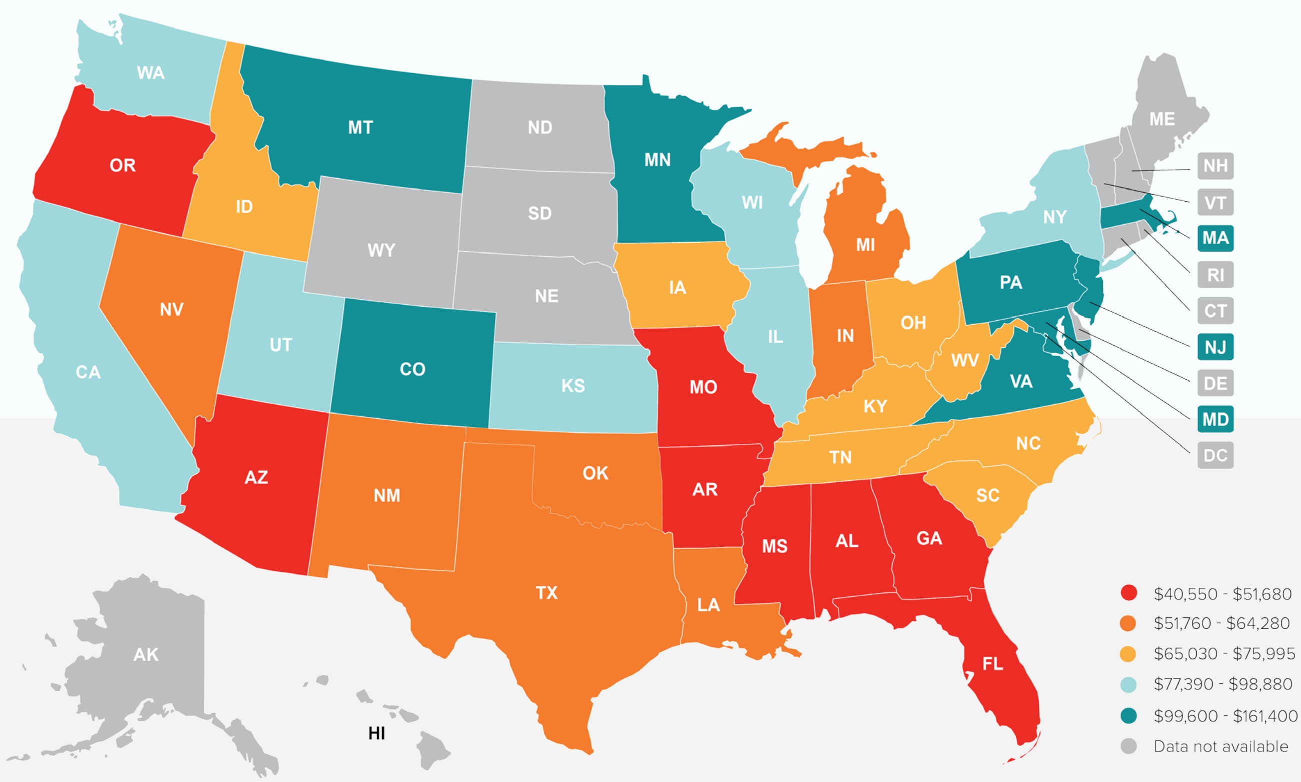
NET WORTH BY CITIZENSHIP AND NATIVITY



NET WORTH BY INCOME QUINTILES



NET WORTH BY STATE



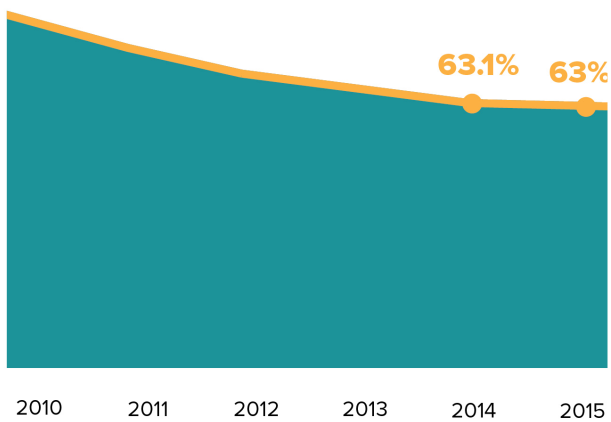
Homeownership & Housing

Homeownership continues to be the primary source of wealth for most U.S. households, particularly those of color. Thus, homeownership plays a critical role in achieving prosperity and passing it on to future generations. Generally speaking, conditions have stabilized for current homeowners, but stagnant homeownership rates demonstrate that states are failing to open pathways for potential new owners. Targeted efforts to increase access to affordable homeownership and housing can help address the systemic exclusions facing people of color and low-income people. Promising efforts will both open opportunities to enter into homeownership and reduce its risks to help families build long-term wealth.

Despite falling foreclosures and delinquent mortgages, as well as relatively low mortgage interest rates, the national **homeownership rate** held constant at 63%, with the 50 states evenly split between modest gains and declines. North Dakota saw its homeownership rate decline more than any other state compared to last year's *Scorecard*, from 63.8% to 61.7%. Meanwhile, Wyoming and Alaska were the only states to experience a rate increase greater than one percentage point compared to the 2016 *Scorecard*. Flat or declining homeownership rates reflect the fact that buying a home is becoming less affordable, as median home values are rising more quickly than household incomes.

This affordability crisis strikes households of color and low-income households particularly hard. While more than half of White households in all 50 states (DC excluded) own their homes, the same is true for Black households in just four states and for Latino households in just 14 states.[15] Likewise, the highest-income households own their homes at a rate more than double that of the lowest-income households nationally and in all but 10 states.[16]

THE NATIONAL HOMEOWNERSHIP RATE HELD CONSTANT AT 63%



Source: American Community Survey

While the homeownership rate has not improved, the percentage of homeowners **with high-cost mortgage loans** has declined in every state and DC compared to last year's *Scorecard*. Since high-cost loans increase the risk of foreclosure and decrease long-term wealth-building prospects, the 3.8 percentage point decline in the national rate of high-cost loans indicates progress, especially following a trend of increasing rates over the previous three years. The incidence of high-cost mortgage loans declined the most in North Carolina and Michigan (by 7.2 and 6.2 percentage points, respectively), and by over four percentage points in eleven other states.

Renting often poses its own set of financial challenges. While the national rate has decreased slightly from last year's *Scorecard*, more than half (50.6%) of all **renters remain cost-burdened**, meaning they spend more than 30% of their income on housing costs. The burden is even greater for households of color. While 46.7% of White renters are cost-burdened, the national rate climbs to 58.2% for Black renters and 56.7% for Latino renters. The strain that housing cost burdens place on household finances both inhibit a family's ability to save for homeownership and invest in their family's future, and constrain their ability to spend on necessities like food, clothing, education and health care. These cost burdens can place renters on the brink of financial ruin since any shortfall in their budget leaves them vulnerable to eviction. As long as rents remain unaffordable for more than half of renters, stable homeownership—and the intergenerational transfer of wealth it facilitates—will remain out of reach for most households.

STATE POLICY RESPONSES

Housing policies help make dreams a reality by remedying the exclusion of low-income families and families of color from affordable homeownership opportunities. Public policy has long supported affordability by providing a secondary mortgage market for housing finance, by subsidizing development to enhance supply, and by supporting first-time homeowners. These functions form the pillars of federal and state affordable housing policies. At the federal level, such policies mean building more equitable tax, regulatory and credit environments for homeownership while enforcing existing protections for renters and homeowners.

Nearly every state supports affordable housing and homeownership through **housing trust funds** or **first-time homebuyer assistance programs**. But a housing trust fund alone is not sufficient to cover the needs of the underserved, especially unfunded trusts. States also waiver in their support for homeownership. In 2016, Alaska, New Jersey and New Mexico adopted direct lending programs for first-time homebuyers, yet Arizona, Delaware, Minnesota and Nevada ended their programs and are no longer counted among the 15 states offering direct lending. Likely as a result of focusing too heavily on short-term budget goals, these states are potentially sacrificing the long-term economic mobility of their residents.

Low- and moderate-income renters face limited affordable housing options, particularly in America's cities. Although Housing Choice Vouchers provide rental assistance to only a minority of eligible families, they do expand the pool of apartments within reach of those with stretched-thin paychecks. Unfortunately, most states and cities permit landlord discrimination against families in housing assistance programs. Eight states and the District of Columbia have taken the lead in protecting such renters by passing laws that **prohibit housing discrimination on the basis of source of income**, such as Housing Choice Vouchers.

Building and preserving home equity must remain an affordable and secure option along the path to prosperity. One promising opportunity to increase access to affordable homeownership is manufactured housing, which makes up the largest stock of unsubsidized affordable homes in the US. While most of these homes are affordable for low-income homebuyers, critical steps are needed to ensure they become a wealth-building asset for their owners. In most states, manufactured homes are titled as personal property—akin to a car or a television—rather than real estate. And because most owners of manufactured homes do not own the land on which their homes sit, this form of homeownership can be risky because the sale of a manufactured home community could permanently displace residents. In light of these challenges and to ensure manufactured housing remains a viable option for affordable housing and wealth building, states should encourage **resident ownership of manufactured housing communities** and **adopt titling and zoning laws that treat manufactured housing the same as site-built homes**.

Health Care

The connections between people's physical and financial health and well-being have gained increased attention among health care providers, financial capability experts, policymakers, advocates and others. Evidence is mounting that health improves significantly when people have access to financial products and services that help them get by and get ahead.[17]

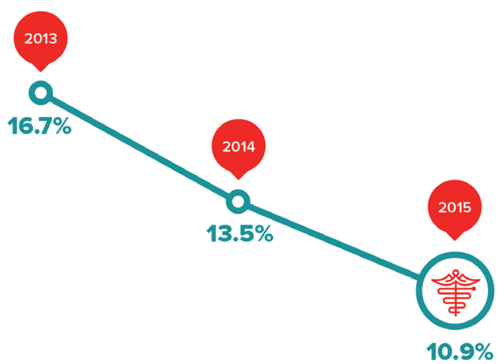
Access to affordable health care helps families avoid crushing medical costs, protect their earnings and assets, and build a strong foundation upon which to achieve prosperity. The good news is that more Americans are insured nationally, and adults in over half of the states have seen improvements in health outcomes. However, households of color are less likely to be insured and less likely to be able to afford basic medical expenses.

Since its debut six years ago, the Affordable Care Act and Patient Protection Act (ACA) has increased access to health care to previously unseen levels. **Uninsured rates** have decreased nationally and in every state by nearly seven percentage points since 2010, dropping to the current rate of 10.9%. This decline equates to 17 million more U.S. people with health insurance. Among the states, declines in uninsured rates since 2010 have ranged from 1.7 percentage points in Maine to 11.5 percentage points in Oregon and Nevada, which, along with California, Kentucky and West Virginia, have experienced double-digit declines in the percentage of uninsured residents.

Increases in coverage have also resulted in improvements in other health outcomes. Since 2013, all but three states—Alabama, North Dakota and Massachusetts—have seen declines in the **percentage of adults who have foregone a recent doctor visit due to high costs**. Likewise, in 27 states and the District of Columbia, fewer adults report that they are in **poor or fair health** since 2013. These 27 states also include Kentucky, which we profiled in the 2016 *Scorecard* as a model for its major improvements in access to affordable coverage. Those improvements continued in this year's *Scorecard* with Kentucky showing another two percentage-point decline in adults who report being in poor health.

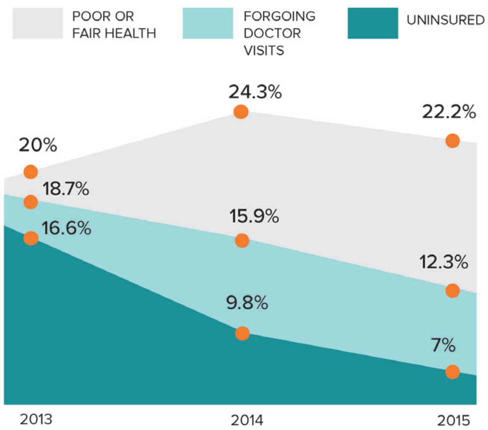
Despite this positive news, significant disparities remain in coverage by race and income. One state in particular demonstrates the effect these disparities have on state outcomes. South Dakota was the only state to experience an *increase* in its uninsured rate from last year's *Scorecard*—due entirely to an increase in the number of uninsured people of color. While uninsured rates declined marginally among the

UNINSURED RATES CONTINUE TO DECREASE NATIONALLY



Source: American Community Survey

IMPROVEMENTS IN COVERAGE RESULTED IN IMPROVEMENTS IN HEALTH OUTCOMES IN KENTUCKY



Source: Kaiser Family Foundation State Health Facts

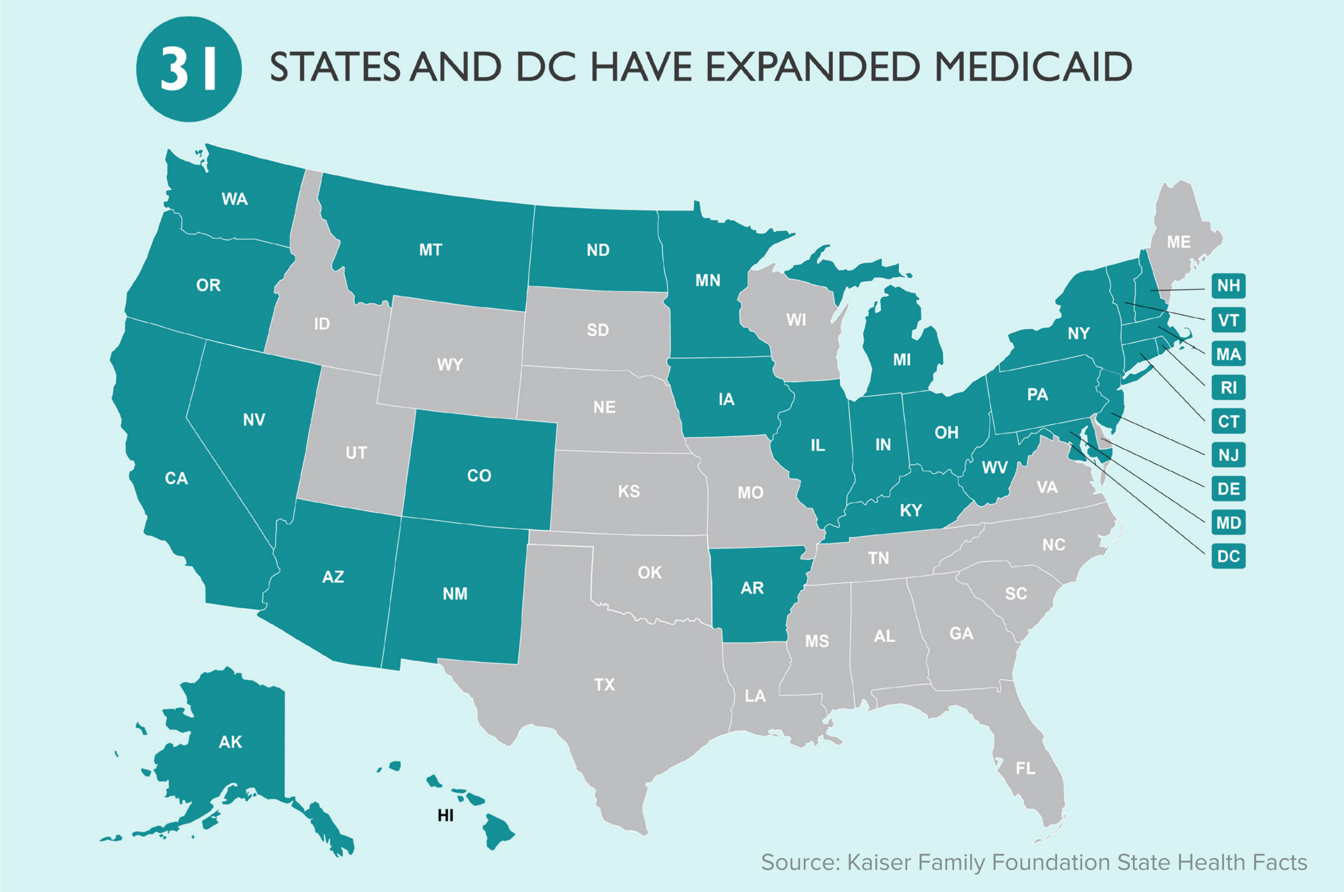
PROSPERITY NOW SCORECARD

state's White residents, there was nearly four-point increase in the percentage of residents of color who were uninsured, resulting in a total of 12,000 more South Dakotans without coverage. This outcome is likely to be replicated in every state if the Affordable Care Act is repealed and replaced by one of the bills currently circulating in Congress, all of which purposely and systematically strip health care from millions of taxpayers.

STATE POLICY RESPONSES

As the federal government continues to debate whether to reinforce or withdraw its commitment to the health of our nation's families, states will increasingly need to stand up for rights and needs of their residents. The story of Americans' improving health status is in no small part due to state **expansions of Medicaid** under the ACA for people earning up to 138% of the federal poverty level. At of the end of 2016, 31 states and the District of Columbia had made this commitment to care for the health of their low-income families, with Louisiana becoming the latest in a string of states to expand Medicaid by the end of the year.

No matter how debates in Congress play out, states should continue their commitments to expanding Medicaid eligibility despite increased pressure to roll back the promises they have already made. Health must continue to be recognized as a right, not a privilege.



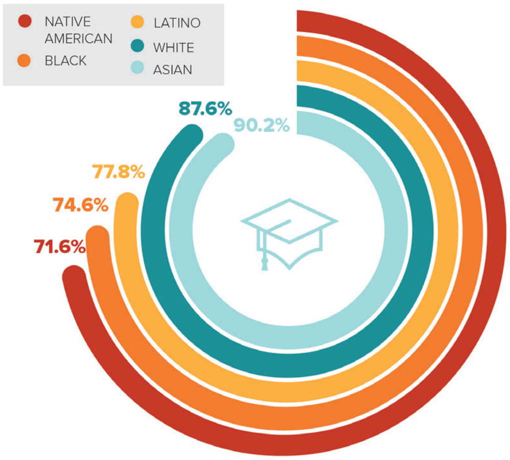
Education

Sixty-five percent of jobs in 2020 will require a postsecondary degree, meaning that access to affordable educational opportunities will continue to be fundamental to achieving financial security.[18] A good education opens the door to quality jobs and equips individuals with the skills necessary to move up the economic ladder. While several indicators of academic achievement have improved, significant racial disparities in graduation and disconnected youth rates remain. To ensure that education is an opportunity equalizer, policies must address soaring tuition costs and the barriers to higher education faced by historically underserved students.

The seeds of prosperity are sewn at the youngest stages of development. We know that access to **early childhood education** has substantial positive long-term effects on children's educational and developmental prospects, as well as on their lifetime earnings.[19] Encouragingly, the early childhood education enrollment rate rose modestly to 47.6% compared to 47.1% in last year's *Scorecard*, although this rate remains below its high of 49.1% in 2008. A handful of states saw significant increases in their early childhood education rates, including New Hampshire and Wyoming, where rates rose by 7.4 and 5.6 percentage points, respectively. However, enrollment rates also fell in 20 states and the District of Columbia, including declines in Vermont, South Dakota, Maine and DC of more than five percentage points.

Likewise, **on-time high school graduation rates** have increased in 33 states and DC over last year's *Scorecard*, led by DC's 7.2 percentage point increase. The national on-time high school graduation rate (83.2%) marked the fifth consecutive year of improvement. While improvement was relatively equal across all racial and ethnic groups—because of existing disparities—the national on-time graduation rates for White and Asian students (87.6% and 90.2%, respectively) remain over 10 percentage points higher than the rates for Black (74.6%), Latino (77.8%) and Native American students (71.6%).

ON-TIME GRADUATION RATES FOR WHITE AND ASIAN STUDENTS REMAIN 10% HIGHER THAN BLACK, LATINO AND NATIVE AMERICAN STUDENTS



Source: US Department of Education

Echoing the steady climb in national high school graduation rates, the rates for **disconnected youth** (young adults aged 16-24 who are neither working nor enrolled in school) declined in 41 states and DC, and fell nationally to 12.3%—a 1.5 percentage-point drop from last year's *Scorecard*. The disparity in rates of disconnected youth between races also narrowed, thanks in part to a 2.1 percentage point decline in the number of youth of color who are disconnected from work or school. These declines are likely attributable to the improvements in high school graduation rates, increasing rates of four-year **college degree attainment** and the gradually improving job market for young adults.

The improvement in job prospects likely also undergirds the recent declines in **student loan default rates**. Student loan default rates have fallen in 32 states and the District of Columbia, and the national rate has declined for a third consecutive year. The student loan default rate for borrowers recently entering repayment on federal loans is currently 11.3%, which is 3.4 percentage points lower than the 2012 high of 14.7%. West Virginia experienced the largest decline in default rates, with a 2 percentage point drop from last year's

Scorecard. However, with **average student loan** debts eclipsing $30,000 for new graduates nationally, and with over two-thirds of all **college graduates leaving school with student loan debt**, a default crisis looms, particularly given recent attempts by Congress to weaken the Consumer Financial Protection Bureau, which regulates student loan servicers.

STATE POLICY RESPONSES

To improve educational attainment and ensure students don't risk their future financial security in the process, states must advance policies that provide access to affordable quality education.

Universal access to pre-kindergarten programs is the first step toward ensuring all children begin their educational journeys on a level playing field. Such programs are particularly invaluable to working families for whom private child care might not be an option. In 2016, only Florida and West Virginia guaranteed universal access to pre-kindergarten learning programs.

Affordable preschool options are more limited for low-income working families than for their higher-income neighbors. **Head Start**, a pre-kindergarten program for low-income families, not only provides educational and developmental results for children, it also helps parents pursue employment and their own educational aspirations.[20] States can better assist these families by matching federal investments in the Head Start program with supplemental state grants. Fifteen states provide supplemental Head Start state funding.

With the costs of college continuing to skyrocket and more families relying on student loans for higher education, states should support parents in their efforts to save early for their children's postsecondary education. Universal **Children's Savings Account (CSA) programs** place these goals within closer reach by providing savings accounts, financial education and incentives to support families' quests to send their children to college. Maine and Nevada are currently leading the nation with their statewide universal CSAs, and many municipal governments are taking up the mantle for CSAs where their states have not yet done so.

These early investments alone will not be sufficient to guarantee a path to higher education if states continue to disinvest in public colleges. Rather than making the costs of college attendance a barrier, states should **support their public colleges and universities** through adequate annual budget commitments of at least 10 percent of state budgets for higher education, while guaranteeing access through well-targeted financial aid. Twenty-seven states met this threshold for adequate spending. Most state have at least maintained steady funding, which is a good start. However, between 2014 and 2016, 24 states allocated smaller percentages of their budgets to higher education, with three states—Minnesota, New Mexico and Oregon—decreasing these budgets by more than 50%.

More needs to be done by states to reinforce the importance of higher education investment in creating healthy economies. That means not only recommitting to strong overall education budgets, but supporting the needs of students, particularly those without the means to achieve the dream of a postsecondary degree or certification without financial aid. States can support higher education choice for students by ensuring a percentage of all financial aid is need-based; on average states dedicate 76% of financial aid to students in need. Twenty-nine states surpassed this threshold in 2016, with Virginia becoming the most recent to commit the vast majority of its financial aid disbursements (80%) on the basis of need. Commitments like these will continue to move states, students and families farther down the path to prosperity without falling victim to a landslide of insurmountable student loan debt.

Endnotes

[1] Source: Prosperity Now interview in Chicago. Name changed to protect confidentiality.
[2] *Income Volatility: A Primer* (Washington, DC: Financial Security Program at The Aspen Institute, 2016), https://assets.aspeninstitute.org/content/uploads/files/content/docs/pubs/EPIC+Volatility+Primer+(May).pdf.
[3] *Report on the Economic Well-Being of U.S. Households in 2016* (Washington, DC: Board of Governors of the Federal Reserve System, 2017), https://www.federalreserve.gov/publications/files/2016-report-economic-well-being-us-households-201705.pdf.
[4] Data disaggregated by race can be found at *2015 FDIC National Survey of Unbanked and Underbanked Households* (Washington, DC: Federal Deposit Insurance Corporation, 2016), https://economicinclusion.gov/.
[5] While a change in the methodology in the Census Bureau's Survey of Income and Program Participation (the source for the *Scorecard* data) precludes an analysis of trends, wealth data from the Survey of Consumer Finances over a comparable time period finds that median net worth did not increase in the United States from 2010 to 2013. See Jessie Bricker, et. al., *Changes in US Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances* (Washington, DC: Board of Governors of the Federal Reserve System, 2014), https://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf.
[6] Dedrick Asante-Muhammad, Emanuel Nieves, Chuck Collins and Josh Hoxie, *The Ever-Growing Gap: Without Change, African American and Latino Families Won't Match White Wealth for Centuries* (Washington, DC: CFED, 2016), https://prosperitynow.org/resources/ever-growing-gap-without-change-african-american-and-latino-families-wont-match-white.
[7] Ibid.
[8] Catherine Harvey, *Access to Workplace Retirement Plans by Race and Ethnicity* (Washington, DC: AARP Public Policy Institute, 2017), http://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf.
[9] *Community Credit: A New Perspective on America's Communities* (New York, NY: Federal Reserve Bank of New York, 2017), https://www.newyorkfed.org/data-and-statistics/data-visualization/community-credit-profiles/index.html#overview.
[10] Income inequality is calculated as the ratio of annual household income of households at the 80th percentile of the income distribution to households at the 20th percentile. (Source: Prosperity Now analysis of 2015 American Community Survey one-year estimates.)
[11] The Kaiser Family Foundation State Health Facts. (Data Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. Medical Expenditure Panel Survey-Insurance Component, 2012-2015. Medical Expenditure Panel Survey Private Sector Insurance Component, Table II.A.2.)
[12] *Bigger than You Think: The Economic Impact of Microbusiness in the United States* (Washington, DC: Association for Enterprise Opportunity, 2013), http://www.aeoworks.org/publications/Bigger%20than%20You%20Think%20Report_FINAL_AEO_11.10.13.pdf.
[13] Prosperity Now analysis of 2012 Survey of Business Owners data (Washington, DC: U.S. Census Bureau, 2015).
[14] Elaine L. Edgcomb and Tamra Thetford, *Microenterprise Development as Job Creation* (Washington, DC: FIELD at The Aspen Institute, 2013), http://fieldus.org/Publications/jobcreation.pdf.
[15] Delaware, Maryland, Mississippi and South Carolina.
[16] Delaware, Florida, Idaho, Montana, New Mexico, South Carolina, Vermont, Virginia, West Virginia and Wyoming.
[17] Jason Q. Purnell, "Financial Health is Public Health," in Laura Choi, David Erickson, Kate Griffin, Andrea Levere and Ellen Seidman, *What It's Worth: Strengthening the Financial Futures of Families, Communities and the Nation* (San Francisco, CA: Federal Reserve Bank of San Francisco, 2015).
[18] Anthony P. Carnevale, Nicole Smith and Jeff Strohl, *Recovery: Job Growth and Education Requirements through 2020* (Washington, DC: Georgetown University Public Policy Institute, 2014), https://cew.georgetown.edu/wp-content/uploads/2014/11/Recovery2020.ES_.Web_.pdf.
[19] *The Economics of Early Childhood Investments* (Washington, DC: Executive Office of the President of the United States, 2014), https://obamawhitehouse.archives.gov/sites/default/files/docs/the_economics_of_early_childhood_investments.pdf.
[20] Terri J. Sabol and P. Lindsay Chase-Lansdale, "Does Head Start Promote Outcomes for Low-Income Parents?" *The Aspen Journal of Ideas* (2015), http://aspen.us/journal/editions/januaryfebruary-2015/does-head-start-promote-outcomes-low-income-parents.

Ready to Take Action? Join the Prosperity Now Community!

The *Prosperity Now Scorecard* is designed to equip advocates with the data they need to make the case for solutions that help everyone in our country achieve financial stability, wealth and prosperity. If you're ready to turn these insights into action, we invite you to become part of the **Prosperity Now Community**!

The Prosperity Now Community is comprised of Networks and Campaigns that enable you to tailor your experience based on the issues you care most about.

Prosperity Now Networks bring together peers and experts around key issues, including:

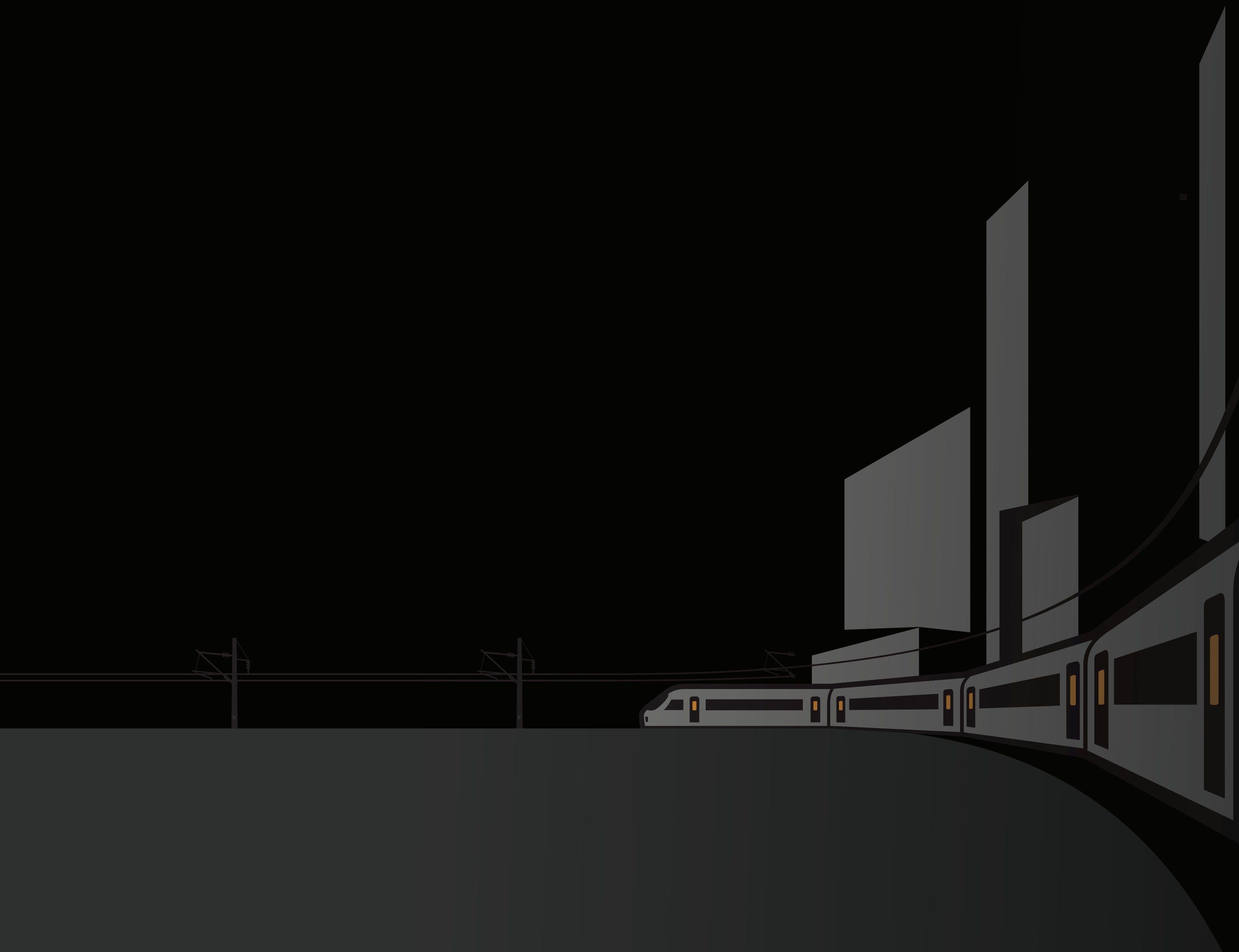
- Adult matched savings
- Affordable homeownership
- Children's savings
- Community tax preparation
- Financial coaching
- Manufactured housing
- Racial wealth equity

Prosperity Now Campaigns connect advocates with what they need to ensure federal policies are designed to propel families forward, rather than leaving them behind. Join our Campaigns to:

- Protect essential safety net programs
- Preserve opportunities for affordable homeownership
- Create a more equitable tax code
- Strengthen protections for vulnerable consumers

Learn more and get started today at

prosperitynow.org/join



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