The Poverty Forum: Asset Building

Asset Building Initiatives for All of Life: Seeding, Growing, and Securing

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Area: Asset Building

Issue: Encouraging increased savings and community resources for asset building purposes.

Problem:

Many American families and communities have low or negative savings rates and limited access to financial education and capital necessary for wealth creation. This is especially true for low-income families and communities. Long term poverty alleviation strategies need to address financial asset deficits while building on family and community assets.

Solutions:

Leveraging individual, family, community, and governmental resources to promote savings and asset building initiatives for low-income families and communities.

Policy Recommendations:

(1) Lifetime Savings Accounts: The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act would create an account for every child born in America. Each account would be "seeded" with $500 from the federal government. Households at or below 50% of the national medium income would be eligible for a supplemental initial contribution of $500. Additional investments of up to $2000 per year can be made from individuals, family members, foundations, etc… Eligible income levels can receive a match of up to $500 per year for additional savings contributions. Withdrawals cannot be made from the account until the child turns 18, where their account will be governed by rules similar to Roth IRAs. These rules allow for tax-free withdrawals without penalty for select asset building preretirement uses, including post-secondary education and first-time home purchases. The universal nature of the accounts creates significant opportunities for financial education. The cost can be adjusted by modifying contribution and matching amounts if needed.

Previous Legislation: H.R. 3740- key sponsors include former Congressman Rahm Emmanuel and Senator Chuck Schumer in the 110th Congress. Previous Republican supporters have included Senator Jim DeMint, former Senator Rick Santorum and former Congressman Phil English.

Political Outlook: With prominent democratic supporters taking the lead and with the need for longer-term strategies to improve savings and investment beyond contemporary bailout and stimulus strategies, there should be adequate space for such a proposal. The costs for such a proposal can be adjusted as needed and are modest when compared to the scope of current proposals.

References: New America Foundation, Corporation for Enterprise Development (CFED)

(2) Saver's Bonus: Lower-income families with incomes of up to 120% of the federal earned income tax credit (EITC) would be rewarded with a Saver's Bonus for making a commitment to save a certain sum when they file their tax returns which can be allocated into up to 3 accounts. Contributions of up to $500 annually to eligible savings products, such as IRA s, 401(k)s, 529 College Savings Plan, Coverdell Education Accounts, U.S. Savings Bonds, and Certificates of Deposit (minimum 6 months). This proposal is feasible in light of the implementation of split refunds (the ability to designate more than one account to receive a portion of one's tax refund) by the Treasury Department in recent years.

Previous Legislation: The Saver's Bonus Act, S. 3372, was introduced by Senator Menendez in 2008.

Political Outlook: Since this savings incentive builds on existing savings incentives and encourages their use by lower income families, supporters of existing savings vehicles for middle and upper income families should also be supportive of this application.

References: New America Foundation

(3) Financial Services Corps (FSC): The creation of a financial services corps would help low and middle income households address their personal finances and plan for their future by enlisting financial experts and advisors to deliver personalized financial counseling and planning. Financial counselors would provide tools, resources, and support to local, regional and workplace initiatives to ensure these families are effectively reached. This would include collecting and analyzing data to understand the short, medium, and long-term financial education, counseling and planning needs of these households, and exploring new strategies and approaches to financial education and advice through an innovations fund. These efforts should leverage existing community based financial education initiatives. This could be accomplished through legislative or executive branch action.

Previous Legislation: not aware of any.

Political Outlook: This idea can be applied in a number of contexts. In the short term, it could be applied as part of a national service initiative in combination with the struggling economy, leveraging those unemployed from the financial services sector. Longer term it could have some similarities to Senior Corps or Teach for America-with a broader financial education community focus. The focus would be basic budgeting, savings, and investment principles- e.g. sound paths to homeownership- not hedge funds.

References: New America Foundation

4) Individual Development Accounts (IDA's): Expansion and enhancement of the program for matched savings accounts that reward monthly savings of families who are saving towards a high-return asset such as a first home, post-secondary education or a small business. The savings incentive is provided through matching funds from private and public sources. The proposal is to

a) Expand the current federal AFIA (Assets for Independence Act) appropriation from $24 million to $50 million to allow access to matching funds for twice as many low to moderate income people.
b) Fund a nationwide IDA demonstration through tax incentives that would offer one-to-one credit for financial institutions that contribute match funds to IDA's. Under this program, the tax credit would provide up to $500 per IDA per year, in addition to a $50 per account annual credit. The new funding and bill would support 900,000 accounts, moving IDA's to scale for the first time.
c) Include strong inclusion of financial education classes about budgeting, saving and banking.
d) Modify the requirements for AFI assistance, removing the requirement for the match up front, extending eligibility to moderate income families, and offering wider eligibility for use of end funds

Existing nine year old program originally started as a part of the welfare funding has resulted in over 73,000 IDA's run by more than 540 community-based organizations. The impact of these IDA's has resulted in 8,400 new homeowners, 6,000 educational purchases and 5,200 small business start-ups and expansion purchases.

Political Outlook: The IDA program has had bi-partisan support through it's method of matching people's own efforts to build assets. Private and State programs mean a broad coalition and political breadth. The initiative to date has involved community groups, financial institutions and many others across the country. The proposals would expand the number of participants and dramatically enhance small business start ups, home ownership and higher education.

Previous Legislation: The Assets for Independence Act (AFIA) was authorized in 1998 through the US Dept. of Health and Human Services. The Savings for Working Families Act (S 871, HR 1514) was previously introduced .

References: The New America Foundation, Corporation for Enterprise Development

5) Expand New Markets Tax Credits (NMTC) for Economic Stimulus in low-income communities, adding CDC Tax Credits for Job Creation: The tax credits are issued by the Treasury and currently primarily used by financial institutions; they are a proven tool for generating investments that create jobs and community impact in low income communities.

a) Expand from current $3.5 billion to $5 billion in 2009 with annual $1 billion increase each year through 2014.
b) Modify the regulations to make the credits usable for individual investors, create incentives for “green” investments, and
c) Make $2 million in Tax Credits allocations available (each) to eligible community development corporations to use to create jobs in low income communities.
d) Modify use eligibility so CDE’s can use NMTC to improve and maintain housing stock for low income families

Thus far, through the original program over $12 billion of private sector capital has been invested in distressed urban and rural communities through NMTC . The demand for the existing NMTC has been great; over the last 6 years more than $156 billion in credits has been requested from the Treasury, which has had only $19.5 billion in available allocation authority.

Previous Legislation: New Markets Tax Credits was enacted in 2000 as part of the Community Renewal Tax Relief Act. In December, 2006, Congress passed the Tax Relief and Health Care Act of 2006, which extended tax credits through 2008 with an additional $3.5 billion in Credit Authority. A pilot program, CDC Tax Credits for Job Creation, was created in 1990’s, with a $20 million authority for 20 community development corporations. The pilot demonstration’s success was documented and reported to Congress.

Political Outlook: New Markets Tax Credits (NMTC) legislation has been supported by both sides of the aisle, and it’s impact and effectiveness documented. There is a great pent up demand for expansion.

References: New Markets Tax Credit Coalition, Enterprise Foundation, Local Initiatives Service Corporation, Woodstock Institute