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The Assets Agenda 2011

Policy Options to Promote Savings and Asset Development

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The purpose of this report is to outline a public policy agenda to broaden savings and asset ownership opportunities for people who have limited resources at their disposal. In developing our thinking on the subject, we have drawn on the research and expert analysis of many others in the field. The agenda we present here includes calls for new structures and policies at the federal level, as well as changes to existing tax systems, government programs, and financial products. Some of these policies are well developed, others need more seasoning, but all of them have the potential to contribute to the economic well-being of millions of American families. If we are to successfully broaden savings and asset ownership, our policy efforts must be expanded, strengthened, and directed toward those with the greatest need.

The terrain we cover is necessarily broad. We aim to highlight the potential of new forms of incentives, institutional support structures, and delivery mechanisms that can be created to support the savings and asset development process. The presentation of these ideas is organized around eleven main categories, covering such areas as savings policy, access to financial services, housing and homeownership, entrepreneurship, and financial education. Specifically, the innovative policies we describe are aimed at targeted populations that have often been left out of past efforts; however, they often have impact for families up and down the income scale and in multiple contexts. Policies to promote savings can be pursued across multiple levels of government, legislative, and regulatory structures and within industry.

Our agenda is expansive but not exhaustive. It is designed to reflect the most innovative and promising ideas, whether they are large or small, close to the finish line or in need of more incubation, in an engaged policy development process. We also intend to capture much of the productive work that has occurred, both in terms of policy development and experience in the field, since we last published our policy agenda in the fall of 2008. During that time, a number of our colleagues working in organizations far and wide have made significant breakthroughs in their work that we strive to capture here. Concurrently, the policy process has unfolded with the arrival of the Obama administration and an active Congress that has passed legislation likely to remake the financial services landscape. Not only has a new consumer watchdog been created with a mandate to promote access to fair and transparent financial services, but the administration has already implemented a number of savings provisions outlined previously and has proposed to incorporate others. Today, tax filers are able to split their tax refunds into multiple accounts and purchase savings bonds when they file their returns. It has been a dynamic time for the policy process, but much work remains to be done. Perhaps tomorrow, families with lower incomes will be able to be automatically enrolled in a savings plan and offered a targeted incentive to jump-start the savings process.

This policy agenda to promote savings and asset development is informed by the recognition that people have multiple savings needs, which become manifest at different moments in time across the life course. Accordingly, a range of policy supports is required. Most households can anticipate a need to draw down on assets in retirement and would benefit by having access to savings plans designed to facilitate asset accumulation over the long term. Much attention in policy circles has focused on restricted-use savings such as 401(k) accounts as a means to build wealth and promote retirement security. But families have intermediate and short-term needs as well. When there are insufficient levels of savings that can be tapped without restrictions, it can lead to costly economic choices. Households may forgo necessary purchases, rely on overdraft coverage (i.e. a loan made through their checking account), borrow from their employer or social

network, or take on a high-cost loan. This underscores the need for policies that can fill this gap to support shorter-term and more-accessible savings.

If we are to successfully broaden savings and asset ownership, our policy efforts must be expanded, strengthened, and directed toward those with the greatest need.

This agenda is also informed by recent insights from the field of behavioral economics, which help to explain why individuals under-save and offer ways to increase savings outcomes. We have seen the potential of creating automatic mechanisms that support positive outcomes without requiring active participation. However, the best policy designs may be ones that take advantage of the power of defaults, or preferred choices at the same time that they trigger levels of engagement that can maximize impact. This is one of the sweet spots a policy agenda should strive to meet.

The Great Recession has been debilitating for many households, and yet families that entered the downturn with savings at their disposal were in a stronger position to weather the storm. That many households did not have access to these resources was one of the factors that made the crisis so devastating. To be sure, the loss of wealth continues to weaken the economy and the extent of the recovery remains uncertain. But the ability to build up household savings will go a long way toward enhancing how families navigate future economic uncertainties and ensuring that they can seize opportunities as they arise. This agenda is needed now more than ever.

Context

Income has historically been the standard measure of economic well-being in social policy thinking because it serves as a proxy for consumption. But income is a poor measure of social development, as income exists only at a particular moment in time while social development unfolds over the long term. Accordingly, economic well-being is a function of having access to both income and assets, which can be invested and deployed productively over a lifetime.

By its nature, asset building is a long-term process. It takes time to accumulate financial resources and to realize the benefits of asset holdings. A lifelong, or life course, perspective is required to measure the effects of asset development strategies. Similarly, policy interventions should connect to the key moments over the life course when individuals and families have the opportunity to build assets. These moments—the birth of a child, entering the workforce or changing employers, becoming an entrepreneur—are discrete enough to be targeted by policy and naturally open the door for individuals to consider the future in the form of saving for education, the purchase of a home, and planning for retirement security.

Expanding savings and asset ownership is especially consequential for families with lower incomes and limited resources. This is because the path toward upward economic mobility and stability is usually paved with assets that can smooth income fluctuations or seed investments that can pay off down the line. In other words, savings are a flexible resource that can be converted into a variety of forms to serve as a safety net and as a springboard to move up the economic ladder.[1] Without savings, long-term financial planning can be difficult and household stability can be compromised.[2] A lack of savings contributes to asset poverty, higher consumer debt levels and higher bankruptcy rates.[3]

Economic well-being is a function of having access to both income and assets, which can be invested and deployed productively over a lifetime.

Furthermore, the presence of savings on a family's balance sheet can reduce the need to borrow, either informally or from high-cost creditors, and preserve long-term financial health. A growing body of research has also shown that asset ownership has behavioral effects that can change the manner in which people think about and plan for the future.[4] In these ways, promoting savings and opportunities to build wealth across the population has the potential to connect economic opportunity with economic security and ensure that every member of society is afforded a real stake in the commonwealth.

Yet historically the distribution of savings and wealth is even more unequal than that of income, and unfortunately this trend has been exacerbated in recent years.[5] From 2004 to 2007, the median and mean net worth for the lowest 25 percent of the income distribution fell a staggering 37 and 44 percent, respectively.[6] The wealth gap is particularly pronounced when taking into account race and ethnicity. According to the Institute on Assets and Social Policy at Brandeis University from 1984 to 2007 the racial wealth gap more than quadrupled.[7] This means that the great economic boom of the 1990s did not have an equalizing effect on wealth for many communities of color. By 2007, more than 23 percent of all income was held by the top 1 percent of earners.[8] This is the highest level of income concentration seen since right before the crash of the stock market and the Great Depression in 1928. The early to mid-2000s have been dubbed the period of "middle class squeeze" by some researchers as skyrocketing debt levels coupled with a drastic decline in household wealth left millions of families in an extremely precarious financial position, with out-of-control debt levels and no real savings to fall back on.[9]

Few would argue with the contention that the Great Recession of recent years has hit households at the lower end of the income spectrum hard. Yet these households had already lost gains they made during the economic boom of the 1990s. From 2000 to 2007, the real median income for working households fell 3.4 percent and in 2008 alone fell an additional 3.3 percent.[10] From 2004 to 2007, the mean net worth for households in the lowest 25 percent of the distribution of net worth decreased more than 40 percent, while the largest gains went to families with the highest incomes and net worth.[11]

A variety of factors impact the ability of families to accrue savings and build assets, including some determined in the macro-economy and at the household level. A primary obstacle is stagnant or low wages that leave households with limited discretionary funds. However, one of the most notable features of the prevailing policy paradigm is how many it excludes from the asset-building process. Current policies often fail to provide sufficient pathways for families to accumulate savings and build up their asset base. While affluent families are able to take advantage of targeted tax breaks, those with fewer resources not only are ineligible but also lack access to other institutional supports, such as those facilitated in the workplace by employer-sponsored savings plans and payroll deductions.

Research has shown that even those with low incomes have been able to save when given access to meaningful savings incentives and institutional support structures. These findings raise questions about the role public policy plays in creating additional obstacles to savings and the asset-building process and the potential of policy to overcome these barriers.

Research has shown that even those with low incomes have been able to save when given access to meaningful savings incentives and institutional support structures.[12] These findings raise questions about the role public policy plays in creating additional obstacles to savings and the asset-building process and the potential for policies to overcome these barriers. We need to create a new policy framework, one that is inclusive instead of exclusive and takes advantage of the potential of assets to help chart a path toward economic security and social development. ◘

Promote Savings Accounts from Birth and Childhood

One promising way to encourage savings is to begin the process early in life with children's savings accounts (CSAs). This approach can provide both widespread exposure to the savings process and a platform for future savings over the life course. The idea of establishing a universal system of children's accounts, started at birth, was first proposed by Michael Sherraden in his seminal book, *Assets and the Poor*.[13] He argued that these accounts could provide a foundation for lifelong asset accumulation as well as facilitate the delivery of basic financial education during the school years and jump-start the savings habit.[14] Current research and successful demonstration projects suggest that children's savings accounts would increase a sense of financial inclusion; promote financial literacy and fiscal prudence; protect against economic shocks; improve access to education; improve health and education outcomes; contribute to the development of a "future orientation"; and, over the long term, improve livelihoods.[15]

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There are many ways to ensure that every child receives an account. In the United Kingdom, the government has issued vouchers to all children born after 2002 that can be redeemed by their parents at participating financial institutions. Other proposals entail the automatic opening of accounts soon after birth when a Social Security card is issued, which triggers an initial seed contribution. These accounts could be held in a pooled account system or rolled out to other financial providers. Children's savings accounts may also be supported with additional incentives or benefits, such as a match on annual contributions or a larger initial contribution, targeted to families with lower incomes. The design choices for a specific CSA policy or product will depend on the capacity and constraints, as well as the particular policy goals, but it will be most constructive to restrict access to account resources until the account holder reaches adulthood or is ready to make a productive investment in his or her future.

The privately funded SEED Initiative, a multi-year national initiative to develop, test, and impel matched savings accounts and financial education for children and youth in 12 sites across the United States, is providing highly valuable insights into policy design.[16] For instance, providers found that outreach and account opening proved to be quite challenging when account opening was not automatic. Further, savings outcomes are often driven by the institutional features of the program, such as the presence of an initial deposit or a savings match, the delivery of financial education, and the ability to minimize the steps required to make deposits.

Policy Options

The ASPIRE Act

The America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) proposes a system of universal children's savings accounts. Under the act, which was first introduced in 2005 with bipartisan support, the federal government would provide every child with an account at birth—a Lifetime Savings Account—endowed with $500 and backed by progressive, targeted incentives. Funds would be held in default investment plans, but account holders would have the option to roll out their resources to other account providers. At age 18, account holders could use accumulated funds to pay for college, buy a home, or build up a nest egg for retirement.[17] Children from households with incomes below the national median would receive a onetime supplemental deposit of up to $500 and would be eligible to receive an additional $500 match for voluntary savings deposited each year. Voluntary contributions to the account could come from any source, but since earnings would be tax-free there would be a $2,000 limit on contributions each year. Access to account funds would be restricted until the account holder reached the age of 18, and parents or legal guardians would control investment decisions until that time. Financial education would be offered to kids and their parents to help them make good investment decisions. The bill was reintroduced in the 111th

Congress (H.R. 4682 and S. 3577), co-sponsored by Reps. Patrick Kennedy (D-RI), Tom Petri (R-WI), and Jim Cooper (D-TN); Sen. Charles Schumer (D-NY) has championed the bill in the Senate along with recent support from Sen. Chris Dodd (D-CT).

The idea of establishing a universal system of children's accounts, started at birth, was first proposed by Michael Sherraden in his seminal book, *Assets and the Poor*. He argued that these accounts could provide a foundation for lifelong asset accumulation as well as facilitate the delivery of basic financial education during the school years and jump-start the savings habit.

Young Savers Accounts

Presently, there are no age restrictions on owning a Roth Individual Retirement Account (IRA), but only individuals with earned income are eligible to set up and contribute to such accounts. As a result, most children are unable to take advantage of this tax-advantaged savings vehicle. Young Savers Accounts (YSAs) would fill this void in the savings continuum by creating a "Kid's Roth"—a place for children's savings with favorable tax treatment. Like existing Roth IRAs, YSAs would permit penalty-free withdrawals for postsecondary education and the purchase of a first home. Allowable contribution levels would be determined by parents' earned income, and contributions could be made by children, parents, grandparents, and others. Contributions to a child's YSA would count toward the parent's annual limit for Roth IRAs (now $5,000 for those aged 49 and under), so no new tax shelter has to be created. Contributions made by low-income families would qualify for the Saver's Credit, and the amount deposited would be excluded in determining eligibility for means-tested programs. Sen. Max Baucus (D-MT), the current chair of the Senate Finance Committee, initially introduced this proposal in 2006.[18]

PLUS Accounts

Children's accounts can be linked explicitly to savings for retirement. The federal government could open a Portable, Lifelong and Universal Savings (PLUS) Account for every newborn. These accounts would be endowed with a one-time deposit of $1,000, and withdrawals would be limited to promoting retirement security. Individual PLUS Accounts could be established for all working U.S. citizens under the age of 65, with a mandatory 1 percent of a worker's pretax paychecks withheld and automatically deposited into his or her account. In addition, workers would be allowed to voluntarily contribute up to 10 percent of their pretax income. Employers would be required to contribute at least 1 percent (and up to 10 percent) of an employee's earnings. No withdrawals from PLUS Accounts could be made until the account holder reached the age of 65, although there would be a loan program for preretirement uses. Sen. Jeff Sessions (R-AL) supported this idea in an op-ed in *The Washington Post* in late 2006.[19]

401Kids Savings Accounts

To make savings currently earmarked for postsecondary education more flexible, existing Coverdell Education Savings Accounts could be converted into 401Kids Savings Accounts, which would have a wider array of allowable uses. The new account would have expanded uses, and could be rolled over into a Roth IRA. This proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to $2,000 in after-tax contributions permitted each year. The funds could be used for the K-12 and postsecondary education expenses currently allowed under Coverdell Education Savings Account rules as well as for other qualified uses. The bill introduced in the 111th Congress (H.R. 30) was sponsored by 17 Republican representatives and is similar to the Young Savers Account proposal.[20] ◘

Facilitate Savings for Higher Education and Skills Training

Graduating from college is one of the primary factors for raising earnings potential.[21] For low-income students, a college degree is one of the best paths for climbing the economic ladder. College enrollment has steadily increased in recent generations among all income groups, but college completion rates have remained stagnant. Despite the strong benefits of a college degree, nearly half of students who enroll in college do not finish. And the lower the family income of the student, the less likely they are to enroll or complete their degree.[22]

A driving factor in the failure to complete degree work, particularly for low- and moderate-income students, is college affordability. In recent decades, college prices have increased dramatically and need-based financial aid has not kept pace. In 1987–1988 for example, the maximum Federal Pell Grant covered 50 percent of public higher education costs. Currently, it covers only 32 percent.[23] The result has been ever-increasing levels of loan debt for students. In 2007–2008, nearly 90 percent of Pell Grant recipients who applied for federal aid graduated with student loan debt, compared with 50 percent of non-Pell Grant recipients. Pell recipients' debt also averaged nearly $3,500 more than non-Pell recipients.[24] Increasing need-based financial aid is one essential step in addressing the college affordability issue, but that alone is not enough.

Youth who expect to graduate from a four-year college and have designated a portion of their savings for college are approximately four times more likely to attend college than youth who have no account.

Recent research from the Center for Social Development at Washington University in St. Louis has shown the links that connect savings and account ownership with access to college and degree completion. In particular, youth who expect to graduate from a four-year college and have an account dedicated for college are approximately seven times more likely to attend college than youth who have no account.[25] Youth who expect to graduate from a four-year college and have designated a portion of their savings for college are approximately four times more likely to attend college than youth who have no account.[26]

Policy Options

Link Pell Grants to College Savings Plans

The Federal Pell Grant program provides funds for low-income students to pay for postsecondary education. The Pell Grant program is one of the largest and most important resources for helping low- and moderate-income students afford college. Adding a savings component to the Pell Grant could enhance the program's impact, while also connecting students to a tax-advantaged investment account.

Currently, students apply for financial aid and receive their Pell Grants at the time of college enrollment. In 2009, the College Board proposed creating earlier access to a system of Pell Grants, which would have students apply for and receive their grants around the time they enter middle school.[27] The total size of the grants would be the same as if students received the aid under the current Pell Grant system, but the grants would be divided into installments and deposited into an account for the students over the years leading up to college enrollment. While students were preparing for college, they would know that funding would be available and growing for them in a government-sponsored account. Like 529 College Savings Plans, the accounts would have tax benefits. However, families would not be able to add their own money to these accounts if they wanted to increase the amount available to pay for college, which is why others have proposed a system of Early Pell Grants linked to existing 529 account structures.[28]

Create a College Savings Innovation Fund

Many of the innovations enacted to help more low- and moderate-income families save for college have been realized at the state level. These innovations include accounts-at-birth, matching programs, scholarship programs, and removing asset limits for resources held in 529 plans when determining eligibility for assistance. The federal government can encourage and enable more states to innovate by creating a college savings innovation fund. The fund could be distributed as a competitive grant to states. These resources could reward states that expand their college savings offerings at a time when fiscal pressures are leading to program reductions and eliminations. States could compete for funding and programs could be

rigorously evaluated to determine which innovations are most effective and worthy of expansion.[29]

Exempt 529s from Eligibility for Federal Financial Aid

Under current federal financial aid rules, families who save for college can be penalized by receiving slightly reduced federal financial aid packages. The rules for savings in 529s are complex, but since parents, rather than their children, are typically the account owners of 529s, a maximum of 5.64 percent of assets in 529s is used in assessing a family's eligibility for aid. Furthermore, parental assets are counted with an asset protection allowance, the amount of which is determined by the age of the older parent, but typically is about $45,000.[30] However, the rules remain confusing and the mere knowledge that savings could potentially lower the likelihood of receiving aid has led families to perceive college savings as a barrier rather than an asset.

The Student Aid and Fiscal Responsibility Act, which passed the House in late 2009, would eliminate asset questions from the Free Application for Federal Student Aid (FAFSA). As a result, a family's college savings would not negatively affect their ability to receive need-based federal student financial aid, unless they have more than $150,000 in assets. Removing college savings below this amount from the formula would eliminate both a real and a perceived barrier for many low- and moderate-income families to save for college.

Link Higher Education Tax Credits to Savings

The Hope Scholarship and Lifetime Learning tax credits were created in the 1990s to increase access to postsecondary education. However, because the credits are not refundable, many low- and moderate-income families with no tax liability cannot access these benefits. Another issue is timing—instead of receiving the benefit when the tuition bill is due, families can often have to wait up to a year and a half. Furthermore, the credits apply only to tuition and fees, leaving out major expenses such as room and board, transportation, and books and supplies.

Last year the American Opportunity Tax Credit was introduced as a temporary replacement for the Hope Scholarship as part of the American Recovery and Reinvestment Act. This new tax credit is an improvement over the Hope Scholarship in that it is partially refundable, thus making more low- and moderate-income families eligible, and it applies to books and supplies as well as tuition and fees. The Obama administration proposed making the American Opportunity Tax Credit permanent as part of its FY 2011 budget. One improvement to this policy would be to add a savings component to the credit. Delivering the benefit much earlier via 529s would not only ensure that college funds are available when needed, but also allow them to grow over time and have a potentially positive impact on the behavior and expectations of families with lower incomes and fewer resources. 529s also currently have a broader range of qualified uses for withdrawals and are much more relevant and useful to these families.[31]

Last year the American Opportunity Tax Credit was introduced as a temporary replacement for the Hope Scholarship as part of the American Recovery and Reinvestment Act. This new tax credit is an improvement over the Hope Scholarship in that it is partially refundable, thus making more low- and moderate-income families eligible.

Add 529 Plans to the List of Products Eligible for the Saver's Credit

The Saver's Credit provides a match of between 10 and 50 percent for annual contributions of up to $2,000 to qualified retirement accounts, such as 401(k)s and Individual Retirement Accounts (IRAs). The Saver's Credit is one of the few federal tax incentives intended to promote savings among low- and moderate-income families. However, several shortcomings limit its effectiveness. The Saver's Credit is not currently refundable, so many low- and moderate-income families without a tax liability are ineligible, and only savings in qualified retirement accounts trigger eligibility for this credit. This means the policy fails to promote saving for postsecondary education, which is one of the primary savings needs for the targeted families.

In its FY 2011 budget, the Obama administration proposed expanding the Saver's Credit to make it a more effective savings incentive for low- and moderate-income Americans. Among other things, the proposal would make the Saver's

Credit fully refundable and create a single match rate of 50 percent for contributions of up to $500 annually. The proposal would not make 529s eligible for the credit, but a bill introduced in the 111th Congress (H.R. 1351) would achieve this goal.[32] Enacting both proposals would give low- and moderate-income families across the country a strong incentive to save for their children's college education and a means of amassing sizable balances over time.[33]

Allow 529s to Be Opened on Federal Income Tax Forms

Each year millions of Americans have their federal income tax refunds deposited electronically into some type of bank or investment account. Since 2007, tax filers have also had the option of splitting their refund and having it deposited in up to three different accounts. This has allowed them to easily save some of their refund at tax time without having to commit to saving all of it. All that is required for such deposits is the account number, the routing number for the financial institution, and whether the financial institution classifies the account as a checking or savings account. Tax filers can make deposits into existing 529 accounts that have routing numbers, but those who have not opened a 529 before filing their taxes cannot. Allowing these taxpayers to open a 529 at tax time, directly on their federal income tax forms, would create a new avenue to support savings for postsecondary education, one accessible to all families.[34]

Tax filers can make deposits into existing 529 accounts that have routing numbers, but those who have not opened a 529 before filling out their taxes cannot. Allowing these taxpayers to open a 529 at tax time, directly on their federal income tax forms, would create a new avenue to support savings for postsecondary education, one accessible to all families.

Allow for Default Investments

Research from the field of behavioral economics has shown that inertia and indecision can limit an individual's ability to save and invest. This is particularly true when individuals are asked to pick a specific investment among several options. One way states can make it easier for families to save for college is to provide an automatic default investment for those who sign up for 529 accounts but do not make an active investment choice within a certain time period. Default investments are often some type of age-based mutual fund that becomes more conservative as the designated beneficiary gets older and closer to college age. The mix of investments in such a fund when the beneficiary reaches college age can vary, but a default investment ideally would comprise mostly cash or cash-equivalent options at this point. The U.S. Department of Labor issued rules in 2006 that allow for default investments in 401(k)s. However, a similar rule specifically for 529s has not been issued. This clarification would give many states the reassurance they need to utilize this important and powerful tool in 529 plans. The federal government could go one step further and require all states to offer a default investment option in their 529 plans.[35]

Enact an Employer Tax Credit for College Savings

The workplace is a potential platform for facilitating savings for a child's college education, as well as for worker retraining. However, many benefits and resources are already provided through the workplace and the addition of yet another can be costly and burdensome to employers. One way to address this issue would be to provide a small tax credit to employers to offset part of the costs of setting up access to a 529 plan in the workplace. These costs include educating employees and helping them to open accounts, and linking them to payroll deduction and direct deposit to fund the accounts.

A similar tax credit exists to help employers set up qualified retirement plans for their employees. The credit covers half of the necessary costs of starting a plan, up to an annual maximum of $500 for the first three years of the plan. A similar tax credit for 529 plans could encourage employers, particularly smaller ones, to help their workers start saving for college. The State of Illinois recently enacted a law that provides an employer with a tax credit when the employer matches the employee's contributions to an Illinois 529 plan.[36] The credit is calculated at the rate of 25 percent on matching contributions with a maximum annual credit of $500 per employee. This or a similar proposal could conceivably be adopted on the federal level.[37]

Support Savings for Retirement

Social Security is the primary source of income for more than 50 percent of people over the age of 65. For nearly one-quarter of these retired workers Social Security benefits supply at least 90 percent of their monthly household income. Another quarter of retirees depend on Social Security benefits for at least half of their income on a regular basis.[38] A disproportionate number of those heavily reliant on Social Security are minorities and were employed in low-wage jobs. These findings show that Americans, especially low- and moderate-income Americans, are not saving for retirement at levels that leave them well prepared for the economic realities they will face once they retire.

Even though the federal government will devote more than $140 billion in resources to support retirement savings in FY 2011, current policies miss many families who could benefit from assistance. This is because the various tax breaks that accompany 401(k)s and IRAs only have value for those with tax liabilities.

Not all retirement savings programs are created equal. Fewer employers are offering defined-benefit pension plans to workers; instead the burden of saving for retirement is falling more and more on employees themselves.[39] Furthermore, access to retirement savings vehicles is not equally distributed across the workforce, with lower-paid workers and minorities less likely to have access to retirement savings plans.[40] This is true for a variety of reasons including the fact that African-American and Hispanic workers make up a disproportionately large number of workers earning low wages.[41] As such, these workers are more likely to be dependent on Social Security benefits as their sole source of income.

Even though the federal government will devote more than $140 billion in resources to support retirement savings in FY 2011, current policies miss many families who could benefit from assistance. This is because the various tax breaks that accompany 401(k)s and IRAs only have value for those with tax liabilities. Consequently, the lion's share of the resources flows to those with higher earnings, missing those at the bottom. To ensure more families are able to prepare for retirement, additional policies are needed to encourage such savings among those with lower incomes.

Policy Options

Ensure Universal Access to Retirement Savings Plans

Participation in savings plans, such as 401(k)-type arrangements, helps people prepare for retirement. Positive features of these plans include low-cost administration, tailored investment options, and direct deposits from payroll. The private sector has a number of model employers who actively run and support retirement saving plans. But currently, only about half of private employers offer 401(k) retirement plans. This means that more than 70 million workers do not have access to an institutionally supported retirement plan. Since access to a savings plan is a fundamental pillar of an inclusive savings infrastructure, everyone should be included in a retirement savings plan. These could be offered by the private sector, but the public sector is accumulating experience as well. The federal government already runs the Thrift Savings Plan for its employees, and each state manages its own 529 College Savings Plan to promote savings for postsecondary education. These are important models to build upon because accounts are portable and do not depend on the involvement of a specific employer.

Universal 401(k)s, proposed separately by Michael Calabrese of the New America Foundation and Gene Sperling of the Center for American Progress, would offer all Americans, regardless of their employment status, generous savings incentives and automatic savings opportunities similar to those currently offered to employees enrolled in employer-provided 401(k)s.[42] The components of a citizen-based, Universal 401(k) include: (1) government matching contributions for the initial savings of lower- and middle-income families; (2) a new flat, refundable tax credit of 30 percent for savings by all workers; and (3) a single, portable account that benefits families by continuing to provide strong savings incentives for parents who take time off to raise children or who are between jobs. To facilitate deposits in Universal 401(k)s, automatic payroll deductions would be offered by employers. A "clearinghouse" (modeled after the federal Thrift Savings Plan) could be set up to create "default" accounts for workers with very low incomes who might initially have minimal account balances, or who

were otherwise unable to navigate the process of setting up and managing a private account.

Enrollment in Retirement Savings Plans Should Be Automatic

Even when firms offer retirement savings plans, approximately a quarter of the workers do not take advantage of them. The problem is that many workers are required to actively choose to participate in a 401(k) plan, that is, they have to "opt in." Saving for retirement should be made as easy as possible. Enrollment in retirement plans should be automatic.

Research studies have shown that participation in retirement savings plans increases if workers are automatically enrolled rather than compelled to sign up.

Research studies have shown that participation in retirement savings plans increases if workers are automatically enrolled rather than compelled to sign up. In one study by researchers Brigitte Madrian and Dennis Shea, this "opt out" approach was found to increase participation from 36 percent to 86 percent, and the increase was higher for lower-income workers.[43] The Pension Protection Act of 2006 laid the groundwork for opt-out enrollment, and many companies have since adopted this form. More employers need to be made aware of this option, and incentives may have to be provided to encourage greater numbers of employers to switch. Moreover, not all of the companies making the switch have moved to the "next generation" of 401(k) enrollment: Auto Investment and Auto Escalation. Auto Investment gives firms the ability to put their employees' contributions in balanced, low-cost investment options. Auto Escalation gives firms the ability to automatically increase the amount of money their workers contribute to their 401(k) plan, often in association with pay raises.

Create a Network of Automatic IRAs

Firms not offering 401(k)-type plans should still facilitate deposits into retirement savings plans. The Obama administration has proposed creating "Automatic IRAs," which would require all medium and large firms to institute a payroll deduction option, with funds to be directly deposited in a low-cost, diversified individual retirement account.[44] Under this proposal, originally developed by the Brookings Institution, the Heritage Foundation, and AARP, employers would have the choice of either automatically enrolling employees or requiring employees to "opt out." Such a policy would benefit more than 42 million employees whose employers do not offer retirement savings plans.[45] Firms that set up such accounts would qualify for a small, onetime tax credit to offset their administrative costs.[46] This credit could be expanded to cover matching funds provided to lower-income employees. Employees would be enrolled at a default rate of 3 percent of compensation but would have the option to change their contribution levels. Many of the tax laws that govern Roth IRAs, such as contributions limits currently set at $5,000 a year, penalties for early withdrawals, and restrictions on employer contributions, would apply. In addition to the president's proposal, legislation creating the Automatic IRA has been introduced in the 111th Congress. H.R. 6099[47] was introduced by Rep. Richard Neal (D-MA) and S. 3760[48] was introduced by Sen. Jeff Bingaman (D-NM).

Improve the Saver's Credit

The 2001 tax bill created a new voluntary individual tax credit—the Saver's Credit—to encourage low-income workers to contribute to existing retirement products, such as IRAs and 401(k)s. The Pension Protection Act of 2006 made the Saver's Credit permanent and indexed the contribution limits to inflation. Currently, taxpayers 18 years or older who are not dependents or full-time students may receive a nonrefundable Saver's Credit equal to between 10 percent and 50 percent of their compensation (depending on taxpayer's filing status and Adjusted Gross Income (AGI), adjusted for inflation) up to $2,000 contributed to an employer-sponsored qualified retirement plan or IRA. However, several features of the current credit make it difficult to access by the households it was designed to help. Since the credit cannot trigger a tax refund even when it exceeds a household's tax liabilities, only about 20 percent of filers get any benefit, while only one in a thousand receives the full benefit.

The Obama administration has proposed expanding the existing Saver's Credit, so it is more effective in helping lower-income families save. Under the administration's proposal, the credit would become refundable, and the match rate would be modified to 50 percent (up to $500) on qualified savings per individual per year (indexed annu-

ally for inflation beginning in taxable year 2011). Although it is primarily considered as a retirement savings incentive, contributions to a number of savings vehicles that qualify for the credit have preretirement uses such as first-time homeownership and postsecondary education. The amount of savings that could be matched would phase out at a rate of 5 percent for AGI in excess of $32,500 for single taxpayers ($65,000 for married taxpayers filing a joint return) and would be indexed annually for inflation beginning in taxable year 2011.[49] In addition to the president's proposal, legislation to improve the Saver's Credit has been introduced in the 111th Congress. H.R. 1961[50] was introduced by Rep. Earl Pomeroy (D-ND) and S. 3090[51] was introduced by Sen. Kirsten Gillibrand (D-NY).

Enact a Retirement Investment Account (RIA) Plan

The Retirement Investment Account Plan, developed by the public policy initiative Conversation on Coverage, would create a government-authorized, privately run central clearinghouse to accept worker contributions to retirement savings accounts. Under the RIA Plan, individual workers whose employers do not offer a retirement plan would have access to an automatic payroll-deduction retirement savings account through their workplace. Employers could provide such access without significant new burdens, since they would not have to administer a retirement plan or take fiduciary responsibility for the investment choices of their employees. Employers could make contributions to the employee's RIA. This plan could also be designed so that progressive government contributions and matches of employee contributions were possible.

Pursue Tax Reform to Eliminate Confusion and Complexity

The proliferation of federally sanctioned savings accounts and plans has created confusion among potential savers and complexity for plan administrators. The fact that each vehicle has a unique definition of qualified uses and unique exemptions from penalties sends a range of mixed messages about what the policy intends to accomplish. For example, accounts and plans that are often described as retirement vehicles have a number of other uses, such as to help pay for a first-time home purchase, that are permissible without penalty. While some of the public may view the list of qualified uses as clear policy signals that define the purposes of each account, others object that withdrawals used for other than the main or most long-range purpose divert resources and deprive the account holder of long-term investment growth. Rules should be simplified through tax reform to more effectively promote savings, and the number of special accounts should be consolidated in ways that allow consumers to save for multiple purposes.

This might entail creating one class of accounts only for retirement and one for multiple purposes, such as education, homeownership, or other life contingencies. Revamping the tax code should not be done to reward asset shifting; rather we should strive to create an accessible and inclusive savings policy that ensures that all Americans can participate in the savings process.

This might entail creating one class of accounts only for retirement and another for multiple purposes, such as education, homeownership, or other life contingencies. Revamping the tax code should not be done to reward asset shifting; rather we should strive to create an accessible and inclusive savings policy that ensures that all Americans can participate in the savings process. Finally, a streamlined system would be easier to incorporate into the workplace, so more employers would offer savings opportunities in ways that encourage maximum participation of workers.

The Bush administration proposed consolidating current accounts and creating two new tax-preferred savings accounts—Retirement Savings Accounts (RSAs) and Lifetime Savings Accounts (LSAs). Retirement Savings Accounts would of course be restricted to retirement savings. Lifetime Savings Accounts would encourage saving for any purpose. Annual after-tax contributions to LSAs and RSAs would be capped at $2,000 and $5,000, respectively, but earnings and withdrawals would be tax free. These accounts would be open to everyone, regardless of income or age. As initially proposed, they would offer higher-income households tax sheltering opportunities and no savings incentives to lower-income households. This proposal could be improved by placing an income limit on eligibility and providing matching deposits for lower-income families to be delivered through existing

refundable tax credits or tax credits to financial institutions that offered such accounts.

Require Every 401(K) Program to Offer Low-Fee Index Funds

While many workers benefit from participating in 401(k)-type plans, some benefits are eroded by high fees. The market downturn has generated losses in both actively managed funds and passively managed index funds that track various sectors of the market. Since the index funds have lower fees, some losses were mitigated. While there is no single index fund that can meet the needs of all participants, everyone should have the opportunity to choose to have their retirement savings invested in a diversified and low-cost fund. It is certainly a good place for most investors to start. Index funds do not eliminate the need for administrative fees, but they do minimize them substantially, especially when compared with actively managed funds. Rep. George Miller (D-CA) has proposed more transparent fee disclosures and requiring all plan providers to offer investors at least one low-cost index fund. Language accomplishing this goal was included in the House-passed H.R. 4213 in the 111th Congress.

Create Guaranteed Retirement Accounts that Protect Principal Savings

Erosion of pension benefits over the last decade has left many workers without sufficient income in retirement. Recent losses in the stock market and the generally weak economy have exacerbated the problem. This underscores the need for an account mechanism that can more effectively protect the principal savings. Professor Teresa Ghilarducci, Director of the Schwartz Center for Economic Policy Analysis at the New School for Social Research, has proposed establishing a government-managed pension plan for workers who do not have access to an alternative plan, as a means to help prevent a sharp drop in living standards after retirement.[53] The proposed pension plan would guarantee a minimum annual return of 3 percent, adjusted for inflation, on worker and employee contributions. This approach, supported by the Economic Policy Institute, would help stabilize the private savings that complement Social Security. The problems with the current system include not only a lack of coverage and insufficient contributions but also risky investment returns and high fees. Investments exposed to the market can erode and offer no guaranteed payout. Instead of greater control, many workers are exposed to greater risk when the market performs poorly.

Under Ghilarducci's Guaranteed Retirement Account plan, employers and employees would contribute 2.5 percent of pretax wages into an account administered by the Social Security Administration. Funds would be held and invested conservatively so participants would be guaranteed a 3 percent real rate of return. Accounts would be annuitized at retirement and no preretirement withdrawals would be permitted. The Aspen Institute's Initiative on Financial Security also supports a savings system that fully guarantees the protection of participant contributions. Under its "Real Savings Plus," the initiative proposes the creation of an automated investment system that invests in a combination of Treasury Inflation-Protected Securities (TIPS) and a low-cost stock index, such as the S&P 500, to give savers some of the upside potential of equity investing as well as the certainty of purchasing U.S. Savings Bonds.[54] Both approaches aim to keep costs low and provide the benefits of a principal-guarantee for contributions, a benefit many recent retirees wish they had had access to before the recent economic downturn.

A related proposal to mitigate risks associated with 401(k) investing is to provide insurance against the loss of retirement assets. As described by the Democratic Policy Committee, these new products would go beyond the basic coverage currently offered to employers to provide individual employees with some degree of protection against loss.[55]

Portable Retirement Savings Accounts in California: The Golden Dream Account

Currently, approximately 6 million California workers—roughly 43 percent of the state's workforce—have a job that does not offer a pension or a retirement savings plan to supplement Social Security. This lack of retirement savings puts California families at risk. To meet the needs of workers and small businesses in California, the New America Foundation has developed the Golden Dream Account, a voluntary, universal, and portable retirement savings account. The account would augment the current employer-based system and Social Security. Any worker who wanted to participate could elect to have tax-deferred contributions deducted directly from each paycheck. Employers could choose to contribute to employee accounts independently or match employee contributions. The accounts could be administered by the state and managed either by the California Public Employees Retirement System (CalPERS), another state agency, or by a consortium of financial institutions working with the state.[56]

Promote Goal-Specific and Precautionary Savings

Low savings levels are a significant source of economic insecurity for scores of American families. Households would benefit from building up a supply of savings which could be used flexibly and to make targeted purchases. For some, identifying a specific goal can motivate savings behavior and assist in financial management. Home purchases, paying for education, or building up capital to support an entrepreneurial endeavor all require an extended savings horizon. These goals may best be met through saving in designated accounts with restricted uses. Additionally, there is great value in having funds that can bridge short-term cash-flow gaps to prevent small shocks from destabilizing their financial security. The amount of funds required to make a difference will vary; depending on the size of the household and other conditions it could range from $2,000 to $5,000. The presence of savings on a family's balance sheet can reduce the need to borrow, either informally or from high-cost creditors, and preserve financial health over the long term. This underscores the need for access to both restricted and unrestricted savings.

Unfortunately, public policy fails to adequately promote these savings opportunities. Most of the attention given to savings in policy circles has focused on restricted-use savings as a means to build wealth over the long term and promote retirement security. This has created a gap in the policy landscape since shorter-term, more accessible savings are needed by a wide spectrum of the population to reinforce a personal safety net.[57]

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Only half of Americans in 2009 had set aside sufficient rainy day funds to cover necessary expenses in an emergency situation and even fewer households with a greater likelihood of economic volatility—such as younger workers or low-income households—had sufficient emergency savings. Only 31 percent of employees ages 18-29 surveyed in 2009 had a sufficient amount of rainy day savings and barely a quarter of individuals with incomes under $25,000 had personal resources set aside that could be tapped in an emergency situation.[58] Minority households too are far less likely to have sufficient assets than white households.

Policy emphasis should be placed on addressing and removing barriers where they can be identified (e.g., reforming asset tests and ChexSystems requirements) and on improving product options. There is great potential to increase savings and financial inclusion through innovative products, incentives and savings mechanisms, many of which can use existing infrastructures that have proven to be successful, such as direct deposit.

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Policy Options

Enact the Savings for Working Families Act (IDA Tax Credit)

Individual Development Accounts (IDAs) make saving meaningful for low-income people by matching every dollar deposited with funds from a public or private source. To qualify, most IDA programs require savers to complete financial education training and apply the funds for a specific asset-building purpose, such as purchasing a home, starting a small business, or acquiring job training or education. Decades of research have shown that structures, incentives, and a sense of purpose, among other determinants (not necessarily income), will support the proposition that low-income people can, will, and do save. The

Savings for Working Families Act (introduced in the 111th Congress as S. 985 and H.R.2277) would authorize $4.05 billion over 10 years to support financial institutions' efforts to participate in matching individual savings. The IDA tax credit could increase the number of IDAs currently in use by low- and moderate-income savers 30-fold.[59]

Reauthorize the Assets for Independence Act (AFIA)

In 1998, Congress enacted the Assets for Independence Act, enabling community, local, and other non-federal public agencies to offer asset-building, anti-poverty programs with federal support. Today, Assets for Independence program accounts comprise the majority of all IDA activity, despite AFI having expired in 2003. In 2009–2010, AFI continues to receive funding—most recently $24 million annually in the FY 2009, 2010, and 2011 budgets. Reauthorization would not only add funding stability but invite necessary improvements to the program including streamlined operating requirements, expanded eligibility, and enhanced funding.[60]

Prize-Linked Savings

Prize-linked savings is a relatively new phenomenon for the United States, premised on the notion that competition and a sense of fun can promote saving. Recently, Harvard Business School Professor and D2D Fund co-founder Peter Tufano articulated a U.S. vision for the lottery-based savings, which have thrived for decades in the United Kingdom, Latin America, the Middle East and elsewhere. Since early 2009, the Doorways to Dreams (D2D) Fund, the Filene Research Institute, and the Michigan Credit Union League have explored the consumer response to a prize-linked savings product, and whether there is promise for this concept to be expanded and promoted as an exciting way to save. Nine months after launching "Save to Win," eight participating Michigan credit unions reported demand for the product—a share certificate that earns interest, is principal protected, and enters the saver into drawings for small monthly prizes and a $100,000 jackpot—and growth in deposits and certificates. More than 10,000 certificates with $4.67 million in savings have been opened since the start of the project and more than 300 account holders have won $22,000 in small, monthly prizes. However, the primary obstacle to expanding this demonstration into other states rests on state anti-gambling statutes. To expand the adoption of prize-linked saving techniques state legislatures can follow the Michigan example and offer a "raffle carve out" for credit unions.[61]

Promoting Precautionary Savings: AutoSave

The majority of existing workplace savings programs and policies focus on building retirement assets or establishing restricted-use accounts (i.e. health expense accounts). Under these scenarios, employers help facilitate automatic contributions from pretax income to designated savings accounts. However, currently no systematic savings program exists to intentionally encourage unrestricted-use savings accounts that can be tapped in the event of an emergency or unanticipated expense.

AutoSave is a savings concept that diverts, through payroll deduction, a small amount of post-tax wages into a new, low-cost individual savings account. AutoSave accounts will be especially valuable for individuals who have limited liquid assets, and who may otherwise be forced to meet emergency needs with high-cost emergency loans. The program is being piloted at sites in four states around the country.

Barriers to more widespread implementation of AutoSave include employers' reluctance to encourage direct deposit and split-pay deposit for their employees' wages (especially for lower-income-earning workforces), and financial institutions' lack of flexibility in terms of low-cost and low-risk basic savings accounts and their uneven interpretation of the "Know Your Customer" requirements. Thoughtfully updating ChexSystems, direct deposit, and automatic enrollment policies, such that the intended audience in this innovative savings plan can participate without any party being exposed to risk of fraud or a debt trap, could lead to AutoSave options for employees of all income levels, their employers, and their financial institution partners.[62]

Ensure Access to High-Quality, Low-Cost Financial Products and Services

Without easy access to safe and affordable financial products and services, households turn to higher-cost, lower-quality nonbank financial service providers, such as check-cashers, remittance providers, and payday lenders. Such fringe banking services provide few hurdles to transact, but their effect is wealth stripping rather than asset building and they can create a debilitating debt trap.

Included in the recently enacted financial reform bill was a new Consumer Financial Protection Bureau (CFPB) intended to level the playing field between the financial services sector and consumers and improve the banking experiences and asset-building opportunities for working households.

Included in the recently enacted financial reform bill was a new Consumer Financial Protection Bureau (CFPB) intended to level the playing field between the financial services sector and consumers and improve the banking experiences and asset-building opportunities for working households. This is especially true for the millions of low- to moderate-income families who currently have little or no relationship with mainstream financial institutions. Gaining access to mainstream financial services and products is often the first step toward saving and building wealth for many families. An estimated 7.7 percent of the U.S. population, or 9.9 million households, lack a checking or savings account with an insured, mainstream financial institution. Nearly one of every five households earning less than $25,000 a year is unbanked, and 70 percent of the unbanked population makes less than $30,000 annually.[63]

A growing number of households are also considered to be *underbanked*. These households report having at least a basic bank account but also using an alternative financial service at least once within the past 12 months, such as a payday lender, check-casher, or car title loan.[64] An estimated 50 million consumers are considered underbanked, and seek a combination of formal and informal services to satisfy their consumer needs.[65]

This sector's services typically charge high interest rates and upfront fees, and do not offer tools or opportunities to save or build wealth. The widely used services are also lucrative; the alternative financial sector exchanges more than $320 billion in transactions each year, often while preying on households with few banking alternatives.[66] Consumer preferences research indicates that convenience and comfort with the alternative financial provider influence the banking and transaction choices of the underbanked.[67]

One in two African-American households and more than two-fifths of Hispanic households are either underbanked or unbanked.[68] Similarly, nearly 4 of every 10 single female-headed households are un- or underbanked. These numbers represent a significant portion of the population whose financial well-being is compromised by lack of connection to mainstream financial products and services. Bank account ownership, while important and a significant avenue for lower-income families to build and preserve financial assets, is not always ideal for every individual. For some consumers who may, for a variety of reasons, be ineligible to open a bank account or uncomfortable doing so, a safe, financially secure alternative to traditional banking is needed. This is an area where financial services and product innovation will play a key role in providing opportunities to save and conduct safe, affordable financial transactions for millions of consumers who currently function within the poorly regulated alternative financial sector.

The work of the new CFPB will be to set standards for financial products and services, both in the mainstream financial sector and among alternative financial services providers. This means promoting a consumer financial system that encourages savings and thrift among all workers and provides access to safe, affordable financial products. If families are to be able to save and build up their asset base, they need low-cost, accessible, convenient, and transparently priced financial services. There are many channels to deliver these services to working families, including more-traditional avenues such as brick-and-mortar financial institutions and employer-sponsored benefit programs. Novel delivery mechanisms include community-supported financial programs and promoting savings and long-term financial planning for public assistance recipients.

Policy Options

Promote Direct Deposit and Split-Pay Options among Employers

Many employers, especially larger corporations, use direct deposit with their payroll system. Direct deposit electronically transfers employees' payroll into personal bank accounts, eliminating the need for a paper payroll check. Direct deposit has many advantages over paper payroll checks including being safer, faster, and more cost-effective for both employers and employees. Paper payroll checks can be lost, stolen, or even possibly forged, but direct deposit is an automated process that reduces the chance of human error or fraud. Further, it can encourage unbanked employees to move into the financial services mainstream by connecting them to a mainstream financial institution and the range of products and services offered by that institution.

Direct deposit outreach in workplaces could be combined with basic financial education that promotes bank account ownership and other effective savings and financial management strategies.

Two-thirds of employees nationwide receive their payroll through direct deposit, but among the unbanked this number is substantially lower.[69] Many unbanked consumers, the majority of whom do not receive any sort of payroll direct deposit, must then cash their payroll checks at a supermarket, check-cashing outlet, or other location and incur the fees associated with those services. Thus, on top of having to pay fees to access their payroll funds, underbanked consumers lose the savings and asset-building opportunities associated with having their income directly deposited into a bank account.

Many employees who receive their pay through direct deposit also have the ability to split their pay among a variety of accounts and savings vehicles. This gives employees the opportunity to set up a recurring deposit into a savings account and begin to build wealth. Using split-pay, employees can automatically save a portion of their income every pay cycle without having to manually deposit or transfer those funds. Research shows that consumers who use split-pay options to directly save a portion of their income automatically save $25 to $100 more per pay period than those who use another method to save.[70] Despite the advantages of using split-pay options with payroll direct deposit, less than 40 percent of employees who are eligible utilize this option.

The federal government can encourage all employers, especially small- and medium-sized businesses, to use direct deposit with split-pay options for payroll needs. Financial institutions can work with the federal government to lower the costs employers incur when switching to direct deposit payroll. Tax incentives could potentially be used to offset initial costs. Employers can work to educate their employees regarding the benefits of direct deposit and using split-pay to receive their take-home pay. Outreach strategies could target segments of the working population that tend to be unbanked, for example lower-income workers and workers with limited English proficiency. Direct deposit outreach in workplaces could be combined with basic financial education that promotes bank account ownership and other effective savings and financial management strategies. Financial institutions looking to increase their account ownership could partner with employers to offer these financial literacy sessions at little to no cost for employers.

Expand the Role of Prepaid Cards for Asset-Building Opportunities

Some employers offer prepaid payroll cards as an alternative to direct payroll deposit into a bank account or paper payroll checks for employees. These network-branded cards are preloaded with an employee's take-home pay and can be used much like a debit or check card associated with a traditional checking account. Employees can make retail purchases, pay bills online or via telephone, and access cash through traditional ATMs or point-of-sale transactions. For individuals without relationships to the mainstream financial sector or with less-than-perfect banking histories, prepaid cards can serve as both a short- and long-term solution to banking needs. While not all prepaid cards are alike and many come with transaction and maintenance fees, prepaid cards have the potential to change the mainstream banking industry in a variety of ways. For unbanked consumers, especially those whose employment trajectory is transient or who have an aversion to traditional banking products, prepaid cards

could serve as mobile bank accounts complete with savings capabilities. The prepaid card's simplicity of use and relative affordability make it particularly adaptable for distribution among a wide range of consumers. Research shows that low- and moderate-income consumers desire to save, especially as a way to safeguard against unforeseen expenses.[71] Furthermore, lower-income households can and do save, particularly when saving is made easily accessible and straightforward. By incorporating a savings component into prepaid payroll cards the ability to save a portion of one's income automatically is greatly simplified. And because segments of the working population that tend to favor receiving their pay on a prepaid card are also more likely to be unbanked or underbanked than the general population, this innovative savings option could reach an entirely new group of savers.

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In early 2008, the Treasury Department's Financial Management Service launched the Direct Express® card, a low-cost banking solution for the estimated 4 million Social Security and SSI recipients who previously received their monthly benefits by paper check in the mail and may or may not be unbanked. The Direct Express card not only provides a low-cost alternative to check-cashing, but expedites the delivery and increases the security of these important payments while saving the government 80 cents per check converted to electronic deposit. The Treasury Department should build on Direct Express' success and incorporate enhanced asset-building features, such as a linked savings feature, to its next-generation product and to any card-based banking solutions going forward.

Encourage the Adoption of Passageway Accounts

Many unbanked individuals lack the sufficient identification necessary to meet banks' customer identification verification procedures, which are required under the Bank Secrecy and USA PATRIOT acts. Research shows that insufficient identification is one of the top three reasons for account denial and that customers who are denied a bank account once do not often return to a bank again. The Passageway Accounts proposal developed at the New America Foundation is an example of a transitional account design that provides a potential way to address identification issues that prevent millions of individuals from accessing a traditional deposit account. These deposit accounts could be offered to individuals who have basic identification information (e.g., one government-issued photo ID, in conjunction with a second government-issued identifier selected from a predetermined list) but not enough to pass a bank's stringent identification protocols. Restricted-use savings accounts could offer a secure way for banks to establish relationships with customers whose identities are difficult to verify. Banks would come to "know" their account customers over the long term through observing account transactions, and this information could ultimately graduate them to traditional deposit accounts. In turn, previously unbanked consumers would have access to the savings and asset-building opportunities that come with bank account ownership. Restricted-use accounts are very low-risk accounts for banks to hold and could provide a safe avenue for unbanked consumers to enter the mainstream financial market.[72] Financial institutions would increase the number of accounts under their management and could reach a previously untouched market of new customers—the currently unbanked.

Clarify Interpretation of "Know Your Customer" (KYC) Requirements

Financial institutions vary widely in the way they interpret and implement the "Know Your Customer" requirements of the USA PATRIOT Act. For example, some banks and credit unions may allow employers to play a role in documenting the identity of employees, while others may not. The KYC requirements can serve as a hindrance to bank account ownership for certain segments of the population and limit the effectiveness of some outreach efforts,

such as using the employer as a channel to bank account ownership. “Know Your Customer” requirements should be further clarified at the federal level to ensure uniform adoption of account ownership practices that do not hinder creative outreach and account enrollment strategies.

Additionally, the Federal Deposit Insurance Corporation (FDIC) could work with the Treasury Department’s Financial Crimes Enforcement Network (FinCEN) to encourage banks to offer restricted-use bank accounts that could be opened by applicants with nonstandard identification materials such as foreign driver’s licenses. These bank accounts would be limited in scope and have controls such as deposit and withdrawal limits to ensure that banks guard against fraud. As banks continue to monitor account activity, banks would come to “know” their customers and could use this knowledge to offer customers access to more traditional banking products.

Reform the Use of ChexSystems

Before an individual is able to open a bank account, the financial services provider typically reviews that individual’s status on ChexSystems, a database that tracks people’s history with depository accounts in financial institutions. Individuals with negative marks are often barred from opening a new account. Demerits can be given for having an account closed due to unpaid fees or insufficient funds. Banks generally take a broad-brush approach and may decline to open accounts for those whose infractions may have occurred many years previously. Rather than permanently barring a person with prior account mismanagement from ever holding another bank account, financial institutions should endeavor to promote financial counseling and education as a strategy to encourage responsible bank account ownership and management. Financial institutions should not, of course, be forced to open accounts for those with prior histories of bank account fraud or serious delinquency issues, but for many customers with less-than-perfect past banking relationships, financial education and debt repayment could go a long way toward promoting responsible banking practices and encouraging the use of mainstream financial products to save and build assets over the life course. Reducing the time period for which a negative ChexSystems report bars consumers from opening a bank account from a standard of five years to a more reasonable three years would allow many more unbanked individuals to enter the mainstream financial sector through bank account ownership.

Implement Bank On USA

Bank On was developed as a local, multi-stakeholder partnership to bring the unbanked into the financial mainstream. The initial pilot experiment in the city of San Francisco, which focused on creating access to low-cost transaction accounts by previously unbanked households, was an astounding success. The program has since expanded to cities throughout the country, and notably, the Obama administration proposed creating a “Bank On USA” grants program administered through the Treasury Department to promote this approach and related initiatives on a national level. Bank On has proven successful because of a combination of key program components, including low-cost accounts often linked to financial education classes and a focus on outreach and marketing by participating financial institutions. Strong local political and community leadership and promotion of the programs lend credibility and increase public buy-in. Furthermore, Bank On San Francisco has kept extensive records of bank account ownership before and after the program launch to assess the take-up rates and study the long-term effects of bank account ownership on communities.

The adoption of a federal “Bank On” initiative would be a step toward promoting universal bank account ownership. Meticulous data collection and follow-up studies examining the effects of opening bank accounts on previously unbanked populations should be conducted to assess the long-term impact and to ensure that these accounts remain open and active as a tool for financial management among the general population. Extending the best aspects of the Bank On program to include a focus on opening savings accounts alongside checking accounts would go a long way toward promoting savings and long-term financial planning goals for participants.[73]

Banks should focus on flagging those whose prior banking history shows evidence of fraud or abuse rather than those with much more benign account histories such as balance over-withdrawals. Low-cost, secure account products such as basic savings accounts present little risk of fraud or monetary loss for financial institutions and could be used as "starter" accounts for customers whose past banking history is less than perfect.

The Obama administration also recognizes the transformative role assets play in families' financial well-being. The president's FY 2011 budget proposes to raise the asset limits for many public assistance programs to $10,000 for households.

Asset Limits for Public Assistance Recipients

Determining eligibility for public assistance programs includes an assessment of household resources. But the acceptable asset levels can be very low and in many cases have not been raised for decades. These limits serve to penalize families who have been diligent in saving for emergencies or their children's college education and create an undue administrative burden on already overworked and underfunded social services providers. Furthermore, they create obstacles to economic stability and make the path toward self-sufficiency more arduous. Recognizing the importance of savings, some states and localities are changing their roles.

The Obama administration also recognizes the transformative role assets play in families' financial well-being. The president's FY 2011 budget proposes to raise the asset limits for many public assistance programs to $10,000 for households. While this is commendable and certainly a more inclusive option than the current $1,000 or $2,000 asset limits imposed by some assistance programs, maintaining any limit is undesirable. The existence of asset limits, regardless of the threshold, sends a message that saving should be avoided. Asset limits no longer serve a purpose in our welfare system and perpetuate cycles of dependence and day-to-day existence for public assistance recipients. The 1996 welfare reform act established income eligibility thresholds and work requirements that serve as protection from fraud and abuse of the welfare system and eliminate the need for asset limits. Instead of maintaining policies that discourage savings and financial planning, we should eliminate the asset test for public assistance eligibility. Public assistance programs should encourage families to save and develop sound financial practices that promote self-sufficiency and long-term economic stability through asset building.[74]

Ensure Safe Access to Credit

Credit plays an important role in family economics, and can in fact be critical to providing asset-building opportunities. A person's credit score influences his or her ability to secure credit, and the quantity and price of that credit. Increasingly, credit is also being considered with employment and lease applications, and eligibility for insurance policy contracts.[75]

Having an established credit history—and a favorable score—increases one's access to lower-priced credit, and the amount he or she is able to borrow, which is important for limiting a person's debt load and enabling major asset purchases such as a home. According to the Annie E. Casey Foundation, a borrower with a good credit rating could save $250,000 in lowered interest payments over a lifetime.[76]

Yet in recent years, the proliferation of easy-to-access credit on complicated terms (from unsecured credit cards to home equity lines) without oversight on terms or use (e.g. no consideration of a borrower's ability to repay when extending a home mortgage) contributed to one of the worst financial downfalls in U.S. history. As a result, overleveraged households saw their credit scores plummet alongside their net values as widespread mortgage failures and missed bill payments spread with the recession and job losses. In turn, credit markets have tightened.

While the restriction of credit has affected all sectors, an estimated 35 to 70 million adults are unable to access credit because they cannot be scored, due to a lack of credit history or too thin a file record.

While the restriction of credit has affected all sectors, an estimated 35 to 70 million adults are unable to access credit because they cannot be scored due to a lack of credit history or too thin a file record.[77] For this credit-underserved population, high-cost loans—payday, car title, pawn broker, refund anticipation, or checking overdraft—are often the only option for fast credit, even as they often add to the household debt burden.

Though tighter credit terms (as a result of the economic conditions) and improved consumer protections (as a result of the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009 and other regulatory changes) can have positive effects, it is critical to recognize the positive role that credit can play in helping families to weather economic storms and make productive investments in their future. Instead of merely becoming more restrictive, the credit market needs to recognize that households need better, safer alternatives to expensive quick-credit options. State legislatures should also move to see that credit score checks are used appropriately. California has proposed banning their use from the hiring process; other states should take note.

Policy Options

Close Loopholes in the Credit CARD Act and Dodd-Frank Financial Reform Act

By September 2010, all credit card issuers will be required to comply fully with the new rules and practices established by the Credit CARD Act of 2009. Though the revised regulations are expected to eliminate many pervasive and abusive practices, continued monitoring of card terms and opportunities for issuers to exploit the loopholes will be necessary. The Pew Charitable Trusts Safe Credit Cards Project has monitored the card industry's response to the new provisions and identified potential policy solutions left unaddressed by the CARD Act.[78] Proposed steps include maximizing cost transparency by consolidating account fees into one all-inclusive annual fee; disclosing upfront the cost of additional fees (expressed as Annual Percentage Rate); and abandoning the pre-dispute binding arbitration, a consumer-issuer settlement step that consumer advocates argue undermines the bargaining position of the borrower and favors the lender.[79]

Auto dealers escaped supervisory purview of the new Consumer Financial Protection Bureau (CFPB), in a carve-out endorsed by nearly 20,000 auto dealers and decried by consumer advocates. Vehicles are the most common nonfinancial asset held by American families, according to the Federal Reserve's 2007 Survey of Consumer Finances[80], and auto loans are among the most widely used credit products. Dealers of new and used cars, and auto service and repair shops ranked among the 10 most frequently complained-about industries in 2009, according to the Better Business Bureau, which registered nearly 54,000 complaints.[81] In 2007, 46 percent of families had some form of installment loan

debt, of which more than half was related to borrowing for a vehicle purchase.[82] That year, more than a third of all families had vehicle installment loans, with a median loan value of $11,700.[83] To preserve financial reform's goal of streamlining myriad consumer protections, such loopholes and carve-outs should be corrected.

Some payday lenders have deftly circumvented interest rate caps on high-cost loans by replacing cash payments with checks, then using the check-cashing opportunity to charge the borrower any number of fees for the check-cashing service.[84] The CFPB should take into consideration that such brazen practices will emerge, and explore effective measures to halt them. State policymakers should also take notice of the potential for payday lenders to exploit loopholes.[85]

Encourage Alternative Credit Reporting and Scoring Models

Adopting new credit-building models that incorporate repayment history from credit-worthy, but nontraditional, sources has the potential to bring millions of previously unscoreable adults into the credit mainstream.[86] The rationale is that while consumers using less-traditional forms of credit—electricity and telephone service—are subject to expectations and penalties of mainstream credit, they currently do not benefit from timely payment behavior. Alternative sources of data include utilities, rental housing, health care, and retail payments. Furthermore, using alternative data is a safe way to build a history, without adding a debt burden.[87] Evidence exists that alternative payment data can help to determine the likelihood of serious delinquency (e.g. 90 days or more late on a payment) and thus create not just a more positive portrait of credit risk, but a more accurate one.[88]

To support fair access to credit, policymakers should encourage both the contributions of alternative data to new credit-scoring models and the consideration by creditors of incorporating the models into their underwriting process. Additionally, continued study of the predictive value of the alternative data-scoring models should be encouraged, and results should be shared.

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Credit Counseling and Financial Education

Credit counseling agencies tend to attract consumers who seek advice for managing debt, but all consumers would benefit from credit counseling before routine financial activity becomes a payment crisis with long-term ramifications. At a minimum, all financial education curricula should be updated to reflect the new protections granted by the Credit CARD Act of 2009, and to prepare consumers for the responsibilities of credit, the importance of a credit score, and rules of thumb for reducing debt and avoiding debt delinquencies. ◘

Connect Tax Refunds to the Savings Process

For many households, their tax refund may be the most significant lump sum of cash they receive all year. More than 124 million tax refunds were issued in 2009 alone, with the average refund being $2,700.[89] These cash infusions can be used to cover everyday expenses and bills but may also be directed toward meeting other savings objectives. This makes tax time a valuable and large-scale opportunity to promote saving and asset building for families up and down the economic ladder. It is a moment policymakers should strive to leverage further.

It is an especially consequential moment for families with lower incomes, who are eligible for targeted tax credits, such as the Earned Income Tax Credit (EITC). In 2009 the IRS processed nearly 24 million EITC refunds. While this is a substantial number, the IRS estimates that every year around one in four eligible taxpayers fails to file or claim the EITC on their tax returns. The EITC is our nation's largest anti-poverty program and is designed to reward work and promote economic stability by allowing families to retain a greater percentage of their take-home pay. More than $49 billion in tax refunds was issued in 2009 to low- and moderate-income families; the average refund for those eligible for the EITC was just over $2,000. The EITC and the partially refundable Child Tax Credit (CTC), designed to benefit working families with children, are extremely vital resources for low-income families. Studies show that every dollar of federal benefits generates more than a dollar's worth of revenue for local communities—further promoting economic growth. The table below shows the level of resources at stake through the EITC and CTC policies.

These resources are only beneficial if families have access to safe, affordable ways to file their taxes and receive those funds. The majority of taxpayers pay a fee to have their taxes prepared by a commercial preparer.[90] These preparers aggressively market Refund Anticipation Loan products (RALs), which offer the ability to access cash resources when tax returns are filed instead of waiting for the IRS to file the return and issue the refund, which generally takes several weeks. RALS are a troubling product; they have high fees, often poorly understood terms, and are targeted to minorities and lower-income families.[91] In 2008, nearly 90 percent of RAL users were classified as low-income.[92] RALs dilute the impact of the EITC policy; one study estimates that about $465 million was lost from the EITC program to RAL loan fees in 2008.[93] This effectively strips resources away from families at tax time, when we should be looking for policies that connect tax filing to the savings process.

Policy Options

Allow Tax Filers to Open Savings Accounts Directly on Their Tax Forms

Individuals without access to mainstream financial institutions should be able to open a basic bank account directly on their tax return. This type of opportunity could provide an incentive for families to save the majority of their tax refund in a secured account. The IRS could solicit proposals from financial institutions to provide low-cost, high-quality accounts nationwide. Or the IRS could establish and maintain a web-based directory of financial institutions that are willing to open low- or no-cost basic accounts online for tax filers. The directory's URL address would be printed on tax forms and the directory would be searchable by ZIP code. The Obama administration has already announced

Funding Levels for Select Tax Credits FY 2011 (in billions of dollars)

Credit	Outlays	Tax Expenditures	Total
Child Tax Credit	29.8	18.6	48.4
Earned Income Tax Credit	51.5	6.2	57.7
Making Work Pay Tax Credit	31.5	14.2	45.7
Total	112.8	39.0	151.8

its intention to transition away from issuing benefits via paper checks because electronic transfer is a more efficient and cost-effective way to move money. However, this electronic transition will not be effective if families intended to receive electronic benefits have no account to which those benefits can be directed.

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Deliver Tax Refunds on Stored-Value Cards Capable of Supporting Savings

In a recently announced policy, those who qualify for public benefits but cannot receive them through direct deposit will be enrolled in the government's Direct Express debit card program. About 1 million Americans already receive benefit payments through the Direct Express card. The IRS should build on this experience and go a step further by making sure the prepaid cards used to deliver tax refunds incorporate a savings mechanism. Not all prepaid cards measure up from a savings perspective. Many have high fees, and few preloaded cards incorporate a savings component that acts like a traditional savings account. Developing such a card and allowing tax filers to choose to receive their tax refund on a prepaid, savings-enabled card could promote asset building and bring unbanked individuals into the financial mainstream.

One example of this idea is the Savings and Financial Electronic Transaction (SAFE-T) Account, which would be issued, delivered, and serviced by financial institutions on behalf of the U.S. Department of Treasury.[94] The accounts would be accessible with a network-branded card (such as VISA or MasterCard) and could be used for point of sale transactions, to access cash, to make web-based or telephone-based bill payments, and possibly to make remittances and secure money orders. With this policy the federal government could save more than $30 million annually by eliminating paper check refunds and the SAFE-T Account could serve as the "plumbing" for large-scale assets policy targeted at lower-income families.[95] The rapid delivery of tax refunds via the SAFE-T Account prepaid card could dissuade many households from taking out RALs. Finally, the SAFE-T Account may offer a scalable strategy to reach millions of lower-income households with a financial tool that can help them to save, build assets, and conduct routine financial transactions, in a manner that is safe, affordable, and convenient.

Expand Take-Up and Capacity of VITA Services

To better serve low-income communities, the IRS established the Volunteer Income Tax Assistance program (VITA) in conjunction with local community-based orga-

Enact a Saver's Bonus Linked to Existing Tax Credits

Congress should create a Saver's Bonus to reward low- and moderate-income families who save at tax time. Every dollar deposited in a designated savings product would be matched with an additional dollar from the federal government, up to a $500 annual maximum. The ability to access the bonus could be tied to eligibility for existing tax credits, such as the EITC. Eligible households would qualify for the bonus by making a commitment to deposit all or part of their tax refund into a designated savings product directly on their federal income tax forms. Using tax form 8888, families can divide their refund into a maximum of three accounts. They could also receive the bonus for deposits made into designated savings products over the course of the tax year, subject to the $500-a-year maximum. A wide range of savings products could be eligible for such a bonus, including retirement, college savings accounts, savings bonds, and short-term Certificates of Deposit (CDs). With access to this targeted incentive, the Saver's Bonus would help transform tax filing into a meaningful savings opportunity.[96]

nizations around the country. VITA programs provide free income tax preparation services to income-eligible taxpayers. At most local VITA sites, taxpayers who are income-eligible for EITC are also eligible to receive free income tax preparation assistance. These services help low-income families avoid paying high fees for commercial tax preparation and receive the tax credits for which they are eligible. VITA sites increasingly work to connect clients with other important financial services, including bank account ownership, credit counseling, and financial education. Unfortunately this valuable program is underutilized. A combination of insufficient funding and lack of awareness about VITA services prevents eligible taxpayers from receiving assistance. For the 2008 tax year slightly fewer than 3.5 million taxpayers were served by VITA sites. While nearly 24 million taxpayers received EITC refunds in 2008 only a fraction—just over 12 percent—of those taxpayers was served by a VITA site.

To increase take-up of these tax preparation resources by eligible taxpayers, the IRS should increase funding for VITA services and provide outreach materials to employers for annual distribution to employees with W-2 forms. Opening more sites across the country would increase access to valuable VITA services for a wider range of moderate-income taxpayers. The modest cost associated with increased VITA outreach would be negligible in comparison to the benefits many taxpayers would receive from free tax preparation and the financial resources provided by VITA tax prep sites.

To increase take-up of these tax preparation resources by eligible taxpayers, the IRS should increase funding for VITA services and provide outreach materials to employers for annual distribution to employees with W-2 forms.

Expand and Raise Awareness of the EITC Program

The EITC is a tax credit designed to help boost the take-home pay of low-income working households. Yet approximately twenty percent of eligible workers fail to claim the credit, leaving real money on the table. The federal government should maintain and make permanent the EITC expansion created in 2008 under the American Reinvestment and Recovery Act (ARRA). The EITC expansion increased the EITC refund rate for all qualifying taxpayers and raised the refund level for households with three or more children.

The EITC is a tax credit designed to help boost the take-home pay of low-income working households. Yet approximately twenty percent of eligible workers fail to claim the credit, leaving real money on the table.

The IRS should promote EITC awareness and education for commercial tax preparers and the general public. Eighty percent of taxpayers use commercial tax preparers to file their annual income taxes.[97] Some preparers may not be aware of the tax credit or know how to properly claim the credit for their clients and thus many eligible taxpayers may miss out on a substantial windfall. The government should also increase the maximum credit for childless workers. Income-eligible taxpayers without children were only able to claim a maximum of $457 in 2009. If the original intent of the EITC was to offset the deduction of payroll taxes for low- and moderate-income workers, then the refund amount for single, childless, low-income workers has not kept up with the average federal payroll tax deduction for this population, leaving low-income workers without children facing significant tax burdens that those with children do not.[98]

Restrict Predatory Refund Anticipation Loans (RALs) and Promote Alternatives

Despite the predatory nature of RALs, the fact remains that some households prefer rapid access to their tax refund to cover household expenses. Research has shown that the majority of low- and moderate-income working families have predetermined, or mentally allocated, their tax refund in advance.[99] Rather than forcing taxpayers to use these products, state and federal governments should explore alternatives to traditional refund anticipation loans to meet the rapid refund needs of low-income taxpayers. Several credit unions have adopted alternative RALs that allow tax filers who use on-site VITA free tax preparation services to

receive these alternative refund loans. These loans have low interest rates compared with traditional RALs and require the loan amount to be deposited into a savings account, a requirement that promotes saving at tax time.[100] These alternative RALs can even serve as gateway vehicles to saving and asset development. Federal and state governments should further require commercial tax preparers and the financial institutions they partner with to provide full disclosure of loan terms in plain English. Commercial tax preparers should also be required to inform customers about the time it typically takes to receive a tax refund directly from the IRS: two to three weeks if the taxpayer elects to have a refund direct-deposited into a bank account; or six to eight weeks to receive a paper check.

Strengthen U.S. Savings Bonds Program

A recent pilot project by the Doorways to Dreams (D2D) Fund and four community partners revealed a strong awareness of and a demand for U.S. Savings Bonds among low-income tax filers. Savings bonds are particularly attractive vehicles for many moderate- and low-income households because they offer guaranteed return on investment. In 2010, the tax filing process was changed to allow for the purchase of savings bonds directly on the tax form. The number of people purchasing savings bonds on their tax returns in this inaugural year has been low. A lack of awareness regarding this new savings option has inevitably contributed to these low figures. In 2011, the option of co-ownership should become available to tax-time bond purchasers. This option proved popular in the pilot, as roughly four-fifths of bonds purchased included co-owners, generally children or grandchildren.[101] A targeted outreach effort during tax season designed to promote the ease of purchasing savings bonds during the income tax filing process should increase the number of taxpayers taking advantage of this savings opportunity.

Savings bonds are particularly attractive vehicles for many moderate- and low-income households because they offer guaranteed return on investment. In 2010, the tax filing process was changed to allow for the purchase of savings bonds directly on the form.

The need to raise public awareness in general regarding U.S. Savings Bonds is acute. Since the federal government eliminated funding to promote savings bonds in 2003, the number of households holding these assets has declined sharply.[102] Increasing the number of outlets where savings bonds can be purchased to include credit unions, post offices, and other venues that serve low-income communities should be pursued and financial incentives could be provided to these organizations to promote savings bonds as a savings tool. ◘

Promote Responsible Homeownership and Access to Affordable Rental Housing

For many families, homeownership is a key wealth-building strategy. The expansion of homeownership during the second half of the 20th century coincided with the broadening of the middle class. The benefits of ownership are derived from a variety of relationships and arrangements, including the forced savings required by mortgage payments, the ability to borrow against the property, potential capital appreciation, access to neighborhood amenities, and a broader set of "assets effects." These benefits are difficult to match by other means.

But homeownership is not for everybody and also brings risks. The rising number of foreclosures and defaults brought on by the bursting of the housing bubble reflects the limits and challenges of homeownership as an asset-building strategy.

But homeownership is not for everybody and also brings risks. The rising number of foreclosures and defaults brought on by the bursting of the housing bubble reflects the limits and challenges of homeownership as an asset-building strategy. Since home equity represents the largest share of household net worth, policymakers need to pay more attention to mitigating the risks of homeownership than was given in the run-up to the recent recession. In 2009, lenders foreclosed on more than 2.8 million homes and it is projected that 3 million homes will get foreclosure notices this year—and more than 1 million of them will be repossessed by lenders. Falling home values have left many homeowners in foreclosure or under water, meaning they owe more on their homes than they are currently worth. Foreclosures erode the asset base of families and have large social and economic costs for the affected neighborhoods and local government. One foreclosure can lower nearby property value and home equity by up to $220,000.[103] The estimated cost to local government of one foreclosure for inspections, legal action, unpaid utility bills, and the like is $34,000.[104]

One contributing factor was the growth of subprime mortgage loans with adjustable rates, which increased significantly over the last 15 years. Virtually nonexistent in the early 1990s, subprime loans made up 20.1 percent of loan originations in 2006, a rate nearly twice that of 2001.[105] Initially seen as a positive innovation allowing more families to become homeowners, it became corrosive when poor underwriting became standard and people received loans they were likely to have difficulty maintaining, even in best-case scenarios. The proliferation of irresponsible credit has turned the dream of homeownership into a reality of debt and default.

While some households would be better off as renters, homeownership is a preferred and beneficial choice for many families. Policy must focus on better mitigation of the risks of homeownership as well as opening up pathways to responsible homeownership for families when appropriate. Despite current economic woes, families will continue to aspire to own homes. For many, homeownership represents a path to stability, community, and long-term wealth building. But achieving these social and economic goals requires a new policy regime and a regulatory framework that mitigates the inherent risks of the process. If done right, by matching buyers with appropriate mortgage products in a transparent and fair manner, we can make homeownership work for a broad range of American families, even those with low incomes and few resources.

Policy Options

Make Savings and Counseling a Foundation of the Home-Buying Process

We know that the popping of the housing bubble and the Great Recession produced a wave of foreclosures and defaults and left many homeowners under water, owing more on their homes than they are worth. However, research from the Center for Community Capital at UNC-Chapel Hill found that foreclosure rates were lower for families that bought homes after participating in a program that included some housing counseling, financial education, or other support services.[106] This confirms that housing counseling, such as that provided by NeighborWorks and their network of affiliates across the country, can make a big difference. So much so, that it should be incorporated more intentionally into the home-buying process. One way would be to link the provision of housing counseling to savings programs that help potential buyers accumulate their initial down payment. These programs vary but include such efforts as Individual Development Account pro-

grams, the Family Self-Sufficiency program administered by HUD, and even participation in employer-sponsored savings plans. Combining access to housing counseling with savings programs has significant potential to protect families from some of the risks associated with homeownership over the long term.

Modify the Mortgage Interest Deduction

It is estimated that in 2010 the federal Home Mortgage Interest Deduction will provide $104 billion in tax relief.[107] Since the mortgage deduction is not refundable, the majority of the benefits go to higher-income families who have larger tax liabilities. Recent analysis confirms that more than 70 percent of the benefits of the homeownership tax expenditures go to the top 20 percent of households ranked by income.[108] Making the deduction refundable for more households earning under $50,000 would open up this subsidy to families on the cusp of achieving the American dream of homeownership. This change could be implemented in a revenue-neutral manner by limiting the mortgage amount to which the deduction applies to half of its current rate of $1 million and restricting the deduction to one home per family. Alternatively, the deduction could be converted to a credit and made available to all taxpayers, regardless of their tax liability. A version of this approach was supported by Barack Obama during the presidential campaign. The Obama administration is supporting a cap on itemized deductions (including mortgage interest) at 28 percent. This would limit the cost of the deduction to the government but not create access to the incentive for families that currently do not itemize.[109]

Alternatively, this deduction could be converted to a credit and made available to all taxpayers, regardless of their tax liability.

Expand Homeownership Uses from Restricted Accounts

In recent years, the number of tax-preferred savings products that are defined by rules governing contributions and withdrawals has continued to grow. While many of these accounts are associated with retirement, they have many allowable preretirement uses, including for the purchase of a first home. Though some have described these uses as "leakages," accrued savings can be used productively to help build a bridge to retirement. Policymakers should consider making these uses more robust, especially by updating the provisions related to first-time homeownership. First, policymakers should amend the rules for IRAs and Roth IRAs to raise the onetime homeownership-use allowance from $10,000 to $20,000, making it more in line with current down payment requirements. Second, rules that govern 401(k) and 403(b) plans should be amended to permit savers to use their funds for first-time homeownership and made consistent with the rules for IRAs.

Protect Consumers in the Mortgage Marketplace

The availability of mortgage credit is a public good that has large benefits for society as a whole. But it must be provided and accessed responsibly. The country can ill afford to repeat the scenario where loans were given to people who did not understand their basic terms and had little chance of maintaining them over time. The future housing finance system must include vigorous consumer protections based on principles of fairness and transparency. Much of this work should fall to the newly created consumer financial watchdog agency, which should focus on cleaning up the mortgage industry and build on the recent banning of "yield spread premiums" where side-payments were made to brokers when borrowers were steered toward higher-priced loans than they would otherwise be able to obtain. Consumer protections regarding high-cost and other potentially dangerous home loans must continue to improve. The future agenda should include: prohibiting equity-stripping practices, such as excessive prepayment penalties and fees for payoff information, modification, or late payment; requiring a borrower to receive counseling before entering into a high-cost loan; and prohibiting mandatory arbitration clauses on high-cost loans. Lenders should be required to adhere to stricter underwriting requirements to ensure that borrowers will be able to make payments. If this means the housing finance system becomes a low-margin business, with limited profit opportunities, we regard that as an acceptable cost. Steering people into exotic mortgages did not serve consumers. In the near future, we should expect that the housing finance system provide fewer incentives for "innovation" but deliver more "value." There is no shame in getting back to basics and relying heavily on the old standard 30-year fixed FHA mortgage.[110]

Promote Policies to Help Homeowners Avoid Foreclosure

Overall foreclosure rates, and in particular foreclosure rates for subprime loans, have hit record levels, damaging not only families but whole communities. Borrowers need access to information to enable them to understand the potential for trouble while they still have the ability to refinance and also to access foreclosure prevention programs.

In neighborhoods at risk of large numbers of foreclosures, we should promote "land banks" to fight foreclosure-related blight. Lenders should be encouraged to make available to community-based organizations at no or low cost homes vacated by borrowers who must move; the organizations can resell the homes to borrowers who can afford them, using an affordable mortgage product.

The Obama administration's Making Home Affordable program was initially designed to help 3 to 4 million besieged homeowners through loan modifications. So far, it has fallen short of its goals. Despite the program's failings and the difficulty in getting financial institutions to participate, the administration must remain committed to program goals of minimizing foreclosures. While many mortgage services prefer to modify existing loans to lower monthly payments, additional sticks are required to ensure that mortgage principals are lowered when appropriate. Additional strategies are needed as well. In neighborhoods at risk of large numbers of foreclosures, we should promote "land banks" to fight foreclosure-related blight. Lenders should be encouraged to make available to community-based organizations at no or low cost homes vacated by borrowers who must move; the organizations can resell the homes to borrowers who can afford them, using an affordable mortgage product.

Allow "Cramdowns" by Bankruptcy Judges to Modify Loans for Underwater Homes

Currently, consumers behind on their credit obligations may file for bankruptcy to protect some of their assets, but primary mortgages are exempt. Given the scale of the housing crisis and the number of families facing foreclosure, bankruptcy judges should be empowered to reduce the principal and interest rate on home mortgages while increasing the duration of the loan. Not only is modification less expensive than foreclosure, but court-ordered "cramdowns" can help stem the tide of mass foreclosures, which reached 2.8 million in 2009. A proposal to allow these "cramdown" provisions passed the House in 2009, potentially reaching an estimated 1 million households, but it did not pass in the Senate. It should be reconsidered, especially in cases where a lender does not offer to modify the loan to reflect prevailing home values. Citigroup and Bank of America initially opposed the proposal but now support changing the law to give federal judges the power to modify mortgages in bankruptcy.

Assist Former Owners to Recover after a Foreclosure

Losing a home to foreclosure can be debilitating on many levels. Displacement by foreclosure can impact both owners and renters. These involuntary moves can strain a family's finances, disrupt school relationships, and make it harder to remain employed. Public support is needed to mitigate the multiple impacts of foreclosure on displaced families. Many will require relocation assistance to move to new housing and others will need access to extensive social services. But every family that experiences foreclosure must repair its credit histories and straighten out its finances. A poor credit score makes it difficult to qualify for new housing or get approved for a loan. Support is needed for communities to expand programs that provide financial education and counseling targeted at families recovering from foreclosure. A recent evaluation of such a program found that families' credit scores were significantly improved through the program's financial education and counseling, helping to improve their borrowing power by an average of more than $4,500, a level of improvement that can make a difference in qualifying for an affordable mortgage at a later date.[111]

Support Shared Equity Homeownership

In the aftermath of the housing crisis, alternative ownership models, such as shared equity homeownership, deserve greater support. In exchange for a public subsidy, families give up a portion of the home appreciation. This makes buying the home easier for the family and preserves affordability for the community over the long term. At the

same time, the owner is placed within a community-based support system, such as a land trust or limited-equity cooperative, which can mitigate the risks of homeownership. Shared equity housing has the potential to provide an attractive balance of affordability, access, and the opportunity to build up home equity.[112] It has been modeled in a number of communities across the country and could be replicated on a larger scale. For many lower-income families, shared equity homeownership can offer an effective, resilient, and sustainable approach to asset building and economic security. To build on the range of local success stories and take shared equity homeownership to scale, a federal funding source should be created that can be tapped at the local level. These resources should be deployed to: increase awareness of the model among policymakers and stakeholders; document impact; invest in organizations that will manage the process; and develop a range of standardized loan products to meet the needs of shared equity homeownership programs.[113]

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Ensure Access to Affordable Rental Housing

Responsible homeownership should be considered in the context of a national strategy for housing policy. This means boosting rental housing in tandem with homeownership and exploring alternative ownership strategies. As the country recovers from a debilitating recession, brought on in part by excesses in the housing market, it is the right moment to make sure housing policy includes viable alternatives to traditional forms of homeownership. One mechanism for ensuring support for affordable rental housing is to create a dedicated federal funding source that could support state and local housing trust funds. Established and administered at the local level, housing trust funds can be used flexibly to meet a wide range of housing needs in diverse settings. The number of housing trust funds has doubled in the last five years; currently, 38 states and more than 550 cities and counties operate funds, however they are short of resources. The Center for Community Change and the National Low-Income Housing Coalition have called for the establishment of a National Housing Trust Fund to provide communities with grants to build, rehabilitate, or preserve rental homes affordable to the lowest-income people.[116] Congress created such a fund in 2008, but has not yet provided capital resources. The commitment of dedicated public revenue is needed to systematically shift affordable housing funding away from the annual budget allocation process. ✚

Provide Every Recipient of Rental Housing Assistance with an Asset Account

The federal government allocated just over $31 billion in FY 2010 to provide rental assistance to more than 4 million poor and near-poor households.[114] Another 8 million renting families spend more than half their income on rent and utilities. As earnings rise for families receiving assistance, so does their rent; this decreases work incentives. An alternative approach would build on HUD's successful Family Self-Sufficiency (FSS) Program, which diverts rising rent payments into an escrow account for participants. If we provided every recipient of housing assistance with a Rental Assistance Asset Account, they could build up savings as they increased their earnings.[115] Resources in the accounts could be used to invest in education or training, making a down payment on a home, or purchasing a vehicle to enable reaching a job site. This reform in the delivery of housing assistance would help existing residents transition more quickly to private-market housing and help those who remain on assistance to achieve higher incomes and assets so that they need lower levels of assistance. Programs would be operated by local public housing authorities, in coordination with other service providers who can help a family overcome barriers to work and self-sufficiency. By increasing the number of families able to transition to self-sufficiency, this idea could also free up federal resources to serve other families in need. This approach has been tested through the Family Self-Sufficiency Program and could be taken to scale.

Support Entrepreneurship and Small Businesses

Entrepreneurship is vital to the American economy. Small businesses—firms with fewer than 500 employees—comprise more than 99 percent of all U.S. firms, employ more than half of all private sector employees, and are responsible for 87 percent of all payroll volume.[117] Small business ownership and the opportunity to build business equity is a significant asset-building opportunity for many individuals and will be a key determinant of the national economy's ability to recover from one of the worst economic recessions of the past century. While there are many definitions for a small business, which encompass a wide range of business models and types, it is imperative that entrepreneurs have access to startup capital.

Microenterprises are an important sub-category of small businesses that have the potential to promote asset building among low-income Americans. A microenterprise—a business typically employing fewer than five employees—can be a productive welfare-to-work strategy for some who receive public assistance.[118] Micro-business startups can be especially useful sources of income for rural individuals, those who need flexible work hours to care for children or due to disability, and as a supplement to wages earned from traditional employment.[119] Revenue-generating micro-businesses also bring money into local communities and help drive local economies.[120] One community lender in California estimates that every dollar invested in a small business owner generates $2 in overall economic activity.[121]

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A substantial lack of capital for small business startups limits the number of would-be self-employed and small business owners. Federal sources of startup funding have been on the decline and a lack of supportive policy for microenterprise developers contributes to the difficulty many self-employed individuals face in making their small business dreams a reality.[122] If the American dream of stable employment and creative business ventures is to flourish, federal policy should support new enterprise through the establishment of small-dollar business grants and loans as well as a tax code that favors self-employment and small businesses.

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Policy Options

Develop a Small Business Tax Literacy Campaign

The income tax filing process has been overlooked as an opportunity to foster and build new businesses. In recent years the IRS has conducted an outreach and educational campaign for personal-income tax filers designed to make the tax filing process easier and to encourage first-time filers to complete their returns. Free, volunteer tax preparation sites have been expanded across the country in efforts to streamline and simplify the filing process for low- and moderate-income individuals who have limited prior experience with federal income tax requirements. Such programs and outreach strategies do not exist for small business entrepreneurs despite the fact that many micro-entrepreneurs are low- and moderate-income individuals who qualify for personal-income tax filing assistance. A nationwide educational campaign coordinated among the federal agencies responsible for managing small business and entrepreneurial programs could capitalize on the federal tax filing process to educate self-employed individuals and small business owners about tax filing regulations and eligibility requirements for a number of tax credits and refunds. Business financial literacy and tax education seminars could be offered at no cost alongside tax preparation assistance programs for entrepreneurs meeting income requirements. A related educational campaign has been piloted by the Corporation for Enterprise Development

(CFED) through its Self-Employment Tax Initiative; this project could serve as an example of the types of services and outreach tools that could be included in a nationwide small business tax literacy campaign.[123]

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Expand and Continue Funding for the Microloan Program

The Microloan Program of the Small Business Administration provides funding for startup and developing small businesses. Nonprofit community-based lenders serve as the intermediaries between would-be entrepreneurs and the SBA and disperse the actual loans to approved applicants. The program serves as a primary source of business development capital, particularly elusive for lower-income entrepreneurs. It provides small-dollar loans to persons who may otherwise be considered "unbankable" and therefore unable to obtain capital through traditional credit and lending institutions. The American Recovery and Reinvestment Act allows SBA to finance up to $50 million in new lending and provides $24 million more in technical assistance grants to micro-lenders through September 2010. These levels of funding should be supported and expanded in future budget deliberations.

Create an Alternative Source of Funding for Small Businesses and Incentives for Saving

Individual Retirement Accounts are important savings vehicles for many Americans. Besides being effective asset-building accounts for saving toward retirement, IRAs are governed by regulations allowing preretirement penalty-free withdrawals from accounts to cover a select list of asset-building expenses. Approved expenditures include first-time homeownership and higher-education costs, both of which support future asset accumulation and retirement security. Currently, small business startup expenses are not approved withdrawals despite the fact that a small business can be a valuable source of wealth acquisition and support saving for retirement. Expanding IRA early-withdrawal regulations to include small business capitalization makes sense and could provide another reason for individuals to save and build assets. Alternatively, entrepreneurs could be given the option to borrow against their IRA assets rather than withdrawing their savings. This could help mitigate concerns that individuals might lose their savings in risky business ventures. The Small Business Administration or another federal agency could underwrite these loans to make this type of lending more attractive to financial institutions. The underwriting process could involve a thorough evaluation of proposed business plans to discourage ill-conceived ventures from possibly depleting individuals' hard-earned savings. Allowing small business entrepreneurs to borrow against their IRA retirement savings or use a portion of those savings to fund a small business startup could serve as another incentive for people to save and build assets and afford more individuals the opportunity to become entrepreneurs. ◘

Deliver Financial Education to Maximize Financial Capabilities

People often make poor financial decisions even when given access to accurate and fair information. Given the low scores on tests of personal financial know-how, many consider financial illiteracy to be an epidemic afflicting Americans of all races, ages, and income levels.[124] Unfortunately, some groups that are already disadvantaged, such as the elderly, immigrants, and those with low incomes, are disproportionately more likely to make a financial mistake that impedes future asset building and further integration into the mainstream marketplace.[125] For all households, a solid grounding in personal finance and a clear grasp of the implications of one's financial actions are especially critical to establish, grow, and maintain assets. Personal financial counseling, however, tends to be costly and not widely available. Additionally, many lower-income communities and minority groups may be wary of the mainstream financial sector in part because of past exclusionary or discriminatory attitudes of banking institutions toward certain historically disadvantaged groups.[126] An approach targeted to those communities could go a long way toward reversing the trend of financial illiteracy in the United States.

To be sure, financial education—especially when divorced from a specific asset purchase—has had only limited success in improving behavior. Much work needs to be done to improve the curriculum. However, we might expect additional gains by placing a greater emphasis on increasing each participant's financial capabilities. This perspective recognizes that access and information go hand in hand. Basic financial education is maximized when it is linked to high-quality and low-cost financial services and products.

Expect additional gains by placing a greater emphasis on increasing each participant's financial capabilities.

This means effective financial education should be delivered through a variety of channels, particularly where financial products may be accessed. It can be integrated into the workplace and other channels where workers can connect to responsible financial service providers. Counseling models should incorporate a wide range of personal finance topics, including the basics of transactions and savings, healthy credit practices, and major asset decisions such as homeownership. It can also be incorporated into the classroom, or provided by trusted community organizations. The key is that the information and appropriate financial products that support good decision-making are accessible to all Americans regardless of their income level or personal financial history.

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Policy Options

Establish a Financial Services Corps

While a wide range of financial education information is available, there is a dearth of financial advisers and educators to help lower- and middle-income families understand the complexities of the financial services sector, get assistance when facing financial difficulties, and plan for savings and investment goals. To connect these families with the targeted financial advice they require, a Financial Services Corps should be established. The corps, which could be made up of financial experts, planners, and advisers, would deliver financial advice and resources to lower-income individuals and families. Corps members would work one-on-one to help households create a plan to repair credit, pay off debt, and save for emergencies and longer-term goals such as homeownership, higher education, and retirement. Importantly, the delivery of

these services must be separate from the selling of other services, so there is no incentive for the providers to steer clients into inappropriate products. This is one of the problems that must be overcome in the financial advice world. To help offset some of the costs associated with training personnel and advising individuals, a tax credit could be awarded to financial planning and education providers. A second option would be to issue vouchers directly to families who could seek out financial counsel. The federal government could partner with states to develop these types of incentive structures and strong regulatory guidelines to ensure that families receive sound, applicable advice from trained professionals. Finally, a grants program run by the Treasury Department could be developed for community-based organizations to hire and train financial counselors to serve their clients.[127]

Encourage Completion of a Financial Education Course for High School Graduation

To ensure that all children become educated in the basics of personal finance, states should require that the subject of personal finance be integrated into high school core curriculum. As of 2007, only seven states required that students complete a financial education course before high school graduation, and an additional nine states required that high schools offer a personal financial education course as an elective available to interested students.[128] Further opportunities should be pursued to integrate this material into existing grades K-8 materials. The Office of Financial Literacy, housed in the newly created Consumer Financial Protection Bureau, should work to develop a set of national standards that contains age-appropriate personal finance lessons for students of all grade levels. Some material already exists, such as that used by organizations like the Jump$tart Coalition, but it needs to be assessed to see if it can serve as a model for a national financial education curriculum. Teachers, however, should not bear the burden of providing financial education to their students without first participating in financial education courses themselves. Teachers at all grade levels should receive personal financial management training and should be taught how to integrate personal financial management concepts into material they already teach in their classrooms. Additionally, a program like the proposed Financial Services Corps could employ its volunteer financial professionals in classroom instruction and/or personal financial management education for teachers.

Promote Delivery of Financial Planning in the Workplace

For many employees, the workplace can be an effective channel to deliver important financial education and services.[129] This can be especially true for moderate- and low-income employees, who may be less inclined to seek out financial advice from mainstream financial institutions and less likely to have the financial resources to obtain private professional financial advice. The federal government could provide tax incentives for employers who offer financial literacy seminars for all employees regardless of income level or provide other types of incentives to encourage workplace-facilitated financial planning beyond retirement savings. Alternatively, employers could partner with financial institutions to offer professional financial planning seminars in the workplace in exchange for the opportunity to increase their client base. Employees of all income levels have a variety of financial planning and savings needs and employers who provide opportunities for employees to access accredited professional planning services could do so to meet anti-discrimination standards in employee benefit packages. Research suggests that employees with low levels of financial stress are more productive, which should justify the greater involvement of employers in delivering access to financial planning materials.[130]

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Incorporate Financial Counseling and Planning into Debt Relief Plans

As high rates of unemployment and underemployment continue to affect the country, the number of complaints states have received about debt settlement companies has skyrocketed. A telling sign of the times, this industry has

generated the most complaints to the Better Business Bureau since 2007.[131] Government at all levels needs to reach out to consumers to help them distinguish between for-profit debt settlement (or relief) companies that promise to reduce consumers' debt while often doing no more than charging high fees to consolidate debt and the more worthwhile nonprofit agencies that provide financial planning and credit counseling services in conjunction with debt reduction.[132] These for-profit companies often disparage debt counseling and counsel against bankruptcy even when this may be in a customer's best interest.[133] Customers frequently end up worse off after having paid thousands of dollars in fees without reducing a fraction of their debt burdens, while further damaging their credit ratings in the process.[134] Consumers need access to transparent debt management and financial counseling services that clearly outline their services using language consumers can understand and that employ techniques that do not take advantage of desperate American families seeking to salvage their financial futures.

The new Consumer Financial Protection Bureau should actively regulate this for-profit industry. Fee limits for debt relief services can be established at both the state and federal level.[135] Debt relief companies should be subject to licensing requirements; such regulations have been established in both Kansas and Virginia.[136] All debt relief agencies, whether for-profit or nonprofit, should be required to provide consumers with high-quality financial counseling and planning services as a part of their debt relief program. These services will help consumers develop healthier financial habits to get out of debt and build savings. Debt settlement companies could also be required to save a percentage of clients' fees in a savings account established in the client's name to encourage households to save for the future rather than rely on credit.

Approve Financial Literacy Training as Acceptable TANF Work Activities

The ability to effectively manage finances is an essential component of self-sufficiency. States should ensure that public assistance recipients receive appropriate levels of financial education and should promote financial literacy and coaching as effective tools to help families establish healthy financial practices. One potentially effective way to promote financial education for recipients of federal Temporary Aid to Needy Families (TANF) would be to accept financial education class attendance as a qualified work activity that meets TANF work requirements. Current federal requirements allow job readiness training and community service hours to be considered work activities, and some states consider personal development skills training as work activities. Approving financial literacy training as an acceptable work activity would promote sound financial management and asset building for TANF recipients working toward self-sufficiency and control of their financial well-being. Some states also fund Individual Development Accounts (IDAs) for TANF recipients; financial literacy education could be offered in conjunction with IDA management seminars for recipients who chose to participate in an IDA program. Linking personal savings accounts with financial training would provide real-world examples of basic financial principles and allow TANF recipients to gain hands-on experience managing their financial resources.

Approving financial literacy training as an acceptable work activity would promote sound financial management and asset building for TANF recipients working toward self-sufficiency and control of their financial well-being.

Finanical Coaching Innovators: The Financial Clinic

The Financial Clinic, a nonprofit financial development organization based in New York City, helps working poor families caught in the wage gap—those "too rich" for public assistance but "too poor" to be self-sufficient—achieve financial stability by providing legal support and financial counseling. The Financial Clinic's mission is to improve low-income people's economic security by helping them make ends meet. It also works to achieve economic justice for communities disenfranchised by policies and practices that hinder financial stability and growth. The group's innovative financial coaching model educates and empowers consumers to craft personal financial action plans for long-term economic health. Clients of the Financial Clinic receive one-on-one coaching sessions with qualified financial educators whose role is that of instructor and coach helping low-income clients develop effective strategies for eliminating debt and building real financial security through savings and effective money management techniques.

Advance Asset Building Worldwide

The asset building framework has a valuable role to play in addressing issues of social development in a global context. Just like in the United States, in order to encourage all individuals to realize their full capabilities, people have to be able to accumulate assets. Promoting economic development and ensuring access to asset-building opportunities for the poor across the globe will enable them to be equal participants in a global economy in which we are all now stakeholders. In the U.S. context, we often think of assets as tangible resources, such as accounts, homes, or investment which can be leveraged for other purposes; in the global development context, what constitutes a productive asset can be more expansive, including resources such as a plough, a cow, or even mobile phone minutes. The key is to create and enable strategies that help deploy these resources in ways that create opportunities for economic empowerment and social development. For some, this may mean access to entrepreneurial opportunities; for others, it is to access education that can pay off down the line.

Promoting economic development and ensuring access to asset-building opportunities for the poor across the globe will enable them to be equal participants in a global economy in which we are all now stakeholders.

The global microfinance movement has confirmed that in developing countries, just as in the United States, access to effective, formal financial services and asset-building opportunities is essential for spurring wealth accumulation. Hundreds of millions of poor individuals around the world lack the means to provide themselves or their families with sufficient food, shelter, and medical care. For instance, in the United States it is difficult for children in impoverished families to *thrive* in school; in developing countries it would be difficult for these same children to attend school at all. Indeed, the global poor face similar yet graver challenges to moving on to jobs that will allow them to accumulate enough financial assets to move out of poverty and sustainably into the middle class. The perpetuation of poverty from one generation to the next is one of the most serious and pervasive problems our global society faces. Policymakers focused on international development issues should begin to think more creatively about how to link poor households in developing countries to asset-building opportunities and financial services.

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To do this in the field of global development requires that we take a holistic view of asset development, one which considers the household within a larger network of social and economic webs. A global asset-building strategy should analyze these webs and develop approaches that link to livelihoods and enterprise development, financial literacy, and access to education. Multi-disciplinary teams are needed to ensure projects are effectively implemented in ways that are responsive to varying local contexts.

There are many reasons for U.S. policymakers to support asset-building strategies and policies in developing countries, including demonstrating America's commitment to global poverty reduction; serving humanitarian goals; promoting stability in countries and regions important to national security; and even satisfying immigrant constituents and nurturing new markets for American goods and services. Yet it is important to consider foreign assistance not only as a diplomatic or security tool but as a means of generating development for its own sake, in ways that advance financial inclusion and social development. If families are to be able to save and build up their asset base, policymakers should explore a range of options to promote a global asset-building agenda.

Policy Options

Invest in Gender and Assets

It is now widely shown that investment in women's skills, education, rights, and productivity leads to the economic advancement of their entire families.[137] Women farmers and workers need access to savings and credit, as well as access to markets for their goods and services. Recent research has demonstrated that savings and financial literacy provides young women with not only livelihood

opportunities but also increases their self-confidence and reduces their vulnerability to HIV/AIDS and domestic violence.[138] Pilot research projects in Uganda and Kenya have shown that savings accounts for adolescent girls improve their outlook for their own futures and influence positive social behavior.[139] Economic empowerment of women often leads them to participate in local governments and enables them to influence change in their society and acquire more legal rights.

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Make Development More Effective in Post-War and Post-Disaster Zones

As part of the reconstruction of Afghanistan and Iraq, the big question remains: how can resources be transferred directly to local citizens and provide them with ownership of development assistance programs? Conditional Cash Transfer (CCTs) programs, which provide assistance that is contingent on prescribed behaviors, pose an interesting model. CCT programs as a social protection tool are proliferating around the world, though predominantly in Latin America, with programs in over 30 countries. More recently, countries such as Peru and Colombia have started experimenting with linking CCT programs to financial inclusion and assets-building opportunities. The use of savings-linked cash transfers helps to ensure assistance gets directly into the hands of intended beneficiaries without having to be processed by an intermediary.[140] This supports financial inclusion in addition to achieving other specified goals, which may be related to health or education. In other cases, intermediaries can be used that are committed to distributing resources. During the aftermath of Haiti's January 2010 earthquake, the US Government facilitated a $2 million cash transfer to Fonkoze, the largest microfinance institution operating in the country. A representative of the State Department said that this was the most effective way of reaching the most vulnerable populations in Haiti, especially in such a time of disaster. Investment in microfinance institutions, such as Fonkoze, can yield many returns at the time of an emergency as these institutions are often, the only existing infrastructure that provides services to the poor.

The use of savings-linked cash transfers help to ensure assistance gets directly into the hands of intended beneficiaries without having to be processed by an intermediary. This supports financial inclusion in addition to achieving other specified goals, which may be related to health or education.

Use Technology to Promote Financial Inclusion

Today, technology can play a vital role in strengthening the social safety net through the delivery of development assistance through government to people (G2P) payments. The wide range of G2P payment flows offers numerous opportunities to achieve multiple development goals. For example, when Brazil transitioned from paper benefits to electronic benefit cards, the government experienced a seven-fold decrease in operating costs, and they also found that this technology platform had the potential to bank millions of previously unbanked poor, who can be connected to financial institutions for the first time.[141] Using these electronic cards increased the cash that ultimately got into the hands of intended recipients. Similarly, the promise of mobile banking lies with its expansive reach to previously inaccessible populations and reduced operating costs for financial institutions.[142] It is an approach that overcomes physical access barriers that the poor face in rural areas when the nearest bank branch may be miles away and reliable transportation is unavailable and expensive. The U.S. government should support investments that enable the applications of new technologies to create asset-building opportunities for the poor, including m-banking infrastructure and supportive regulatory environments.

Use Foreign Assistance to Spur Local Growth

If US foreign assistance is to be effective, it is necessary to invest in bottom-up approaches to economic development that spur economic growth at the local level and directly benefit the poor. Providing banking and savings services, especially in remote rural areas, can promote financial literacy for low-income community members and spark devel-

opment of businesses, entrepreneurship, assets and access to financial services. Policymakers should develop foreign aid policy that invests in people themselves and views individuals and communities as participants in growth rather than recipients of charity. Such socially responsible policies have the potential to promote sustainable economic development in some of the world's poorest countries.

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Support Child Development Accounts to Promote Economic and Health Improvements

Owning financial assets can reduce the problems associated with income volatility but also encourage longer-term planning that may mitigate the risk of future poverty. A promising means of facilitating asset ownership abroad is the establishment of Child Development Accounts (CDAs), which have the potential to be effective in reducing poverty, increasing access to financial services, and improving some health outcomes. Such accounts offer a potentially powerful tool for meeting strategic development goals that focus on enhancing human capacity, education, health, and social services. Recently, a privately-funded effort, called YouthSave, has been launched to explore the potential of children's accounts in meeting these objectives.[143] The U.S. government should support research and initiatives regarding CDAs as part of its global foreign assistance strategy.

Encourage More Effective Use of Remittances

Federal policymakers should support strategies that lead to more effective uses of remittance transfers at home and abroad. Because of the lack of access to effective banking services, the vast majority of remittances are transacted through expensive wire transfer services, such as Western Union, or even more informal, unsecure methods. Thus, an opportunity to link senders and recipients to the formal financial system is being missed and potentially large sums of scarce resources wasted. U.S. policies should be aimed at promoting low-cost ways to remit money to our neighbors in the Western Hemisphere. For example, remitting funds by mobile phone has the potential to obviate the need for brick-and-mortar banks. Through the newly-minted Consumer Financial Protection Bureau, the federal government should work with governments of recipient countries and the private sector (including banks and mobile phone operators) at home and abroad to introduce a regulatory framework to facilitate the safe remittance of funds by mobile phones. On the receiving end, the United States could engage in capacity building or public-private partnerships to encourage an environment in recipient countries in which remitted funds are used for asset-building purposes, such as savings, mortgage payments, or other investments. ✪

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About the Asset Building Program

The Asset Building Program of the New America Foundation was established in 2002 to significantly broaden savings and assets ownership as a means to promote social development. The primary goal of the Program is to ensure that a consideration of assets—broadly conceived—becomes a permanent feature of how social policy is conceived, developed, and delivered. Our work in policy research, public education, and policy development strives to provide context and meaning to the assets perspective and ensure that this perspective is strategically and constructively inserted into a wide array of social policy discussions. The Program serves as a leading voice on innovative public policies to enable low- and middle-income families in the U.S and around the world to accumulate savings and build wealth.

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