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LIFELONG LEARNING ACCOUNTS A SMART INVESTMENT WHOSE TIME HAS COME

By Representative Kim Norton: District 29B, Minnesota

As the United States slowly grows its way out of the recession, many legislators and others have looked at strategies that can speed up the process or ease its impact. What worked in the past may not work now. For policy makers and other leaders, it is important to have innovative ideas and consider “what if’s.”

It is in this spirit that I have been advocating a new strategy. “What if” individuals had been putting money in Lifelong Learning Accounts (LiLAs) for the past 10 years? Would their ability to retrain during the recession have helped? Might not it have been good for the individual as well as society and our future economy? I believe it is time that we think of adult employees in the workforce as adult learners; let’s grow our education attention beyond our children to include ourselves.

Too often we see investment in our children’s education as a public good, but I believe that investment in adult learning is a private good. Given our changing demographics, our shrinking younger worker pool, and the trend toward multiple job changes for employees, it is time we change an antiquated mindset.

I first learned about LiLAs at a Women In Government higher education conference. After hearing about this innovative tool, I was compelled to bring this idea to Minnesota. I’ve worked with several other legislators on a bi-partisan basis to put together a bill that we think would benefit Minnesota and its workers.

I am carrying legislation this year that would allow employees to establish and carry portable education accounts. If you have been saving for a child’s college fund, think of this as similar to a 529 account. The accounts can be funded by individual contributions and/or employer contributions and are used to pay for education expenses and professional development.

In our state, this bill was targeted towards industries with career ladders, high growth potential, and high predicted occupational openings. In other states where this program was

piloted, 55 percent of these accounts are held by women.

LiLAs benefit employees and employers. My bill allows a person to receive a tax credit equal to half of the contributions they make, up to \$1,000 annually for a married couple filing a joint return and \$500 for all other returns. An employer may claim a tax credit up to \$500 for each employee to whom it contributes.



Representative Kim Norton

You may wonder why an employer would pay for additional education if an employee will improve their skills on the company dime then take off for another job outside the company. Think of it this way: If Employer A is investing in its employees, it has a competitive advantage over Employers B, C, and D who are not making the same investments. Let’s say that B, C, and D get smart and decide to play. Then, all four employers are on an improved playing field, they have better trained employees, they are more efficient and making more money. And company B could just as easily benefit from company B or C’s LiLA investment and wisdom as the other way around!

Smart employers know to invest in their workers. This program gives them a tax incentive to make the commitment. Local economies benefit with increased spending on education and higher wages for workers. It’s a smart investment in economic development whose time has come.

Think where our economic recovery would be if unemployed workers had been training, learning new skills, and adding value to their resumes. Why wait? The time is now. ■

HELPING SMALL BUSINESSES WITH FAIR CREDIT CARD PRACTICES

By Representative Kim Rosen: District 40, Maine

Summary of Maine Draft Legislation Reference 1965: Prevention of Credit Card Company Unfair Business Practices

Background on Unfair Card Company Rules

Credit card companies, such as Visa and MasterCard, determine prices for their banks and have thousands of pages of contract rules that can interfere with a merchant's ability to make decisions about the way she runs her business. Contract terms are entirely non-negotiable and can change at any time, and without any direct notice from the payment's networks, making these contracts unlike any others in the business world. Merchants either accept the terms or choose not to accept the card's network brand. For most businesses, large and small, not accepting cards is not an option in an increasingly paperless world.

Interchange fees¹ have tripled from \$16 billion to \$48 billion since 2001, and cost the average American household over \$400 a year – a cost most don't even know they are paying.

Legislation Reference (L.R.) 1965

In order to help small businesses which may be experiencing economic hardship due to unfair credit card company contracts, I proposed Legislative Reference (L.R.) 1965. L.R. 1965 addresses such credit card contractual problems as: high interchange fees; the ability of merchants to choose what cards they will accept in their stores; and the setting of minimum amounts for credit card purchases. This act is concerned with protecting and supporting small businesses in Maine – businesses that help supply jobs for constituents and secure the financial well being of Maine's families.

Currently, this bill is still being drafted. It has not yet been scheduled for a hearing to a special committee yet. Below is a legislative break out detailing the challenges business owners face and the legislation's proposed solutions. ■



Representative Kim Rosen

Specific Problems This Legislation Would Solve

<p>Problem: In their thousands of pages of contract rules, credit card networks describe how merchants may display prices of goods and services in their stores. These companies should not be able to prevent merchants from giving customers a discount if they are willing to pay with a cheaper card.</p>	<p>Solution: This legislation would address this practice by prohibiting electronic payments networks (i.e. Visa and MasterCard) from imposing any requirement, condition, penalty, or fine in a contract with a merchant relating to the display of pricing for goods or services for sale by the merchant. This includes, but is not limited to, a display for a discount to be provided to a consumer for using a form of payment that carries lower fees for the merchant. This would also include merchants giving consumers discounts for using a card from a different network that is cheaper. Credit card companies should not be able to prevent merchants from giving customers discounts – that prevents price competition and hurts consumers.</p>
<p>Problem: Card networks prevent merchants from setting a minimum or maximum amount for a credit or debit card purchase. Some merchants do this anyway, but they can face fines upward of \$5,000 a day for doing so. Interchange fees are a percentage of the sale plus a flat fee, and on small dollar purchases in particular, that flat fee significantly eats into the merchant's profit. When a customer buys a pack of gum or bottle of water with a credit or debit card, small merchants would often be better off giving away the item.</p>	<p>Solution: The Durbin Amendment² took a strong step toward leveling the playing field by prohibiting network fines for merchants who set a \$10 minimum or less for a credit card purchase only, but much more can be done to help protect small business from excessive fees. The proposed Maine legislation would prohibit electronic payments networks from specifying in non-negotiable contracts that merchants cannot set a minimum or maximum dollar value for its acceptance of a form of payment. Many small business groups support reform of this rule.</p>
<p>Problem: If a merchant accepts credit card products at one of its locations, it must accept them at all locations. In some markets, card acceptance may make sense while it does not in others. This rule inhibits the ability of merchants to make decisions about their stores on an individual location basis.</p>	<p>Solution: This legislation would prohibit electronic payments networks, in their merchant contracts, from inhibiting the ability of any merchant to decide not to accept the products of an electronic payment system at one of its locations.</p>
<p>Problem: The existing take-it-or-leave-it credit card merchant contracts require merchants to accept all products from an electronic payments network if they are going to accept any products. This type of all or nothing environment allows the card networks to introduce new products into the system at any time and with any level of associated fee.</p>	<p>Solution: This legislation would prohibit electronic payments networks from preventing any merchant from deciding not to accept certain products of an electronic payment network based on the fees associated with such products while still accepting other products of that electronic payment network. Merchants would still have to treat different banks that issue cards equitably – they could only make this decision based on price.</p>
<p>Problem: In the existing electronic payments network environment, the card companies set interchange rates for all the banks that issue their cards. Due to this price setting and the contract restrictions that keep interchange fees hidden, there is no competition and no way for banks to compete to charge lower rates. In fact, there's an incentive for card networks to raise default rates to get more banks to issue their cards.</p>	<p>Solution: This legislation would not allow electronic payment networks to set the prices to be charged by all their bank members. Banks can and should set their own fees.</p>
<p>Problem: Currently, many electronic payment networks and banks limit the options for how particular transactions can be routed. There are many competing networks, particularly for PIN transactions. These competitors include Star, PULSE, NYCE, and Shazam, among others. Merchants should be free to choose among these competitors based on price and service – not limited by banks or networks that don't want to compete on a level playing field.</p>	<p>Solution: This legislation would prevent electronic payment networks from restricting merchants' ability to choose how to route transactions.</p>

1. Interchange fee is a term used in the payment card industry to describe a fee that a merchant's bank pays a customer's bank when merchants accept cards using networks such as Visa and MasterCard for purchases.

2. This was an amendment offered by U.S. Senator Dick Durbin-D-IL to the Wall Street Reform bill last June (2010). The Senate-passed amendment would regulate the interchange fees associated with debit or prepaid cards issued by large banks on behalf of government-administered payment programs. For more information please see <http://durbin.senate.gov/showRelease.cfm?releaseId=325810>

ENSURING FAIR HOME FORECLOSURE PRACTICES IN MISSISSIPPI

By Lauren McKown, Graduate Fellow



Representative Adrienne Wooten

Despite gradual economic growth the past quarter, many American families are far from reaching economic recovery. Many families face the prospect of foreclosure on their homes. In Mississippi, Representative Adrienne Wooten has proposed new legislation to ensure that all people receive accurate, accessible information as well as get a fair chance to avoid the unfortunate reality of a home foreclosure.

House Bill (H.B.) 322 introduced on January 4, 2011 strives to help inform homeowners of all available options so as to make the best decision when facing financial dilemmas with property ownership.

First, the bill requires that the borrower be given the opportunity to meet with a lender regarding the modification of a mortgage loan on a principal residence before procedures for foreclosure commence.¹ This allows the homeowner the possibility of negotiation before foreclosure. This also allows the borrower to receive all the pertinent information directly from the lender so as to ensure that all options are explored and that the client understands the ramifications of the foreclosure process.

Secondly, the legislation prohibits a party from beginning the foreclosure proceedings by advertisement if the proscribed aforementioned procedures have not been followed or the applicable time limits have not expired or if the parties have agreed to modify the loan and the borrower is not in default. This protects the homeowner from potential predatory lending practices that may advance the process of foreclosure without adhering to mandated policy concerning time limits or public advertisement. By ensuring that homes which may be potentially in foreclosure are not rashly advertised, this legislation affords families the time to negotiate with lenders before their homes are bought from underneath them. Additionally, this proposed legislation would protect and honor any loan modification agreements made between the lender and the client. By instituting a meeting which allows for

the re-examining of a borrower's mortgage, many loan institutions and borrowers would benefit by avoiding costly foreclosure proceedings that negatively affect American families.

Thirdly, the legislation would require a foreclosing party, before proceeding with a foreclosure sale by advertisement, to mail to the borrower a written notice containing specified information, including the name of a designated contact person who will have the authority to make modification agreements and a list of approved housing counselors.² This section is central to empowering the borrower to contact the mortgage official and discuss the possibility of a loan modification. By providing families with up-to-date, pertinent information, they can then proceed with the best course of action to help save their homes and their financial futures.

Finally, the proposed bill allows the borrower to bring an action to enjoin the foreclosure if the required notice was not served. In addition the bill requires the borrower to contact a housing counselor if he or she wishes to work out a modification, and in turn the counselor is required to schedule a meeting with the designated contact person.³ This stipulation puts the power to stop an unfair foreclosure in the hands of the borrower. If he or she has not received proper notice, then he or she has the ability to command that the proceedings halt. Also central in this section are the guidelines through which a potential mortgage modification can successfully take place. By working with and through a knowledgeable counselor, both the lender and the borrower benefit. The lender receives up-to-date information compliant with legal lending procedures, and the borrower's interests are conveyed professionally and fairly.

H.B. 322 did not leave the Committee on Banking and Financial Services this legislative session; however, the proposed legislation has taken the first step towards raising awareness about ensuring fair home foreclosure procedures in Mississippi and can be used as an example for others states pursuing legislation to inform citizens and potentially prevent home foreclosures. ■

1. H.B. 322 text <http://billstatus.ls.state.ms.us/documents/2011/pdf/HB/0300-0399/HB0322IN.pdf>

2. H.B. 322 text <http://billstatus.ls.state.ms.us/documents/2011/pdf/HB/0300-0399/HB0322IN.pdf>

3. H.B. 322 text <http://billstatus.ls.state.ms.us/documents/2011/pdf/HB/0300-0399/HB0322IN.pdf>

INCREASING THE STATE EARNED INCOME TAX CREDIT TO THOSE IN NEED

By Lauren McKown, Graduate Fellow

Like many other states in the country, Iowa's citizens have been hit hard by the financial downturn these past two years. Senator Pam Jochum of Iowa is combating this problem by putting more money back into the pockets of her constituents. On January 13 she introduced Senate Bill (S.B.) 31, which increases the amount of the state earned income tax credit.

A state earned income tax credit (EITC) supplements the federal credit and works as a rebate for state taxes paid by low-income working people. Currently 24 states, including the District of Columbia, have enacted a state EITC, which is often a percentage of the federal credit. EITC legislation has been passed

in states controlled by both Republicans and Democrats, and has been supported by both business groups and social service advocates.

The cost of state EITCs may be relatively modest because they are more specifically targeted to low- and moderate-income working families than many other major tax cuts. State EITCs are financed in whole or in part from funds available in a state's general fund. The cost of a state EITC depends principally on four factors: 1) the number of families in a given state that claim the federal credit; 2) the percentage of the federal credit at which the state credit is set; 3) whether the credit is refundable or



Senator Pam Jochum

non-refundable; and 4) how many state residents who receive the federal credit also learn about and claim the state credit.¹

It is the refundable nature of the earned income tax credit that makes it such a powerful, poverty-fighting tool. The EITC provides a very considerable boost to low-income workers' take-home pay, making each hour worked far more valuable to a struggling family. A refundable credit allows families to benefit from the full value of the credit they have earned even if they owe less in income tax

than the amount of the credit. If the amount of the EITC exceeds the amount of income tax owed, the difference is paid back to the filer in the form of a rebate. At least part of the refundable credit offsets payroll and sales taxes, which, for low-income working families, are often larger than income taxes.²

In Iowa, S.B. 31 proposes that the EITC be raised from 7 percent of the amount of a taxpayer's federal earned income tax credit, to 10 percent. This would also apply retroactively to January 1, 2011, for tax payers beginning on or after that date. Senator Jochum, the lead sponsor of the bill, has worked diligently to present it before the Senate Committee on Ways and Means where it currently awaits discussion.

1. State EITC, <http://www.stateeitc.com>



Senator Jochum is the chair of the Administration & Regulation Budget Subcommittee and vice-chair of the Labor & Business Relations Committee. She also serves on the Judiciary, State Government, Ways & Means, Human Resources, and Appropriations committees. ■

2. State EITC, <http://www.stateeitc.com>



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