



Established Social Security Benefits Critical to Community Development

Providing social insurance against death, disability, and old age, Social Security is a corner stone of the social contract between the American people and the government.

Social Security benefits most American families but it plays an especially important role in providing progressive benefits to lower- and average-income families ensuring them a modest base income during retirement. Social Security also provides a safety-net for the



changed by the program because of black males' lower life-expectancies. Woodstock Institute, which works to promote economic stability and asset development in lower-income and minority communities considers Social Security, in essentially its current form, as a foundation of family and community well-being in these and other communities.

Before the Bush Administration's first term tax cuts were enacted—tax cuts mainly benefiting the top one percent of wage earners—Social Security faced a

problem, not a crisis, namely the growing number of retired people. The tax cuts created the crisis because in a 75 year horizon, the longest useful time frame for assessing the Social Security Fund's solvency, the tax cuts amount to three times the projected Social Security shortfall.

As the stories in this issue show, Social Security is vital to the well-being of the nation's retired people and to the dependents of disabled or deceased workers. We are convinced that Social Security can and must survive in its current form as a federally administered benefit, and that this goal can be achieved with modest adjustments within the existing framework. Families who can, should invest additional retirement funds in private market instruments but Social Security is the guaranteed base for retirement income and the only or the major source of that income for a large percent of Americans.

For more on Social Security, see pages 4 and 5.

spouses and children of deceased or disabled workers, a fact ignored by the Bush Administration arguments that African-American families are short-

Inside:

Public Funding Still Needed to Leverage Private Dollars 2

Delegates from Eight Countries Debate Community Reinvestment Mandates in Rio de Janeiro 3

AARP Says Small Tax Increases and Benefit Adjustments Could Fix Social Security 4

Social Security Keeps Administrative Costs Low 5

Woodstock's Marva Williams Wins 9th Annual Tom Gobby Award 6

Critical Income: The Nuts and Bolts of Social Security

Social Security is the primary retirement income for over 38 million retired workers and their families. Social Security benefits make up half of the total household income for approximately two-thirds of all elderly house-

holds, with benefits accounting for about 90 percent of household income for one quarter of all elderly households. Without Social Security benefits, nearly half of all elderly households would fall beneath the
—Continued on page 5

Highlights

Building Community Assets: Woodstock Institute's Blog Working to Expand Mainstream Credit Unions' Lower Income Membership

Community organizations and credit unions seeking to partner with mainstream credit unions have a new online resource to communicate, share breaking news, and facilitate mutual problem solving. Building Community Assets, Woodstock Institute's online weblog (or "blog") offers timely commentary on community reinvestment issues within the credit union industry and suggests innovative ways to approach partnerships between community organizations and mainstream credit unions to increase low-income membership.

Credit union industry research has shown that mainstream credit unions expanding into underserved areas have increased their membership dramatically—about 123 percent over the national average. However, Woodstock Institute found that while credit unions are increasing overall membership in underserved areas, they are still not effectively expanding membership among lower-income people.

With support of the Annie E. Casey Foundation and the Ford Foundation, Woodstock Institute is providing technical assistance to community organizations seeking to partner with mainstream credit unions. The blog is a key part of this technical assistance, giving community organizations a chance to highlight the successes and challenges of their partnership, or reach out to credit unions in their area.

Visit Building Community Assets at www.woodstockinst.org/blog or contact Marva Williams for more information.

Cuts to Critical Federal Grant Program Public Funding Still Needed to Leverage Private Dollars

Impending cuts to the federal Community Development Block Grant (CDBG) program threaten to drastically reduce the public dollars available for critical housing and infrastructure projects in lower-income communities. These public dollars are critical to community development projects because they leverage private sector funds for reinvestment.

The current Bush proposal threatens to zero out the CDBG program entirely under the Department of Housing and Urban Development and then reorganize the block grant program along with several other programs under the Department of Commerce, an agency with no track record in administering a community development program of this size. The new program would be funded at \$3.71 billion — \$1 billion less than what CDBG alone received last year. Currently 58 senators, including Senators Durbin (D-IL) and Obama (D-IL) have signed a request opposing these cuts.

The success of the Community Reinvestment Act can be measured in substantial aggregate investment by private sector financial institutions, but in many projects across the country, those funds are leveraged by public funding earmarked for economic development and affordable housing. Leveraging funds for catalytic community development projects is nothing new to community organizations layering one source of funding on top of another to get a project off the ground. Using a combination of public and private loans and grants, new affordable housing gets built or preserved with a minimum public commitment.

A recent analysis by the American Planning Association shows just how critical CDBG funding is to community development projects. Since its inception, CDBG has leveraged \$324 billion

in new private investment, returning about \$3 in private money for every public dollar spent.

In the Chicago neighborhood of East Garfield Park, a \$1 million CDBG loan leveraged \$3.4 million in tax credit equity to rehabilitate the Switching Station Lofts. This former telephone exchange was later converted to a public school, but has since sat empty. After acquisition by a non profit developer, the building was rehabilitated to create 24 live/work units for community artists. CDBG funding was structured as a 30-

Since its inception, CDBG has leveraged \$324 billion in new private investment, returning about \$3 in private money for every public dollar spent.

year zero percent interest loan with the entire principal due on maturity. In addition to CDBG funding, the project received financing from the Illinois Housing Development Authority and the Federal Home Loan Bank. The flexibility of CDBG funds allowed for the productive redevelopment of this historic building while attracting other public and private financing sources.

A 2004 Woodstock Institute report examined several different strategies for funding affordable housing projects, particularly smaller projects that make up the bulk of the nation's affordable housing stock. Tax breaks and different depreciation methods proved to be modestly effective. However, small public grants and low interest loans are critical to the project funding. In the Chicago region as elsewhere, much of this public funding comes from block grants funding such as CDBG.



Delegates from around the world meet in Rio for community reinvestment conference. Back row left to right: Dan Leibsohn (United States), Eduardo Touche (Mexico), Laura Munoz (Mexico), Morgan Pillay (South Africa), Tom Feltner (Woodstock staff), Manuel Thedim (Brazil), Front row from left to right: Marva Williams (Woodstock staff), Whitney Thomas (United Kingdom) Malcolm Bush (Woodstock staff), Mathew Titus (India), John Taylor (United States), Maryellen Lewis (United States). Kneeling: Andres Urani (Brazil)

Delegates from Eight Countries Debate Community Reinvestment Mandates in Rio de Janeiro

The role of the government in encouraging private sector reinvestment is played out through the Community Reinvestment Act (CRA) in the United States, but a recent conference conceived by Woodstock Institute showcased several other countries that have or are working to pass similar legislation.

Convening representatives from community reinvestment organizations worldwide, Woodstock Institute, the Institute for the Study of Work and Society (IETS) from Brazil, and the National Community Reinvestment Coalition (NCRC, United States) hosted a three day working conference in Rio de Janeiro in October 2004 to identify the salient features of reinvestment laws in Brazil, India, Mexico, South Africa, the United Kingdom, and the United States. The International Center for Research and Policy

on Childhood (CIEPSI) at the Pontifical Catholic University of Rio de Janeiro made the local arrangements.

Delegates discovered that governments and community organizations in other countries are taking a serious look at legislation similar to the U.S. Community Reinvestment Act and working to develop their model reinvestment legislation. Just as in the United States, nonprofits around the world are seeking innovative ways to increase investment in lower income communities, and are busy developing models similar to CRA and other mandatory and voluntary reinvestment strategies.

Working from their current legislation, delegates prepared in-depth reports on the opportunities of and challenges to community reinvestment in their respective coun-

—Continued on page 6

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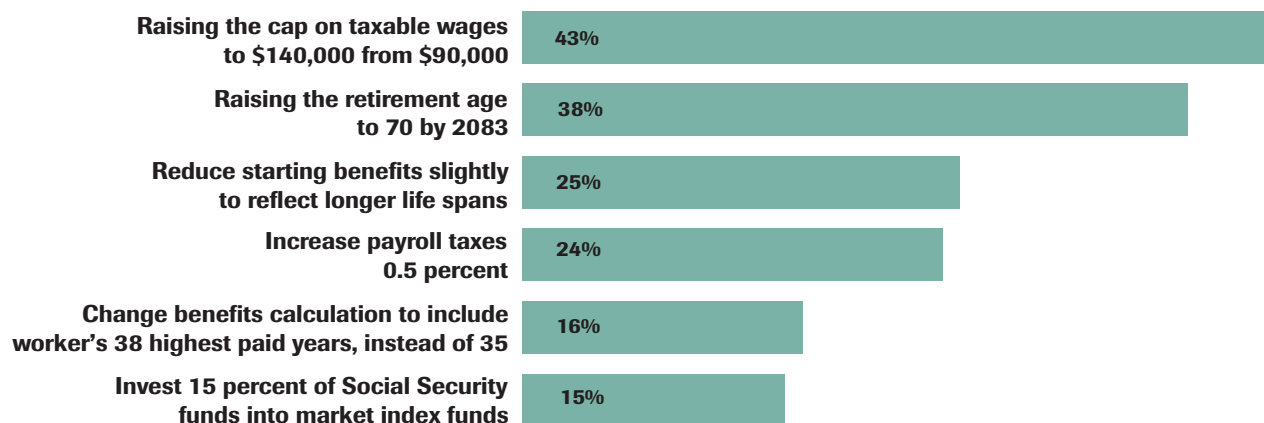
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Percent of the Projected Social Security Shortfall Eliminated



Source: AARP

Options for Solvency:

AARP Says Small Tax Increases and Benefit Adjustments Could Fix Social Security

A combination of increased taxes and benefit adjustments could resolve the projected Social Security shortfall, says the American Association of Retired Persons (AARP). As part of the AARP's "Don't Mess With Success" campaign the group has proposed several small adjustments to how Social Security wages are taxed and how benefits are calculated.

Currently, payroll taxes and the Social Security Trust Fund will be able to pay out full benefits until 2041, after

social insurance program into private retirement accounts. However, recent analysis by the AARP has shown that dramatic changes to the Social Security program, such as private accounts, are not necessary to restore the program's solvency. The AARP has laid out a laundry list of other options, including marginal tax increases or incremental benefit adjustments.

In addition to several benefit readjustments, a key option is raising the limit on Social Security taxable wages to

for Social Security taxes is estimated to reduce the projected Social Security shortfall by 43 percent.

The report also suggests reinvesting a portion of Social Security tax receipts in a market index fund. Investing in an index fund, which historically have a higher yield than U.S. Treasuries, is estimated to reduce the projected shortfall by about 15 percent. More importantly, it would share the risk of investing in the stock market among all Social Security eligible workers and diversify the Social Security investment portfolio.

A combination of just a few of these options could restore the system solvency for the long term, without jeopardizing the benefits that lift half of all elderly households out of poverty.

The AARP believes that raising the cap on taxable wages is a priority. In a recent *Wall Street Journal* article John Rother, the AARP director of strategy and policy, stated that raising the wage cap is "the number 1 priority—probably the only preference that's actually popular with the American public."

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which the system will be able to pay about 70 percent of its promised benefits. After the 2004 election, the White House has made Social Security reform a key domestic priority, focusing attention on transforming what is essentially a

\$140,000, up from the current \$90,000. Since the early 1980s, the percentage of total wages taxed by Social Security has steadily decreased. As income inequality increases, this gap will continue to grow. Readjusting the wage threshold

Social Security Keeps Administrative Costs Low

Social Security has a simple investment strategy—it collects payroll taxes from today’s workforce and uses these to pay benefits for current retirees. The remaining balance is invested U.S. Treasury securities which earn a constant, if somewhat modest, rate of return. This simple investment strategy keeps administrative costs very low, and gives all covered workers, regardless of their account balance, a guaranteed base for their retirement income.

Transforming Social Security from a social insurance system to a system of private retirement accounts would increase these costs. Since smaller and larger accounts would cost roughly the same to administer, smaller accounts would see a greater percentage of their retirement savings eaten up by administrative fees.

The Congressional Budget Office (CBO) calculated the annual cost of administering four different types of retirement accounts based on an as-

Pension System	Reduction in Assets at Retirement
Social Security	2%
Federal Thrift Savings Plan	5%
Mutual Funds	23%
Private Defined-Contribution Fund	19%

sumed 2 percent annual contribution by the average wage earner making about \$27,350 per year and investing over a 40-year period. The results show Social Security’s low administration costs compared to the Federal Thrift Savings Plan, an average mutual fund, and a private defined-contribution fund.

Compared to other retirement pro-

grams, the cost of administering Social Security remains extremely low—less than half that of the Federal Thrift Savings Plan, and a fraction of the cost of administering mutual funds or a private defined-contribution fund. The savings are passed on to working families, who retain a greater portion of their contribution as a guaranteed foundation for their retirement savings.

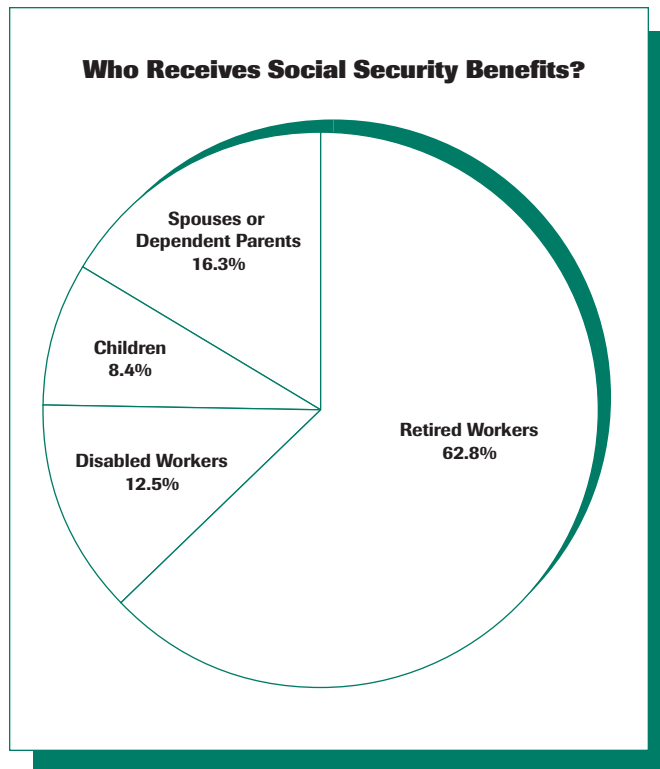
Critical Income

Continued from page 1

poverty line.

Social Security is funded through a 12.4 percent payroll tax on current wages split evenly between the employer and the employee. Self-employed workers, such as free-lance writers, consultants, or those owning a small business, are responsible for paying the entire 12.4 percent.

Social Security revenues are used to pay current benefits, meaning the taxes collected today are being used to pay out benefits to current retirees. These benefits are calculated based on a worker’s earnings during their career. Social Security also provides progressive benefits to lower-income work-



ers who receive benefits exceeding their lifetime contributions. For workers of all incomes, these benefits are adjusted for inflation using a Cost of Living Allowance based on the Consumer Price Index.

Social Security beneficiaries are not just retirees. In 2003, about 6 million were disabled workers, 4 million were young children, and about 8 million were spouses of beneficiaries. Social Security also paid survivor benefits to nearly 4 million children.

No other retirement savings plan provides this type of guaranteed income to retired, disabled, or deceased workers and their families.

Rio debate

Continued from page 3

tries. Challenges range from high-cost debt in the United Kingdom, to jumpstarting economic development in Mexico, and access to basic banking services in Brazil. Another challenge is the demand for high profit margins in the financial services industry, as high as 23 percent in some countries. In Brazil, well-meaning anti-foreclosure regulation allows families to keep their homes even in the event of default, but creates a huge disincentive to the mortgage industry. Delegates agreed, however, that government pressure was necessary to promote private sector lending in lower-income communities, and that data disclosure was essential to successful monitoring of government regulation.

Many of these delegates also attended the National Community Reinvestment Coalition annual conference in Washington D.C. in March 2005. Woodstock Institute and NCRC will continue working with our international colleagues to support a strong global community reinvestment network.



Marva Williams is congratulated by Norm Bobins, President and CEO of LaSalle Bank Corporation.

Woodstock's Marva Williams Wins 9th Annual Tom Gobby Award

Marva Williams, Woodstock Institute's Senior Vice President was the 2004 winner of LaSalle Bank's Tom Gobby Leadership Award for outstanding work in the community development field. Presented annually by Chicago's LaSalle Bank, the award honors community activists demonstrating a dedication to revitalizing Chicago's

low-income communities. While at Woodstock Institute, Marva has published numerous reports on the credit union industry and emerging trends in the financial services market. Marva is also the convener of the Chicago CRA Coalition, one of the country's largest and most active community reinvestment coalitions.

Visit Woodstock's Virtual Home

Browse the internet and you'll find lots of community development resources. Browsers can log on to <http://www.woodstockinst.org> to find out more about the Institute's activities, staff, and publications. There is also a page of useful links to other community development organizations, federal banking regulators, and sources of HMDA and other data. The site also features a form to request information.

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