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THE ASSETS AGENDA 2007:
Policy Options to Promote Savings and Asset Ownership by Low- and Moderate-Income Americans

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America's personal savings rate has been negative for the last two years, a dubious economic feat not achieved since the Great Depression. While many Americans own assets, most of our public policies that support savings and ownership leave out those who own little or nothing. If we are to successfully broaden savings and assets ownership, our policy efforts must be expanded, strengthened, and targeted to those with the greatest need.

The purpose of this issue brief is to summarize a federal public policy agenda to broaden savings and asset ownership opportunities for Americans with lower incomes and fewer resources.[2] It reflects our latest and best thinking, and draws heavily on the work of many experts focusing on various facets of savings and asset-building policy. The menu includes calls for new structures and policies, as well as changes to existing tax systems, government programs and financial products.

The Assets Agenda 2007

- ***Establish Children's Savings Accounts***
- ***Create Savings and Asset Accumulation Incentives for the Working Poor***
- ***Establish Universal Savings Products with Saving Defaults***
- ***Connect Tax Refunds to Savings Products***
- ***Make 529 College Savings Plans More Inclusive***
- ***Foster Access to Wealth Building Financial Services***
- ***Rebuild the U.S. Savings Bond Program***
- ***Expand Financial Education and Counseling Programs***
- ***Revise Asset Limit Rules in Public Assistance Programs***
- ***Expand Access to College and Post-Secondary Education***
- ***Expand Responsible Homeownership Opportunities***
- ***Support Microenterprise Development***
- ***Strengthen Laws to Protect Asset***

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[2] This piece serves as a compliment to the Asset Building Program's State Policy Options issue brief (2006).

The Assets Agenda 2007 – Specific Proposals

1. Establish Children's Savings Accounts

- The America Savings for Personal Investment, Retirement, and Education (ASPIRE) Act
- Young Saver's Accounts
- PLUS Accounts
- Baby Bonds
- 401Kids
- Lifelong Learning Accounts
- Savings Bonds as a Tool to Save for Children
- 529 College Savings Plans as a Platform for Children's Savings

2. Create Savings and Asset Accumulation Incentives for the Working Poor

- Enact A "Savers Bonus" Linked to Existing Tax Credits.
- Improve The Saver's Credit.
- Expand the List of Products Eligible for the Saver's Credit.
- Improve Asset Accumulation Opportunities for TANF Recipients.
- Expand Individual Development Accounts (IDA).

3. Establish Accessible Savings Products with Default Features that Promote Savings

- Create an Automatic, Accessible, and Flexible National Savings Plan.
- Enact, and Possibly Match, "Automatic IRAs."
- Make Retirement Savings Plans Universal and Accessible.
- Enact A "Retirement Investment Account (RIA) Plan."
- Improve The Administration's Retirement Savings Account (RSA) and Lifetime Savings Account (LSA) Proposals.

4. Connect Tax Refunds to Savings Products

- Promote the Split Refund Option.
- Allow Tax Filers to Open Savings Accounts Directly from their Tax Forms.
- Set Goals and Performance Measures for the IRS to Promote Savings.
- Expand the Earned Income Tax Credit (EITC).
- Increase Funds to Low-Income Tax Preparation Sites to Support Financial Education and Counseling.

5. Make 529 College Savings Plans More Inclusive

- Facilitate Better Disclosure and Comparison of 529 Plans.
- Collect Better Data on Who Saves and Benefits from 529 Plans.
- Create a State Innovation Fund.
- Add 529s to the List of Products Eligible for the Saver's Credit.
- Support Matching Grants to Low-Income Savers.

6. Foster Access to Wealth Building Financial Services

- Fix the Electronic Transfer Account (ETA) and Expand Its Availability.
- Strengthen the Community Reinvestment Act (CRA) and Improve the Service Test.
- Increase Accountability and Responsibility for Financial Institutions.
- Capitalize an Innovation Fund for Financial Institutions to Facilitate R&D Focused on Under-Banked Consumers.
- Encourage TANF Recipients to Open Bank Accounts.

7. Rebuild the U.S. Savings Bond Program

- Put Savings Bonds Back on Tax Returns.
- Offer Savings Bonds with Preferred Terms for Lower-Income Persons.
- Offer Tax Credits to Expand the Payroll Savings Plan to Promote Savings Bonds.
- Encourage Low-Income Persons to Redeem Their Savings Bonds at Providers of Homes, Higher Education, and Retirement Products.
- Improve Marketing of and Access to Savings Bonds.
- Reduce the Minimum Holding Period.

8. Expand Financial Education and Counseling Programs

- Mandate the Completion of a Personal Finance Course for High School Graduation.
- Create Opportunities for Adults to Receive Financial Education in Conjunction with Homeownership, Opening a Bank Account, or Saving For Retirement.
- Support Legislation Requiring States to Provide Financial Education to TANF Recipients.
- Support Public Awareness Campaigns that Create Demand for Financial Education.
- Create Incentives for Employers to Provide Financial Education in the Workplace.
- Ensure Access to Financial Planning Services.
- Expand Evaluation of Financial Education Activities.

9. Revise Asset Limit Rules in Public Assistance Programs

- Eliminate Asset Limits from Eligibility Considerations.
- Reform Existing Asset Limits.
- Reform Asset Limits in the Supplement Social Security (SSI) and Medicare Programs.

10. Expand Access to College and Post-Secondary Education

- Expand Need-Based Grant Aid.
- Increase Funding for College Readiness Programs.
- Ensure Student Aid can be Adapted to the Needs of Nontraditional Students.

11. Expand Responsible Homeownership Opportunities

- Reform the Homeowner's Mortgage Interest Deduction.
- Enact a Refundable First-Time Homebuyers' Tax Credit.
- Increase Use of the Family Self-Sufficiency Program.
- Expand Viability of Homeownership Uses from Restricted Accounts.

12. Support Microenterprise Development

- Provide New and Informal Businesses with Better Information about Self-Employed Tax Options.
- Create an Alternative Source of Funding for Small Business and Incentives for Saving.
- Remove the Obstacles Preventing Low-Income People from Pursuing Self-Employment.
- Help the Small Business Administration (SBA) Better Serve Very-Small Businesses.
- Maintain Programs that Currently Assist Microentrepreneurs.

13. Strengthen Laws To Protect Assets

- Increase the Oversight of Homebuying and Refinancing, Especially in the Sub-Prime Market.
- Reduce the Cost of Tax Preparation and Restrict the Marketing of Refund Anticipation Loans.
- Promote Strategies to Avoid Foreclosure.
- Increase Scrutiny of Payday Loans.
- Prevent Credit Card Abuses.

Ownership of Assets

To understand the inherent challenge in creating an inclusive ownership society, it is useful to consider what ownership in America looks like today. Recent data from the Federal Reserve's Survey of Consumer Finances estimates that the median family net worth in 2004 was $93,100, and the mean value was $448,200.[3] Between 2001 and 2004, the median family net worth rose 1.5 percent, while the mean value grew 6.3 percent, indicating larger increases in net worth for higher-wealth households.[4] Over an extended period of time, there has been a faster increase in average wealth relative to median wealth, indicating that those at the top of the wealth distribution have increased their share. This is reflected in the ratio of median-to-average wealth, which sunk to 0.18 in 2004, down from 0.27 in 1962.[5]

The average wealth of the top 1% of wealth holders grew from $13.5 million in 2001 to $14.8 million in 2004, a 3 percent annual increase.[6] During this same period, the average wealth for households between the 40 percent and 60 percent of wealth holders increased by 0.8 percent annually, from $80,000 to $81,900.[7] Meanwhile, the bottom fifth of U.S. households sunk further into debt; the average debt of this cohort increased to $11,400 in 2004.[8]

Mean Wealth Holdings by Wealth Class*	
Wealth Class	2004
Top Fifth	$1,822.60
Bottom Four-Fifths	$82.50
Fourth	243.6
Middle	81.9
Second	14.4
Lowest	-11.4
Median	$77.90
Average	$430.50

*in thousands of dollars
Source: Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), pp. 253.

Aided by policy incentives, Americans build wealth in both financial and non-financial assets. Between 2001 and 2004, financial assets as a share of total assets fell 6.3 percentage points, to 35.7 percent. This is the lowest share recorded by the survey since 1995.

Of the non-financial assets, the primary residence continues to account for the largest share. The median value of the home was estimated to be $246,800 in 2004 for those families that were homeowners; a figure that had increased from 2001 by well over 20 percent[9] This demonstrates that home equity continues to play a central role in asset holdings, and for lower-income and minority families that are homeowners, homeownership makes up a large share of their asset holdings. While their homeownership rates are lower, home equity makes up 77 percent of total assets for lower-income families and 55 percent of total assets for minority families.[10]

However, this past year the state of the U.S. housing market began turning away from its recent record setting pace. The homeownership rate ended 2006 at 68.8 percent, down from its historic high of 69.0 percent, set in 2004. The minority homeownership rate, which historically has lagged the overall population, remains just under 50 percent, although the Hispanic homeownership has increased steadily over the past few years—2005 marked the first time that Hispanics were more likely to own their own homes than Blacks.[11] Increased volatility in housing markets in the past year is expected to lower these rates in the year to come and may undermine the asset holding of many families.

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3 Bucks, Kennickell, and Moore (2006).
4 Bucks, Kennickell, and Moore (2006).
5 Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 251.
6 Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
7 Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
8 Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), page 253.
9 Bucks, Kennickell, and Moore (2006).
10 Di (2003).
11 U.S. Department of Housing and Urban Development (2007).

Unfortunately, many families have spent down the home equity they have accumulated in recent years by taking out heavily marketed low-interest home equity loans. The sharp increase in household debt held in home equity loans since 2000 presents a potentially troubling scenario if the housing market slowdown of late 2006 continues to cool, and home prices begin to stagnate or fall in 2007. Data from HUD's U.S. Housing Market Conditions report reveal that over the last year mortgage interest rates have increased, along with mortgage delinquencies and foreclosures; home sales are down; and the recent increases in home prices have slowed dramatically.[12]

While home equity represents the single largest component of household wealth, families store resources in a variety of other assets, such as bank accounts, stock investments, and retirement accounts. The percentage of families holding assets varies considerably. It is estimated that in 2004 over 91 percent of families had money stored in checking or savings accounts, while only 20.7 percent owned stock directly in a company. Furthermore, 15 percent owned shares of a mutual fund, 17.6 percent owned savings bonds, and 24.2 percent had assets held in a life insurance policy. Meanwhile, slightly less than half of all families (49.7 percent) had a personal retirement account, such as an IRA or a 401(k).[13] This figure represents a decline from three years earlier when the percentage of families owning a retirement account exceeded 52 percent.

The percentage of families holding assets is strongly correlated with their incomes. Compared to those households in the top 10 percent of income, households in the bottom forty percent of income were far less likely to own stock, retirement accounts, and transaction accounts. The differences in retirement asset holdings are especially revealing. The percentage of families owning a retirement plan drops to 10.1 percent for families making $18,900 or less, while well over 70 percent of those making more than $53,600 have a retirement savings account. In 2004, 27.2 percent of households headed by someone aged 47 to 64 did not have enough retirement savings, including social security benefits, to replace half their current income.[14] For Black and Hispanic households, this figure jumps to 39 percent.

Percentage of Families Holding Assets by Asset Type, 2004

Income Percentile	Stocks	Mutual Funds	Savings Bonds	Retirement Accounts	Bank Accounts	Life Insurance
Less than 20 percent	5.1%	3.6%	6.2%%	10.1%	75.5%	14.0%
20 percent-39.9 percent	8.2%	7.6%	8.8%	30.0%	87.3%	19.2%
40 percent-59.9 percent	16.3%	12.7%	15.4%	53.4%	95.9%	24.2%
60 percent-79.9 percent	28.2%	18.6%	26.6%	69.7%	98.4%	29.8%
80 percent-89.9 percent	35.8%	26.2%	32.3%	81.9%	99.1%	29.5%
90 percent-100 percent	55.0%	39.1%	29.9%	88.5%	100.0%	38.1%
All Families	**20.7%**	**15.0%**	**17.6%**	**49.7%**	**91.3%**	**24.2%**

Source: Bucks, Kennickell, and Moore (2006).

Beyond differences in the type of assets households own, there are also differences in how much they own. The mean net worth is over $448,000 but the top 20 percent of families by income own over 80 percent of the nation's wealth.[15] Families in the bottom 40 percent by income own approximately 5 percent of the nation's wealth. Another dimension with which to examine wealth holdings is race. In

[12] U.S. Housing Market Conditions, 4th Quarter 2006 (2007).
[13] Bucks, Kennickell, and Moore (2006). Includes only all employment-based defined contribution plans plus IRAs and Keogh plans, but not defined benefit plans.
[14] Mishel, Bernstein, and Allegretto (2006), page 268.
[15] Bucks, Kennickell, and Moore (2006).

general, minority households own less than ten cents for every dollar of wealth owned by a typical non-Hispanic White family.[16] Even though their income is roughly two-thirds of that of White families, their wealth is only 10 percent as much.

Shares of Wealth Ownership by Wealth Class, 1962-2004						
Wealth Class	1962	1983	1989	1998	2001	2004
Top Fifth	81%	81.3%	83.5%	83.4%	84.4%	84.7%
Bottom Four-Fifths	19.1	18.7	16.5	16.6	15.6	15.3
Fourth	13.4	12.6	12.3	11.9	11.3	11.3
Middle	5.4	5.2	4.8	4.5	3.9	3.8
Second	1	1.2	0.8	0.8	0.7	0.7
Lowest	-0.7	-0.3	-1.5	-0.6	-0.4	-0.5
Total	100	100	100	100	100	100

Source: Analysis by Ed Wolff in Mishel, Bernstein, and Allegretto (2006), pp. 252.

The promise of an ownership society will dissipate if it is used only to further concentrate the wealth of those already financially secure. The challenge remains to significantly broaden access to asset ownership by those who own little or nothing. The current proposals in the administration's 2008 budget that focus on Social Security, health savings, and retirement accounts fail to get us all the way there.[17] The following ideas represent a set of proposals that would.

[16] Wolff (2004); Kochar (2004).

[17] For an analysis of the President's 2008 budget proposals, see *The Assets Report 2007: A Review, Assessment, and Forecast of Federal Assets Policy*, available at AssetBuilding.org.

1. ESTABLISH CHILDREN'S SAVINGS ACCOUNTS

One of the most novel and promising ways to achieve a universal, progressive asset building system over time would be to provide each generation of children a restricted, start-in-life asset account at birth, an idea first proposed by Michael Sherraden and, separately, by former IRS Commissioner Fred Goldberg.[18] These accounts would establish a universal platform and infrastructure to facilitate future savings and lifelong asset accumulation. While every child would have an account, it would especially benefit the 26 percent of White children, 52 percent of Black children, and 54 percent of Hispanic children who start life in households without any significant asset holdings.[19]

Different versions of children's savings accounts have been proposed over the last several years by members of Congress; most, however, are not progressive and are focused on building only retirement assets (most notably former Sen. Bob Kerrey's "KidSave" proposal). However, in the last couple of years, proposals have emerged from both Democrats and Republicans for progressively funded children's savings accounts that could be used for buying a home and going to college, in addition to retirement. Outside the U.S., the U.K.'s Child Trust Fund is providing every newborn with a children's savings account and has already established well over 2 million accounts, and there are comparable programs emerging in Korea, Singapore, and Canada. Additionally, the privately-funded SEED Initiative is operating in 12 sites across the U.S., and is providing highly valuable insights into policy design.

Below are existing congressional proposals to establish Children's Savings Accounts, including three that were introduced in the 109th Congress (2005-2006); similar bills have been or are expected to be introduced in 2007.

The America Savings for Personal Investment, Retirement, and Education (ASPIRE) Act
Sponsored by a strong bi-partisan coalition of legislators in both the House and the Senate, the ASPIRE Act was originally introduced in July 2004 and reintroduced in April 2005 by senators Rick Santorum (R-PA), Jon Corzine (D-NJ), Charles Schumer (D-NY), and Jim DeMint (R-SC) and in the House by representatives Harold Ford, Jr. (D-TN), Patrick Kennedy (D-RI), and Phil English (R-PA). The ASPIRE Act would provide every child with an account at birth—called a KIDS Account—that would be endowed with $500 and supported with progressive, targeted savings incentives until age 18, at which point it could be used for going to college, buying a home, or building up a nest-egg for retirement.[20] Specifically, children from households earning below the national median income receive a one-time, supplemental deposit up to $500 and would be eligible to receive an additional $500 match for voluntary savings deposited each year. Voluntary contributions to the account would be tax-free and could not exceed $1,000 per year. Access to account funds would be restricted until the accountholder reaches the age of 18, and parents or legal guardians would control investment decisions until that time. To ensure that families make good decisions regarding the account, financial education would be offered to kids and their parents.

Young Saver's Accounts
Sen. Max Baucus has proposed a separate saving vehicle for children known as Young Savers Accounts (YSAs), which are essentially "Roth IRAs for kids." YSAs would allow parents, for the first time, to direct contributions to tax-advantaged savings accounts for their children, not just for themselves. YSAs were introduced in March 2006 as part of the *Savings Competitiveness Act,* and a similar provision was introduced in July 2005 in the House by Rep. Connie Mack as part of the *Lifetime Prosperity Act.* Presently, there are no age restrictions on who can own a Roth, but children must have earned income in

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[18] Sherraden (1991).
[19] Shapiro (2004).
[20] Cramer (2006).

order to contribute. As a result, very few kids open Roths, leaving the overwhelming majority of kids with no tax-benefited, restricted way of saving for a first-home, college, or retirement (YSAs, like existing Roths, would permit penalty-free withdrawals for college and first-home purchase, in addition to retirement). YSAs would be a distinct financial product but would use the parents' earned income to determine allowable contributions levels. This would allow contributions from kids, parents, grandparents, and others. It would also be clarified that: (1) contributions to the child's YSA will apply toward the parent's annual limit (now $4,000 for those 49 and under, rising to $5,000 in 2008); (2) contributions to YSAs from low-income families would qualify for the Savers Credit, a federal matching program for low-income savers; and (3) savings in YSAs would be disregarded in determining eligibility for means-tested programs**.**

PLUS Accounts
As proposed by Senator Jeff Sessions (R-AL), U.S. citizens born after December 31, 2007 would have a PLUS Account opened for them automatically by the federal government. These accounts would be endowed with a one-time $1,000 contribution. Beginning January 1, 2009 individual PLUS accounts would be established for all working U.S. citizens under the age of 65, with a mandatory 1 percent of each worker's paycheck withheld pre-tax and automatically deposited into their account (workers could voluntarily contribute up to 10 percent). Employers would also be required to contribute at least 1 percent (and up to 10 percent) of earnings. No withdrawals from PLUS accounts could be made until the accountholder reaches the age of 65, although there would be a loan program for pre-retirement uses.

Baby Bonds
In a July 2006 speech before the Democratic Leadership Council, Sen. Hillary Rodham Clinton (D-NY) called for $500 "Baby Bonds" to be established for every child at birth and at age 10.[21] Funds could be used for college or vocational training, buying a first home, and retirement savings. Families earning below $75,000 a year would have the option of directing their existing child tax credits into the accounts tax-free. Senator Clinton reiterated her commitment to pursuing a "Baby Bonds" proposal in her keynote address at the New America Foundation's "10 Big Ideas" event in January 2007.

401Kids
401Kids, introduced in the 110th Congress as H.R. 87 by Representative Biggert (R-IL)., would convert Coverdell Education Savings Accounts into "401Kids Savings Accounts," which would have expanded uses and the ability to 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 of after-tax contributions permitted a year. The funds could be used for the K-12 and post-secondary education expenses currently allowed under Coverdell Education Savings Account rules, but would also expand qualified uses to include a first-time home purchase, or for retirement. The bill was originally introduced in 2006 as HR 5314 by Rep. Clay Shaw Jr. (R-FL) and other House Republicans.

Lifelong Learning Accounts
In January 2007, as part of the U.S. Conference of Mayors working group on anti-poverty policy, Los Angeles Mayor Villaraigosa proposed making investment in lifelong learning and skills development one of the centerpieces of a national anti-poverty agenda. He has proposed creating a savings account for every child at birth. Access to account resources would be restricted until after high school graduation. Once 18, account-holders could use their savings to pay post-secondary education and career-directed workforce training.

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[21] Remarks of Senator Hillary Rodham Clinton to the Democratic Leadership Council, July 24, 2006. http://clinton.senate.gov/news/statements/details.cfm?id=259561.

Savings Bonds as a Tool to Save for Children

A recent pilot project by D2D Fund and five community partners revealed a strong awareness of and demand for U.S. Savings Bonds among low-income tax filers. Notably, roughly *four-fifths* of bonds purchased included co-owners, generally children or grandchildren. Parents and grandparents of low-income children may be willing to begin saving for their offspring with a product that already exists, has very low minimums and no restrictions based on prior credit histories. Promoting savings bonds to low-income families could be the most immediate way to begin opening large numbers of children's savings accounts.

529 College Savings Plans as a Platform for Children's Savings

529 College Savings Plans are designed to help children and their families save for a significant asset, a post-secondary education. Therefore, as the Center for Social Development suggests, this structure could form a basis for both a universal children's savings account policy, as well as be revised to allow for other asset building purposes. 529 plan features such as the ability to subsidize the cost of small accounts with larger ones, centralized accounting, a menu of investment options, and the state's role in providing outreach and incentives for participation, could serve as the "plumbing" behind a system which provides an account a birth for every child. Building on this concept, CSD and the state of Oklahoma are beginning a program—SEED for Oklahoma Kids—that will deposit $1,000 into the 529 accounts of 1,000 newborns and compare the outcomes to 1,000 newborns who did not receive any deposits

2. CREATE SAVINGS AND ASSET ACCUMULATION INCENTIVES FOR THE WORKING POOR

Recent research exploring the impact of savings incentives for lower-income families has yielded useful policy insights. Four key lessons are worth highlighting. First, savings is not just a function of income or preferences, as neoclassic economists have argued. Second, the poor have multiple savings needs which extend beyond long-term asset accumulation. At a minimum, policy should support savings for short-term, emergency needs; savings for durable goods, like automobiles and washing machines; and savings for long-term asset accumulation. Third, small changes to existing systems and products can produce larger results. That is, new financial products, new tax credits, and new delivery systems do not need to be, and generally should not be, created to achieve our goals. Small changes, for example, to Roth IRAs or the EITC can leverage billions of dollars of new savings. And fourth, while it is critical to develop the right financial products, savings in this country is facilitated by access to savings plans (such as 401(k) plans, the Thrift Savings Plan, and 529 College Savings Plans). These plans embody the key "institutional determinants" that make savings happen when it would not occur otherwise.

Enact an "EITC Savers Bonus" Linked to Existing Tax Credits

Anyone eligible for the EITC would be eligible for a larger refund if they deposited a portion of their refund into an existing savings product, such as an IRA or 529 College Savings Plan. The savings would be matched on a 1-1 basis, up to $500, for the amount contributed. The match would be delivered as a higher EITC refund—an "EITC Savers Bonus"—and would be deposited directly into the savings product. This may be more politically acceptable than creating a new refundable tax credit, and would ensure that the government match is saved directly into the account. Alternatively, taxpayers could report contributions they have made to their savings accounts during the year—including contributions to company-sponsored defined contribution plans, IRAs, 529 plans, or U.S. Savings Bonds—on their tax returns and this could trigger a higher EITC amount. The larger refund could then be received by the taxpayer or, ideally, it would be re-directed to the specified savings product. The cost of this proposal would depend on the size of the bonus and the number of people eligible. Eligibility could be linked to the EITC or the Child Tax Credit.

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 (IRAs, 401(k)s, etc). The 2006 Pension Protection Act followed through on the administration's proposal to make the Saver's Credit permanent and also indexed the contribution limits to inflation. However, the credit remains flawed in several important ways. It is not refundable, and it offers only a modest matching contribution. Consequently, it benefits only a small proportion of those technically eligible. For example, only about 20 percent of filers get any benefit, while only one in one-thousand persons receive the full benefit. Mark Iwry of the Brookings Institution, who helped design the Saver's Credit, suggests three ways to improve the credit: (1) make it refundable; (2) expand eligibility— instead of a 50 percent credit that phases down to 20 percent for joint filers with AGI over $30,000, the 50 percent Saver's Credit should be expanded to cover joint filers with significantly higher incomes within the middle-income range, for example, up to $60,000, phasing out at about $70,000 to $75,000; (3) smooth the phase-down of the credit to resemble IRA income eligibility, instead of the "cliffs" now in effect. These would offer a meaningful retirement incentive for families currently left out.

Expand the List of Products Eligible for the Saver's Credit

If the goal is to promote savings for low-income workers in general, and not just retirement savings, a range of existing savings products—529s, Coverdells, Health Savings Accounts, U.S. Savings Bonds and Individual Development Accounts—could be added to the list of products that would trigger the Saver's Credit. One could certainly argue that one's health and pre-retirement assets—especially a first home and post-secondary education—are critical elements of retirement security. It also should be noted that IRAs already permit penalty-free withdrawals for buying a first home and post-secondary education. And among low-income savers, data presented in this paper (page 4) shows U.S. Savings Bonds—which are long-term in nature and must be held for at least five years to avoid a penalty at redemption—are a more likely choice for saving than stocks or mutual funds. This change, however, would represent a significant philosophical shift in the purpose of the credit. The president proposed to make contributions to section 529 college savings plans eligible for the Saver's Credit in the FY 2008 budget.

Improve Asset Accumulation Opportunities for TANF Recipients

Many states have incorporated Individual Development Accounts (IDAs) into their TANF programs to help families save and participate in financial education. Presently, the Personal Responsibility and Work Opportunity Act of 1996 specifies that TANF funding can be used for IDAs. Families can save for a post-secondary education, a home, or a small businesses, and these savings must come from earned income. The federal government could allow states the flexibility to determine the purposes for which IDAs can be used and have states outline these uses in their TANF state plans. In addition, the requirement that savings come from earned income could be amended to accommodate the needs of recipients who may rely on unearned sources of income, such as Native Americans and people with disabilities.

Congress could also establish a *Savings and Ownership Fund* to encourage states to incorporate asset building strategies in TANF state plans. Currently, performance bonuses are awarded to states that lead the way in terms of caseload reduction, job placement, and other measures. States could explore options such as offering recipients children's savings accounts, U.S. Savings Bonds (for themselves and/or for their children), 529 College Savings Plans, electronic benefit transfer to a bank account, linking EITC refunds to savings opportunities, and other initiatives. The federal government could award grants from the fund on a competitive basis to help with implementation of these and other innovative ideas.

Expand Individual Development Accounts (IDAs)

Individual Development Accounts are matched savings accounts typically restricted to buying a first home, pursuing post-secondary education and training, and starting a small business. IDAs can be expanded in three ways.

Reauthorize and Improve the Assets for Independence Act. In 1998 Congress authorized this five-year, $125 million IDA demonstration program, which awards grants on a competitive basis to community-based organization to run IDA programs. The program, which now provides the vast majority of funding for IDAs throughout the U.S., should be reauthorized by Congress. The AFI Program is the single largest source of support for IDA programs in the nation, and it is the only program with a significant evaluation component at its core. In the reauthorization process, Congress should relax the requirement that the federal funds must be spent in exactly the same ways as the non-federal funds required that must be raised in order to secure the federal AFIA grant. A significant portion of all State and private sector IDA programs are also receiving funding through the AFI Program.[22]

Restore Funding for the Office of Refugee Resettlement's IDA program. Established in 1999, the Office of Refugee Resettlement administered a separate IDA program designed to assist refugees in building the savings necessary to purchase a significant asset, such as a home. An evaluation in 2006 indicated that by 2004, 81 percent of participants succeeded in reaching their IDA goal. Congress should restore funding to this successful IDA program.

Enact the Savings for Working Families Act (IDA Tax Credit). The proposed Savings for Working Families Act would expand access to individual development accounts and also provide a tax incentive for working families to save. The bill (H.R. 4751 in the 109th Congress) would authorize tax credits to financial institutions that set-up and match (up to $500 per person per year) the IDAs of 900,000 persons over a seven-year period, a proposal that was previously supported by the Bush Administration until this past year. These tax-preferred savings accounts can be used for 1) Qualified higher education expenses, 2) Qualified first-time homebuyer costs, 3) Qualified business capitalization or expansion costs, or 4) Qualified rollovers for retirement.

3. ESTABLISH ACCESSIBLE SAVINGS PRODUCTS WITH DEFAULT FEATURES THAT PROMOTE SAVINGS

In 2005 and 2006 the United States had a negative personal savings rate for the first time since the Great Depression, contributing to a historically low national saving rate. The combination of low personal savings and low net national saving is perilous. If low saving persists over an extended period of time, it will limit the resources available for investment, undermine economic growth and foster economic insecurity. Recent findings from the fields of behavioral economics, social psychology, and institutional savings theory provide valuable insights into the value of savings plans and default policies.

Create an Automatic, Accessible, and Flexible National Savings Plan

Congress could create a national savings plan structure that would be accessible to all current workers. Proposed by Reid Cramer of the New America Foundation, this saving plan, called AutoSave, could be available to facilitate flexible, pre-retirement savings.[23] Under this plan, employers that make payroll deductions will make deposits to the AutoSave system on behalf of their employees; the self-employed would be able to make deposits at their discretion. Employers will facilitate automatic deposits. AutoSave will offer a limited set of low-cost investment options, such as money market funds or index funds, administered by professional money managers. Money deposited in this system belongs to the individuals, and since deposits will be from after-tax dollars, normal tax rules apply. Individuals will have the flexibility to opt-out of the system or withdraw funds at any time. But workers will not have to elect to participate. The AutoSave system will assume you are in unless you state a preference to get out. A default contribution rate can be set at 2 percent of pay. At this rate, someone earning $50,000 a year

[22] See, www.Expectmore.gov.
[23] Cramer (2006).

would have $1,000 diverted directly into savings, which could grow with responsible stewardship. Additional targeted incentives could be applied to encourage longer-term savings, but AutoSave would be designed to take advantage of one of the most tried and true savings techniques—inertia.

Enact, and Possibly Match, "Automatic IRAs"

According to the Brookings Institution, only about one-half of employers offer their employees 401(k) retirement plans. Roughly three-quarters of employees choose to participate, but participation tends to be linked with income. The problem is that currently workers are required to actively choose to participate in a company 401(k), or "opt-in." Many workers, especially low-income workers, choose not to do so. However, compelling research data has shown that participation in retirement savings plans increases if workers are automatically enrolled rather than compelled to sign up. In one study by Madrian and Shea, this "opt-out" approach was found to increase participation from 36 percent to 86 percent when employed at a Fortune 500 company, and the increase was higher for lower-income workers. As provided in the Pension Protection Act—signed into law in 2006—employers are now able to implement an "opt-out" enrollment policy. More work must be done to make employers aware of this option and to provide incentives for switching to the "opt-out" enrollment structure.

"Automatic IRAs," developed by the Brookings Institution and Heritage Foundation and supported by AARP, is aimed at the 71 million workers employed by small businesses that do not offer a pension plan to their workers. Firms not offering 401(k)s, 403(b)s, and the like could instead offer automatic payroll deductions into IRAs. Employers would inform employees of this savings option and would have the choice to either obtain from each employee a decision to participate or not, or automatically enroll employees (and then allow the employee to opt-out). While low-income workers would likely be reached through this proposal, there are no matching funds involved. Under the Auto IRA proposal, introduced in the 109th Congress as HR 6210, firms that do set-up Auto-IRAs would qualify for a one-time, small tax credit to offset their administrative costs; one could propose that this tax credit could be expanded to cover matching funds provided to lower-income employees.

Make Retirement Savings Plans Universal and Accessible

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 that employer-provided 401(k)s now offer their employees. The components of a citizen-based, Universal 401(k) include: (1) $2-to-$1 government matching contributions for initial savings of low-income families and $1-to-$1 matches for middle-income families; (2) a new flat refundable tax credit of 30 percent for savings done 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 into Universal 401(k)s, automatic payroll deductions would be offered by employers. For very low-income workers who might initially have very small account balances, or who are otherwise unable to navigate the process of setting up and managing a private account, a "clearinghouse" (modeled after the federal TSP) could be set up and empowered to create "default" accounts for such workers.

Enact a "Retirement Investment Account (RIA) Plan"

The similar RIA Plan, developed by the Conversation on Coverage, would create a government-authorized, privately-run central clearinghouse to accept worker contributions to retirement savings accounts. The plan is aimed at providing more individual workers who do not now have a plan with access to an automatic payroll-deduction retirement savings plan through their workplace; additional contributions could also be made, possibly directly through a tax return. Employers who do not now offer plans can provide access to their workers for this plan without significant new burdens, since they will not have to administer the plan or take fiduciary responsibility for the investment choices of their employees. Employers could make contributions and matches of employee contributions to the RIA. This plan could also be designed in ways that progressive government contributions and matches of employee contributions could be made.

Improve the Administration's Retirement Savings Account (RSA) and Lifetime Savings Account (LSA) Proposals

The administration's 2008 budget proposes creating a new set of tax-preferred retirement savings accounts, including Retirement Savings Accounts (RSAs) and Lifetime Savings Accounts (LSAs). While RSAs are, of course, restricted to retirement savings, LSAs are designed to encourage savings for any purpose, and thus deserve some support. Contributions to LSAs and RSAs, which would be after-tax, would be capped at $2,000 and $5,000 respectively per year, but earnings and withdrawals would be tax free. LSAs and RSAs would be open to everyone regardless of income or age. In their current form, they would offer higher-income households tax sheltering opportunities, while offering no savings incentives to lower-income households. These proposals could be improved by placing an income limit on eligibility and providing matching deposits for lower-income families, delivered through existing refundable tax credits or tax credits to financial institutions that offer LSAs and RSAs.

4. CONNECT TAX REFUNDS TO SAVINGS PRODUCTS

Families will save more if the process of saving is made easy and accessible. One way to do this is to offer a mechanism that supports savings in a near universal activity – the process of filing taxes. This tax season the IRS will send out tax refunds totaling over $230 billion, with an average amount of well over $2,000 for those families that receive one. These cash infusions are often the best chance people have to save in any given year. This is particularly true for lower-income families. Over 20 million lower-income families—one in six taxpayers— received an average $1,700 boost to their refund from the Earned Income Tax Credit (EITC), a refundable tax credit designed to reward work. The Child Credit is another vital source of tax refunds. Recent research finds that many Americans—including lower income ones—can and will save their refunds if offered appropriate incentives and a clear way to do so. The challenge for policymakers is to facilitate and incentivize the savings of tax refunds into existing—and possibly new—savings products.

Promote the Split Refund Option

For the first time in 2007, individuals have the opportunity to split their tax refund across three accounts right when they file, using form 8888. Tax time presents a unique opportunity for all families, especially low-income households, to grow their personal savings account or invest in savings vehicles such as an IRA or 529 College Savings Plans. Splitting refunds across multiple accounts is a new and exciting opportunity to save at tax time. The IRS should work to educate both individual filers and tax preparers on the split refunds option, encourage tax-payers to take advantage of this simple savings mechanism and encourage the financial services industry to make certain products – 529 plans and IRAs, especially – more easily funded through direct deposit.

Allow Tax Filers to Open Accounts Directly from their Tax Forms

Building on the opportunities presented by split refunds to use tax refunds to jump-start both a relationship with a financial institution and savings, tax filers should be able to open a transaction, saving, or investment (including IRA) account directly on their tax forms. Especially for low income families who receive refunds and may not have an account—and a savings or investment account in particular—with a financial institution, being able to open such an account directly on a tax form could make a major difference in the savings take-up rate. The IRS could achieve this goal in several ways. For instance, the IRS could solicit proposals for private financial institutions to provide low-cost quality accounts nationwide. Or, the IRS could create and maintain a web-based directory of financial institutions that open low-or no-cost accounts online for tax filers. The directory's URL address would be printed on all tax forms and it would be searchable by zip code.

Set Goals and Performance Measures for the IRS to Promote Savings

The Treasury and IRS should develop performance measures and track progress toward goals to: (a) increase tax returns that are sent by direct deposit to tax filers' bank accounts; and (b) increase the percentage of tax filers that deposit into IRAs as part of the tax filing process. While the IRS has a set of performance goals to help gauge their success in providing taxpayers' assistance and education, they do not have one regarding electronic payments. Therefore, an electronic payments performance target should be adopted.

The first performance measure would be driven by a goal that a certain percentage, for example, 80 percent, of all filers will receive their refunds by direct deposit. Sending refunds electronically would not only decrease costs for the IRS but would spur more filers to open bank accounts, a prerequisite for the direct deposit of refunds. Refunds sent to the temporary accounts set up for Refund Anticipation Loans would not count towards this goal. The second performance measure would be driven by a goal that a certain percentage, for example 30 percent, of tax filers open or deposit a portion of their refunds into IRAs in connection with the tax filing process. Finally, the IRS should also set a deadline that it will achieve these goals by some future date, for example, by 2009, to enable the agency to work with financial institutions

Expand the Earned Income Tax Credit (EITC)

An expansion of the EITC, in addition to enabling more low-income Americans to save, would provide tax relief to lower-income working families. Previous expansions of the EITC have proven to be effective at providing work incentives and lifting families out of poverty. A well-crafted expansion would increase the maximum credit for working families with three or more children, expand the credit for married, two-earner couples, and expand the credit for families with two or more children. An expanded EITC program will create larger tax refunds, which in turn can be linked to savings products. An EITC saver's bonus, described above, would also serve to expand the reach of the EITC while at the same time promoting saving and investment.

Increase Funds to Low-Income Tax Preparation Sites to Support Financial Education and Counseling

Congress should increase federal funding by $50 million to support the expansion of important IRS initiatives aimed at low-income families, such as outreach regarding the EITC and the Child Credit. The receipt of tax returns presents an opportunity for low-income families to connect to financial services and products and learn about investments and savings. Linking tax preparation with savings and/or investment tools, such as 529 college saving plans, would increase asset-building knowledge. To meet these goals, tax preparers need resources to (1) hire and train counselors and (2) develop software to maintain client information. Policy-makers must more adequately fund and support the development of tax preparation sites and education efforts to identify families who qualify for such assistance and maximize potential income tax return benefits. In line with these goals, in March 2007 Sen. Jeff Bingaman (D-NM) requested $10 million in appropriations for community-based Volunteer Income Tax Assistance Centers for Fiscal Year 2008.

5. MAKE 529 COLLEGE SAVINGS PLANS MORE INCLUSIVE

Qualified Tuition Plans, commonly called 529 College Savings Plans, after the applicable section of the federal tax code, were implemented in their present form in 2001. These state-sponsored plans help families save for their children's college education, or an adult may open account to use for their own post-secondary expenses. While the structure of most state-run 529 plans offers a useful savings platform, the federal tax incentives associated with these accounts primarily restrict benefits to middle-and upper-income families. The 529 platform needs reform in order to entice more people to plan for their future and ensure that their children are able to get on the path of wealth building, a path that often begins with education.

Facilitate Better Disclosure and Comparison of 529 Plans

Because they are created by state governments, 529 plan investments are not subject to federal security laws such as those covering most mutual funds. In addition, research shows that individuals saving in broker-sold plans were frequently doing so in out-of-state plans, even if they would potentially benefit more from saving in their in-state plans because of state tax incentives. This raises the question of whether brokers recommend plans that benefit themselves rather than seeking the best plan for their client. At a minimum, brokers should be required to inform clients about any benefits that exist from utilizing their own state's 529 plan. In addition, the federal government should support efforts to allow the easy comparison of all plans in a particular state and among states. Websites, such as savingforcollege.com, provide a simple comparison of 529 plans which could be promoted or serve as a model. Finally, states should be encouraged to market their direct-sold plans to their residents, which are usually a less expensive alternative to the broker-sold options.

Collect Better Data on Who Saves and Benefits from 529 Plans

Because data is generally not collected about 529 plan accountholders' socioeconomic details, we do not know how plan ownership varies by income and which segments of the population benefit from these tax incentive the most. If this data were collected, it could help shape improvements to 529 plan policies in the future, helping to ensure that tax breaks and other incentives are serving their intended purpose. Useful data about the saving habits of low-income families in 529 plans could be gained from those states offering matching grants, since an application disclosing income must be provided.

Create a State Innovation Fund

A variety of state and private sector actors have enacted innovative programs within their 529 plans to primarily help low-income children pay for college. For example, a few non-profit organizations have offered matches to families saving for college through parallel 529 scholarship accounts. In SEED for Oklahoma Kids, 1,000 newborns will receive a 529 plan with a starter deposit of $1,000. Financial information and matching deposits will be provided as incentives for families to continue to save for a post-secondary education. Coalitions are being formed in states such as Kentucky and Michigan to look into the possibilities of universal 529s for every child in the state with progressive savings incentives incorporated to help low-income families. The federal government could encourage these types of innovative activities by sponsoring a competitive grant process where states could receive awards to help seed these initiatives

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

The Saver's Credit currently provides a 50 percent match—in the form of a non-refundable tax credit—to low-and moderate-income people who contribute to a retirement account such as a 401(k) or IRA. To further promote savings in general, a range of savings products, including 529s, could be added to the list of products that trigger this credit; the administration proposed such a change as part of the FY 2008 Budget. Certainly one could argue that pre-retirement assets—especially a post-secondary education—is a critical element of retirement security, and it should be noted that all IRAs already permit tax-and penalty-free withdrawals for post-secondary education.

Support Matching Grants to Low-Income Savers

Currently 529 plans are largely underutilized by low and middle-income families. A number of states have dedicated funds to match savings in 529 plans as an additional incentive for low-income families. These incentives appear to be successful in encouraging families to contribute to 529 plans. Seven states—Colorado, Louisiana, Maine, Michigan, Minnesota, Rhode Island, and Utah—already provide matching funds to low-income savers, and Arkansas will begin providing targeted matches in 2008.

6. FOSTER ACCESS TO WEALTH BUILDING FINANCIAL SERVICES

Behavioral economics teaches that the choices people are given and the framework for those choices can make a huge difference in decisions people make about important issues, ranging from whether and how to save for retirement to whether to become an organ donor. In addition, people are more likely to actually choose among alternatives when the alternatives are limited; when presented with too many choices, people simply freeze or choose on an irrelevant basis, like which item is presented first. Yet the financial services world has exploded with choices, many with framings—"low monthly payment"—that do not fully convey the impact of the choice. In 2006, Congress encouraged retirement savings by removing barriers to employers' defaulting their employees into 401(k) accounts, rather than making an employee sign up to start saving. Broader application of asset-building defaults and model products (such as a starter savings account with free money orders, and ATM access with no overdraft) would enhance the economic well-being of consumers at many income levels.

Somewhere between 10 and 20 million American families are "unbanked" meaning they do not own a basic checking or savings account. Many others are "under-banked"; they have a bank account but are not fully integrated into the financial mainstream. These families pay more for basic financial services, often lack a safe place to save, and generally lack access to credit at favorable prices and terms. The following recommendations aim to increase access by lower-income families to the provision of financial services.

Fix the Electronic Transfer Account (ETA) and Expand Its Availability

Currently, the ETA is available only to those Americans who receive a recurring federal payment, like Social Security. Approximately 2 percent of federal benefits recipients have opened an ETA. Yet it is estimated that at least 4.5 million federal benefit recipients still do not have bank accounts. The take-up rate is low because the ETA is not attractive to either consumers or banks. For consumers, the account lacks functionality. For banks, there is an insufficient volume of small accounts. The Treasury Department should give banks greater flexibility to offer customers a range of options with different fee structures, as long as the bank continues to offer at least one low-cost option that is available to any federal benefit recipient regardless of past banking history. The need for a basic bank account is high and the ETA continues to represent a potentially useful infrastructure for providing access to financial services—particularly if account eligibility guidelines are expanded and banks are given greater flexibility to better tailor the product to meet consumers' needs. Further, the ETA should be made available to a broader segment of unbanked consumers, especially those who receive tax refunds.

Strengthen the Community Reinvestment Act and Improve the Service Test

The Community Reinvestment Act (CRA) has been successful in encouraging banks and thrifts to provide credit and make investments in communities in which they have branches. It has been less successful in ensuring that CRA-regulated institutions are actually serving the transactional, savings and investment needs of residents of low-income communities, and in encouraging those institutions, and their credit-providing affiliates, to provide products with appropriately risk-based prices and terms in all communities in which they do business. To score well on the service tests, banks and thrifts should be required to demonstrate that they not only provide, but also effectively market, fairly priced products and services that meet the needs of lower-income consumers. And it is time to consider how to both encourage banks and thrifts to extend their best lending beyond their assessment areas and to make certain that non-prime lending within the holding company family is well-priced and on fair terms.

Increase Accountability and Responsibility for Financial Institutions

While the Community Reinvestment Act has been quite successful in increasing responsibility and accountability of banks and thrifts to low- and moderate-income communities in which they have branches, the financial services world has changed dramatically since CRA was enacted in 1977, and those subject to CRA have a smaller and smaller portion of the consumer's financial "wallet." Credit unions, mortgage bankers and brokers, insurance companies, securities firms and providers of all sorts of alternative financial services from check cashing through pawn broking all compete for the consumer's financial business. While each industry is subject to, for example, laws relating to unfair trade practices, as well as its own distinct laws and regulations (with highly variable levels of supervision and enforcement), there is no uniform obligation to serve low- and moderate-income consumers and communities and to do it in a manner that is fair to the consumer while profitable, and thus sustainable, to the provider. The on-going debacle in the sub-prime lending industry suggests the need to revisit this situation and open the debate on corporate responsibility in all parts of the U.S. financial services sector.

Capitalize an Innovation Fund for Financial Institutions to Facilitate R&D Focused on Under-Banked Consumers

The Treasury Department should create an Innovation Fund to spur systemic change throughout the financial services industry by providing seed funding for financial services companies to develop products and services for under-banked consumers. These R&D funds would encourage banks—and other financial services firms—to engage in the kind of intensive research and planning that they perform to develop products and services for higher income consumers. The fund would seek to increase the reach of mainstream financial institutions into the under-banked market by encouraging innovation both in how products are structured and in how they are marketed and delivered. Ideally, products would bundle multiple functions, include a savings feature where feasible, use incentives creatively, and be competitively and responsibly priced.

Encourage TANF Recipients to Open Bank Accounts

Having a bank account is often one of the first steps towards building savings and assets. One way to assist TANF recipients—many of whom are "unbanked"—in this regard, while potentially curtailing costs of delivering benefits to recipients, is to have benefits electronically transferred to an account. Federal law does not require or prohibit electronic delivery of TANF cash assistance. Many states distribute TANF cash assistance via electronic benefit transfer (EBT) to a debit or stored-value card with access to funds via ATMs. Some states also offer recipients the option to have cash benefits directly deposited into a bank account.

States that do not have a direct deposit option already in place could be encouraged to do so by offering bonus awards for states that reach a particular direct deposit threshold and by requiring states to specify in their state plans how they will encourage direct deposit of TANF benefits, and partner with financial education programs, free tax counseling programs, and mainstream financial institutions (banks and credit unions) to encourage unbanked recipients to open free or low-cost accounts.

7. REBUILD THE U.S. SAVINGS BOND PROGRAM

Savings Bonds have a long history of financing wars (beginning in 1776 and continuing today through the designation of Series EE bonds as "Patriot Bonds") while, historically, meeting the savings needs of "small investors." Today, Savings Bonds are viewed by Treasury and many policymakers as, primarily, ways to finance government, and *not* primarily as a way to help more Americans save. However, because savings bonds are safe, low-cost, provide market-rate returns, are flexible, may be purchased in small denominations, and do not require clearance through the "ChexSystem" registry or a bank account, they could be appealing to a broad range of Americans, and lower-income Americans in particular.[24] Preliminary results from pilot tests conducted during the 2007 tax season by the non-profit Doorways to Dreams Fund and tax preparer H&R Block suggest awareness levels of – and demand for – savings bonds

[24] For more information on Savings Bonds and their potential to help low-income Americans to save, see *Reinventing Savings Bonds: Policy Changes to Increase Private Savings*, by Peter Tufano and Daniel Schneider, New America Foundation, April 2006.

among low-income individuals may be significant and more pronounced than for competing saving products, such as savings accounts or IRAs.

Put Savings Bonds Back on Tax Returns

When Savings Bonds could be purchased directly on a tax return in the early 1960s, one's entire refund was required to do so. With implementation of Treasury's "split refunds" policy now underway, one could use only a portion of one's refund to purchase a Series I or EE Savings Bond in one of the pre-determined denominations. Bonds could be issued in the primary filer's name or could be bought by the taxpayer for others, such as children and grandchildren. Apart from the internal administrative costs to develop the forms and systems, this proposal would cost the federal government nothing. This promising idea of putting Savings Bonds back on tax returns has been tested during the 2007 tax filing season by a partnership of H&R Block and the Doorways to Dream Fund.

Offer Savings Bonds with Preferred Terms for Lower-Income Persons

To explicitly encourage lower-income Americans to purchase Savings Bonds, a new Series "O" (for "Opportunity Bonds") could be offered to tax filers reporting income below national or regional median income, or who claim the EITC. Series O Bonds could offer a half-percentage point higher interest than comparable I Bonds, or could be purchased at three-quarters face value (rather than full face value, as is currently the case for Series I Bonds). O Bonds purchased for children in low-income families could also offer even better rates or discounts, provided the bonds are held until the child reaches age 18 and are used for higher education, a first home, or held until retirement. By linking the purchase of O Bonds to the tax filing process, eligibility could be verified efficiently using data provided on tax returns and refund recipients would not need cash out-of-pocket to make a purchase.

The Doorways to Dreams Fund is exploring the mechanics of this proposal, which would entail creating a new Savings Bond series linked to tax refunds and income limits. Like all savings bonds, the interest would not be taxable until the bond was cashed in. These bonds, however, could be rolled over, tax free, into either a 529 College Savings Plan or Roth IRA.

Offer Tax Credits to Expand the Payroll Savings Plan to Promote Savings Bonds

Tax credits could be offered to employers and/or financial institutions that offer Savings Bonds to lower-income persons. Presently, through the Payroll Savings Plan, Savings Bonds can be purchased through some 40,000 employers (although, in practice, it may be substantially fewer than that). Under this proposal, tax credits could be offered to employers that enroll their lower-income employees in the Payroll Savings Plan. A modest tax credit could be offered to offset the costs of reaching out to lower-income employees, or a more ambitious credit could be offered if the employer covers some of the cost of purchasing the bond. Similar tax incentives could be offered to financial institutions which, of course, already offer and redeem Savings Bonds for the general population.

Encourage Low-Income Persons to Redeem Their Savings Bonds at Providers of Homes, Higher Education, and Retirement Products

Presently, Series I and EE Savings Bonds issued after 1990 may be redeemed tax-free if used for post-secondary education (hence the designation of these bonds as "Education Bonds"). This provision, however, is of limited value to lower-income Americans who generally pay little or no income tax. If longer-term asset accumulation by lower-income Americans is a goal, the federal government could offer incentives for redemption for certain purposes, instead of incentives for purchasing them. Rather than redeem a Savings Bond at a bank, for example, a low-income bondholder would receive a $1,000-$5,000 bonus if redeemed at a participating asset provider (post-secondary institutions, mortgage providers, or financial institutions that offer IRAs), and this bonus would be offset fully or partially by the federal government through a tax credit or direct reimbursement. A change of law would be required to allow Savings Bonds to be assigned to or redeemed by third parties; presently, Savings Bonds are not legally transferable or assignable. Another option is to designate a new class of redemption agents that would include non-profit housing, community development, education, and asset-building organizations. A third option is to authorize the existing bond redemption network (banks, and credit unions) to pay a bonus to bond redeemers that present the appropriate documentation (P&S for a home purchase, tuition bill for education). The bond redeemer is then required to declare on her next tax return if the qualified purchase went through; if not, she would repay the "bonus" on her tax filing. Finally, under current rules, Savings Bond holders can not convert their investments into an IRA or other tax-preferred retirement product without paying taxes. Creating a "rollover" provision for savings bond redemptions would allow investors to convert bond holdings in to retirement savings, a feature that should encourage long-term saving and ensure those who begin saving with bonds can easily maintain their saving momentum once the bonds reach maturity.[25]

Improve Marketing of and Access to Savings Bonds

Renewed public, private, and non-profit marketing of Savings Bonds should increase their appeal. To begin, the federal budget line item for marketing savings bonds should be restored. Also, access points should go beyond banks and the internet-based TreasuryDirect to include the various places where low-income people are likely to shop and use services: check-cashers, grocery stores, Wal-Marts, post-offices, low-income credit unions, CDFIs, tax-preparation services, community development centers, and the like. Financial incentives could be provided to these outlets to promote Savings Bonds to their lower-income customers.

Reduce the Minimum Holding Period

Like all Americans, low-income Americans need savings tools to meet short, medium-and long-term needs. When Treasury, in January 2003, changed the minimum holding period on Series I and EE bonds from six to 12 months, this had the effect of making Saving Bonds less appealing to many lower-income Americans. On the other hand, the longer minimum holding period encourages longer-term saving—another worthy goal. It is not clear which of these options is better. One possible solution might be to continue to use the newer, 12-month minimum rules, but encourage Treasury to allow penalty-free redemptions prior to 12 months in the case of a family emergency. The Department currently allows early redemption only in the case of a natural disaster or other widespread emergency.

8. EXPAND FINANCIAL EDUCATION AND COUNSELING PROGRAMS

All levels of government can and should play a role in ensuring that youth and adults are equipped with enough financial education to make good decisions. This role can complement and enhance the initiatives currently underway in the nonprofit and private sectors. The following recommendations ensure that financial education is taught alongside opportunities to save, is conducted at "teachable moments," and spurs demand for financial education so that people want to engage in learning more about their finances.[26]

Mandate the Completion of a Personal Finance Course for High School Graduation

To ensure that all children become financially literate, states should require that personal finance be integrated into high school core courses and be included as part of standardized testing. In addition, financial education concepts should be integrated into existing material in grades K-8 and made part of

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[25] The Financial Services Roundtable has proposed a new "Series R" Savings Bond that would be specifically restricted to redemption in retirement, or rolled over into an existing retirement product, such as a 401(k) or IRA.

[26] For more information, see *Financial Counseling: A Meaningful Strategy for Building Wealth in the Latino Community*, by Beatriz Ibarra; and *Equipping Families for their Financial Futures: Policy Recommendations to Improve Financial Literacy*, by Leslie Parrish and Lisa Servon.

the Standards of Learning tests mandated by the No Child Left Behind Act. States and local school districts should have the flexibility to draw from a variety of existing resources or craft their own curricula. These courses should then be evaluated for impact to discern which curricula and delivery methods work best. KIDS Accounts, or other universal accounts for savings and investments tailored to children, could be offered as part of this strategy to ensure that the financial education is relevant and can be acted upon by every child.

Create Opportunities for Adults to Receive Financial Education in Conjunction with Homeownership, Opening a Bank Account, or Saving for Retirement

Financial education should also be provided at the point when consumers are making such financial decisions such as selecting a bank account, saving for retirement, or accessing retirement accounts. Whenever possible, when a government program is created to spur savings or asset building, a financial education component should be part of the program.

Many government-sponsored incentives to build assets through homeownership, matched savings accounts, or other means include provisions mandating some sort of financial education or counseling. For example, a proposal for zero-down FHA home loans requires that participants complete a homeownership counseling class. State housing finance authorities, which offer below-market rate mortgage loans to first time homebuyers, often also have this requirement. These safeguards give participants the best chance of success, while giving the government offering the program or subsidy a better chance of a return on their investment.

Support Legislation Requiring States to Provide Financial Education to TANF Recipients

The proposed TANF Financial Education Promotion Act (S 923) would mandate that states specify in their TANF plans how they will encourage financial literacy among TANF recipients. Attendance at financial education seminars or classes would count as a work activity for recipients. Some state and local governments have already begun to offer this kind of training on their own. For example, the Illinois Human Services has partnered with Financial Links for Low-Income People (FLLIP) and the University of Illinois Cooperative Extension to provide a twelve hour financial education program which counts as a work activity.

Support Public Awareness Campaigns that Create Demand for Financial Education

While many financial education materials exist, consumer demand for financial education is not high among the general population. This may be because people “don’t know what they don’t know” and are unaware of how their lack of knowledge may be costing them money or opportunities. Public awareness campaigns could be one solution to this, similar to those for smoking, seat belts, and littering. Some have suggested that campaigns include celebrities such as Robin Leach or Donald Trump, or that the president could talk about the issue to raise its profile. These types of campaigns could teach parents how to talk to their kids about finances and how to model good spending behavior, similar to ads now that direct parents to resources on talking to their kids about drugs and other risky behaviors. Funding for these types of campaigns could be provided by private sector companies, many of which are now separately going about their own activities to promote financial literacy. Additional funding could also be generated through financial penalties imposed on financial services firms who engage in illegal predatory practices. One large-scale public awareness program already underway is the National Endowment for Financial Education’s “Get Smart About Money” campaign, which includes educational ad spots and a website with resources for people who want to learn to manage their personal finances.

Create Incentives for Employers to Provide Financial Education in the Workplace

Financial education offered at the workplace can help employees avoid personal financial problems that can lower their productivity and cause higher absenteeism, turnover, and stress-related illness. Recently, the federal government began implementing a retirement financial literacy strategy to ensure all federal workers get the training and resources they need to set savings goals and take advantage of retirement savings benefits offered as part of their jobs. IBM just announced that it will provide financial education to all 127,000 U.S. employees. The education will be tailored to individuals and will cover topics such as college savings, debt management and retirement savings outside the company plan. Employees will be able to bring their partners and spouses to attend the one-on-one counseling sessions and seminars. Some small businesses have also developed financial education programs; however, incentives and information about best practices would help to increase the number of small businesses that are able to offer financial education in the workplace.

To help spur workplace financial education among private sector employers, especially financial education that goes beyond retirement saving, tax credits could be offered to offset the costs associated with financial education and investment advice. In addition, the federal government could offer tips on how best to run a financial education program based on the implementation experience with its employees.

Ensure Access to Financial Planning Services

Families often not only need to learn financial basics in a financial education class, but also must receive financial planning from someone who can look at their specific situation. However, low-income families may find this option unaffordable. Three proposals could help boost the supply of financial counseling for low-income individuals. First, a "Financial Service Corps" of financial and tax advisors, similar in structure to SCORE or AmeriCorps, could be created as a funded or voluntary service corps. A tax credit could be awarded to financial planning providers to help offset some of the costs of training personnel and advising individuals that otherwise would not have access to a financial planner. A second option would be to issue vouchers directly to families who could seek out financial counsel. Finally, a grants program could be developed for community-based organizations to hire and train financial counselors to serve their clients.

Expand Evaluation of Financial Education Activities

While there has been a good deal of money spent on various forms of financial education, much of it—especially general financial education not tied to either an event such as buying a home or a crisis such as imminent bankruptcy—has not been evaluated for effectiveness in changing attitudes and behavior. The result is that limited resources are not being efficiently spent. More evaluative research is needed; all funding for financial education should include an evaluative component, and there should be some coordination among researchers to leverage both data and evaluation across programs. One strategy for financial education that needs more study is "coaching"—individualized attention much like financial planning. Because it is one-on-one, coaching carries a higher price tag, but that may be good value for money if it is substantially more effective than traditional group-based financial education, and targeted at those most likely to benefit from the more intense approach. The effectiveness of point-of-sale education--which provides information and education during a teachable moment when the individual is making a financial decision—is another strategy that would benefit from research and evaluation.

9. REVISE ASSET LIMIT RULES IN PUBLIC ASSISTANCE PROGRAMS

The application of low asset limits to determine eligibility for federal public assistance benefits is a huge disincentive for saving. One of the great policy achievements of the 1990s was that nearly all states raised their assets limits as part of their TANF plans. In addition, the majority of states have raised their asset limits on Medicaid above the federal minimum and almost all states have waived asset limits for providing Medicaid for children. While states continue to innovate where they have the flexibility to do so, an opportunity also exists to reform these limits at the federal level.[27]

The reauthorization of the Farm Bill in 2007 provides a unique opportunity to implement major reforms to eligibility rules in the food stamp program. In February 2007, senators Chambliss (R-GA) and Harkin (D-IA) introduced a Bill to reform asset limits in the food stamp program by indexing the income eligibility limit, and excluding all retirement accounts and college savings plans.

The State Children's Health Insurance Program (SCHIP) is also up for reauthorization in 2007 and provides another opportunity for the federal government to send a clear message that low-income families who save should not be penalized with a loss of public benefits-in this case, healthcare coverage for children. While nearly every state has eliminated the asset test in the SCHIP program, Congress should codify this trend in federal law by mandating that no asset limit be employed when determining a child's eligibility for health coverage.

Eliminate Asset Limits from Eligibility Considerations
Eliminating asset limits entirely from certain programs should be considered and adopted where appropriate. Because states set the asset limits for TANF and Medicaid, the federal government has limited control over asset limits, with discretion primarily in the SSI and Food Stamp programs. However, the federal government could support states that choose to eliminate asset limits and commission research on the effects of this reform.

Reform Existing Asset Limits
Current asset limit rules should be reformed. This can be accomplished in a number of ways.

Raise the limit.
Asset limits could be raised to a more realistic level in public assistance programs, so that families could save more without being penalized, and then indexed to inflation to keep pace with rising costs. The raising of asset limits will encourage families to save in a variety of saving products, including Savings Bonds. Unlike income limits, which are adjusted upwards on a regular basis, asset limits in some programs have remained the same for several decades. In effect, asset limits have caused eligibility to become more and more restrictive over time. Program funding levels may benefit from the recent change to a more temporary focus on administering assistance, but families will benefit more from a long-term plan of savings and asset-accumulation

Index limits to inflation.
The asset limits currently used in determining eligibility for major income support programs such as Food Stamps and SSI have, in some cases, not been updated in more than two decades. Over time, these limits become increasingly restrictive as they are not updated to reflect the effects of inflation. Indexing asset limits to inflation will work to ensure that the limits retain their original purchasing power and spare Congress and state legislatures from the need to continually legislate an increase.

Exclude certain asset holdings, such as savings for education and retirement; a car; and EITC refunds.
Currently, employer sponsored 401(k) plans as well as IRAs generally are counted towards asset limits. Families needing to go on temporary public assistance therefore may have to spend down these retirement accounts even if they face a penalty in doing so. These families, who likely already lack sufficient retirement savings, will have even less—making it more likely that they will have to rely even more on public assistance once again when they are seniors. In line with excluding retirement accounts,

[27] For more information, see *To Save or Not to Save: Reforming Asset Limits in Public Assistance Programs*, by Leslie Parrish.

contributions to 529s and other restricted education savings plans should also be excluded from eligibility consideration.

Cars are often overlooked as "assets" because they quickly depreciate in value. However, the value of a car should not be measured only by its resale value, but by the utility it provides in giving families access to job opportunities across their region. This is particularly important for families in areas lacking a convenient public transportation system.

Finally, low-income workers who receive an EITC refund should be allowed to save their refund for up to a year after receipt to pay for unexpected expenses, debts, and other purposes. This would help families pay for both expected and unexpected expenses throughout the year and offer greater protection from financial emergencies that could cause them to return to public assistance. This one-year time period has already been set in the Food Stamp program and the SSI program allows the EITC to be disregarded for nine months, so these precedents could be expanded to other programs which receive federal funding.

Reform Asset Limits in the Supplemental Social Security (SSI) and Medicare Programs

Asset limits in the SSI and Medicare programs currently impose an implicit tax of 100 percent on all retirement savings – for every dollar withdrawn for use in retirement, an individual's benefit is reduced by a one-for-one ratio. Under these program rules, individuals who saved for retirement during their working years are no better off than if they had not saved at all. SSI and Medicare asset limits must be reformed to restore the incentive for low-income workers to save for retirement by removing, or reducing, the penalty for withdrawals from retirement accounts.[28]

Additionally, asset limits in SSI and Medicare present a tangible disincentive to save for pre-retirement uses, such as skills training, homeownership, or home improvement. SSI recipients, who may be capable or working for short periods, are prohibited from saving more than $2,000; when their disability results in an inability to work, these individuals must spend down their savings in order to re-qualify for SSI assistance. Not only do asset limits prevent SSI recipients from saving for skills training or homeownership these rules also prevent individuals from building a personal safety net through precautionary savings for use in a personal or medical emergency. The above recommendations to raise and index asset limits in addition to excluding all restricted savings vehicles, could make a tremendous impact on the financial security of this population.

10. EXPAND ACCESS TO COLLEGE AND POST-SECONDARY EDUCATION

A post-secondary education is increasingly a necessity to secure a well-paying job, but also is often the first step to achieving security, acquiring assets, and building wealth. While educational attainment rates continue to rise across all race and income groups, persistent gaps remain between races and people of difference socio-economic backgrounds. Today, financial barriers prevent almost half of academically qualified low-income students from attending a four year college and almost a quarter from attending any college at all within a few years of high school graduation. In addition, there is less of a focus on need-based aid in the form of grants and a greater emphasis on loans, merit awards, and tax credits.

Expand Need-Based Grant Aid

While funding for the overall Pell Grant program has increased every year due to growing numbers of students meeting the eligibility criteria attending college, the maximum grant award an individual student can receive has been largely stagnant. Currently, the maximum Pell Grant award is a little more than

[28] Center on Budget and Policy Priorities (2007).

$4,000—an amount which covers less and less of a college tuition as prices continue to increase.[29] In addition, the administration has proposed cutting the LEAP program which provides grants to states for needy students. A commitment needs to be made to increasing need-based grant aid more aggressively in the future. At a minimum, grant aid could be concentrated in the first two years of school so that lower-income students would be able to more easily obtain an Associate's Degree and then perhaps have more confidence in relying more on loans in later years to complete a Bachelor's degree. The federal government should also explore ways to simplify the financial aid process to ensure that all families can easily access the assistance they are eligible to receive.

Increase Funding for College Readiness Programs

One of the most important parts of making college more accessible is ensuring that every child receives a quality K-12 education so that they are prepared to succeed in college. They also must begin their school career with the expectation that college is within their reach. To this end, it is important to increase awareness and financial support of pre-college programs which have shown that they are successful. The TRIO and GEAR UP programs should be dramatically expanded so that far more than the current 10 percent of eligible students are able to take advantage of these programs. This expansion could be implemented through a variety of funding mechanisms which could be shared by federal, state, local, and nonprofit community groups.

Innovative new ideas, such as the Early College High School Initiative demonstration conducted by Jobs for the Future and its partners, should also be explored as other possible parts of a comprehensive pre-college strategy. This initiative, which has been implemented in 19 high schools this year, will allow students to take college courses for credit during their junior and senior years. They can earn up to two years of college credit this way without paying any college tuition while being in a more intimate high school environment.

Ensure Student Aid can be Adapted to the Needs of Nontraditional Students

All grants, loans, and other assistance programs must be adapted to the new and growing majority of students who are currently classified as "nontraditional." Policies should not categorically exclude the large number of students who attend part-time or less while working, have parental responsibilities, or choose from new innovations in education such as web-based classes. These students may face additional costs such as child care, earn a salary over the very low threshold which disqualifies them for needed aid, or may need to take breaks from their schooling. All programs should be designed with enough flexibility to adapt quickly to students' changing circumstances and needs.

11. EXPAND RESPONSIBLE HOMEOWNERSHIP OPPORTUNITIES

Homeownership is at the core of the American Dream. Supported by a steady stream of public policy interventions that have facilitated the purchase and continued ownership of homes, the rise in the national homeownership rate has been impressive. However, lower-income families face significant hurdles in becoming homeowners and do not benefit from most of the current policy incentives designed to promote homeownership. This can be addressed through a series of new policies, program, and reforms. Furthermore, fluctuations in housing market conditions, including rising interest rates and volatile home prices, can leave many families vulnerable to losing assets they have worked hard to acquire.

Reform the Homeowner's Mortgage Interest Deduction

The Homeowner's Mortgage Interest Deduction provides $89 billion a year in tax relief. Since the mortgage deduction is not refundable, the majority of the benefits go to higher income families who have

[29] The Administration's FY 2008 Budget proposes to increase the maximum Pell grant award to $4,600 in 2008 with subsequent increases planned to bring the maximum grant to $5,400 in 2012.

larger tax liabilities. Fifty-four percent of the homeowner's deduction goes to households earning more than $100,000 a year, and nearly 90 percent of this benefit goes to households with adjusted gross incomes over $50,000. Making the deduction refundable for more households earning under $50,000 will open up this subsidy to families on the cusp of achieving the American Dream. This change could be implemented in a revenue neutral manner by capping the mortgage amount at half of its current rate of $1 million and restricting it to one home per family.

Enact a Refundable First-Time Homebuyers' Tax Credit
The years immediately following a home purchase can be ones of financial hardship. Family income is devoted to mortgage payments and many auxiliary expenses accrue related to the maintenance and operating of a home. There is often a need to help sustain homeownership after the initial purchase. In addition to giving new homeowners access to information and services to prevent foreclosure, many homeowners would benefit from getting some financial relief in the years immediately after home purchase. A Homebuyers Tax Credit should be available to qualifying households for the three years after purchasing their first home, helping families sustain homeownership after trying so hard to achieve it. Qualifying households would apply for the tax credit directly on their tax returns. The credit would be refundable so it benefits families even with low or no tax liabilities. The benefits would appear as a lower tax liability or as a tax refund.

Increase Use of the Family Self-Sufficiency Program
The FSS program is one of the nation's largest programs designed to help working poor families increase their savings. When earnings increase for Section 8 or public housing program participants, their rising rent payments are diverted into an escrow account which they can access after achieving self-sufficiency goals. While public housing authorities have the ability to open escrow accounts, they are required to identify designated case managers. In recent years, the funding to support case managers has been restricted and plagued by bureaucratic complexity.

The Department of Housing and Urban Development (HUD) should stabilize these funding streams, increase their capacity to hire case managers and more effectively seek partnership with agencies already in the case management business. FSS has proven to be a successful model, and HUD should expand it by encouraging local partnerships between organizations with complimentary skill sets. Developing and publicizing FSS partnership arrangements will provide support for FSS practitioners by sharing best practices and entrepreneurial approaches to program growth. Beyond these reforms, the FSS approach should be dramatically expanded upon. The number of participants should double within the next four years. Furthermore, policymakers should consider making the link between increased earnings and savings accounts a central feature of the provision of housing assistance.

Expand Viability of Homeownership Uses from Restricted Accounts
In recent years the number of tax-preferred savings products which are defined by rules that govern contributions and withdrawals has continued to grow. While many of these accounts are associated with retirement, they have many pre-retirement allowable uses, including first-time homeownership. Though some have described these uses as "leakages," accrued savings can be used productively to help build a bridge to retirement. Policymakers should consider make these uses more robust and valuable, especially by updating the provisions related to first-time homeownership. First, policymakers should amend the rules for IRAs and Roth IRAs to raise the one time homeownership use allowance from IRAs from $10,000 to $20,000, which would bring this level up to a more contemporary downpayment standard. Second, rules which govern 401(k) and 403(b) plans should be amended to permit savers to use their funds for first-time homeownership and make the rules consistent with those for IRAs.

12. SUPPORT MICROENTERPRISE DEVELOPMENT

Microenterprises—businesses with five or fewer employees that can benefit from a start up or capitalization loan of $35,000 or less—are an important source of household income for many families. These self-employment wages can supplement entry-level employment opportunities, reduce a family's reliance on public assistance, and offer flexibility when families try to balance work-life issues in ways that traditional employment cannot. Yet public support for these programs, and the businesses they serve, has been fragmented and uneven.[30]

Provide New and Informal Businesses with Better Information about Self-Employed Tax Options

Filing taxes is a key formalizing event in the life of a business. Moving businesses from the informal to the formal economy could provide incentives for small business owners to invest more in their businesses, and also enable these entrepreneurs to access the tax-favored asset-building features that are only available through filing. Many low-income self-employed households claim EITC benefits which can, in part, offset liabilities of the self-employment tax. A self-employment-specific tax credit could expand on this, and could be coupled with a new high profile business and tax literacy campaign, informing new sole proprietors about business taxation and asset building options so they can make fully informed decisions about filing.

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

Individual Retirement Accounts (IRAs) are an important asset-building tool. Currently, penalty-free withdrawals from IRAs for small business start-up costs are not permitted, nor can individuals borrow against these assets to capitalize their businesses. IRAs currently allow several pre-retirement uses that promote asset building and retirement security, including first-time home purchase and post-secondary education. Expanding these uses to small business capitalization makes sense, as doing so could provide another incentive for people to save and accrue assets. In addition, entrepreneurs could be given an alternative option of taking a loan against their IRA assets instead of making an early withdrawal which would help mitigate the concern that savers might lose their hard-earned assets to ill-conceived, risky ventures. Private lenders or the SBA could underwrite the loans and evaluate the merits of the proposed business plan, and minimum underwriting standards could be prescribed. More importantly, only partial security for the loan could be permitted, with the lending institution thereby assuming the risk of the loan balance.

Remove the Obstacles Preventing Low-Income People from Pursuing Self-Employment

Obstacles including a lack of affordable health care and, in some states, TANF requirements that inhibit entrepreneurship need to be minimized so that entrepreneurship is a more viable option. For example, to afford health care, low-income entrepreneurs need (1) subsidies; (2) an avenue to purchase health insurance that affords them access to administrative economies of scale and broad risk pooling; and, in the long run (3) broader health care system reform that will lower the trajectory of health care cost growth relative to wages, prices, and incomes. Association Health Plans are the most likely vehicles for fulfilling these needs.

As far as TANF is concerned, states can allow recipients to participate in microenterprise development activities, but federal law does not encourage states to make this option available, or assist them in doing so. Changes and clarifications that could be made to federal law that may be beneficial include: (1) clarifying that self-employment can count as a TANF work activity; (2) clarifying that self-employment preparation can count as a TANF work activity, within the limits that apply to vocational training; (3) clarifying that the job search period that can count towards TANF work requirements also includes time

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[30] For more information, see *Policy Options to Support Entrepreneurship Among Low-Income Americans*, by Lisa Servon.

spent in active exploration of self-employment potential; and (4) adding language to the TANF state plan requirements which specifies that state plans must describe the state's approach to encouraging and supporting self-employment.

Help the Small Business Administration (SBA) Better Serve Very-Small Businesses
The mission of the SBA is to "maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from national disasters." However, the SBA defines a small business as one that has 500 or fewer employees. As a result, microenterprises are all but overlooked. Although the SBA has two programs targeted at microbusinesses, these programs could be greatly improved in order to better serve very small businesses. For example, the Microloan program, which is unique in that it combines training and technical assistance with loan capital, should be opened to a wider range of lenders and have better standards incorporated that would help document performance. In addition, the SBA's 7(a) loan program which offers several types of small business loan products through banks could benefit from changes such as creating a very small business loan initiative that would provide a 75 percent guarantee for loans of $25,000 or less.

Maintain Programs that Currently Assist Microentrepreneurs
Some currently valuable policies and programs which help to create a more hospitable environment for low-income entrepreneurs have, in recent years, been threatened. In addition to generating new, creative ideas to maximize the potential of entrepreneurial energy among low-income groups, it is important to retain and improve existing programs. These include the Program for Investment in Microentrepreneurs (PRIME) and the Community Development Financial Institutions (CDFI) Fund.

13. STRENGTHEN LAWS TO PROTECT ASSETS

Recent years have seen increasing incidents of predatory financial practices that erode assets and drain savings.[31] While financial education efforts are critical to helping consumers make good financial choices, the market for providers of asset-stripping loans and financial services is vast, profitable, and generally not well-regulated. The Center for Responsible Lending estimates low income consumers and communities lose $9.1 billion annually as a result of predatory mortgages, $3.4 billion from payday loans, and $3.5 billion from other lending abuses, such as tax refund anticipation loans, overdraft loans, and excessive credit card debt.[32]

Some experts note that there exist "dual" and unequal regulatory systems—one well-regulated for the mainstream, "high-road" providers, and the other weakly regulated for the alternative "low-road" providers. Proposals to strengthen asset protection laws and curb predatory lending through tighter regulations on financial products ranging from mortgages to payday loans could include the following.

Increase the Oversight of the Homebuying and Refinancing Market, Especially in the Sub-Prime Sector
The existing protections for high-cost and other potentially dangerous home loans must be improved. This would include prohibiting equity stripping practices, such as excessive prepayment penalties and fees for payoff information, modification, or late payment; requiring a borrower receive counseling before entering into a high-cost loan; and prohibiting mandatory arbitration clauses on high-cost loans. Consumers must also be far more effectively informed of all the terms of a loan—especially likely changes in payments arising from expiration of "teaser" rates—and lenders required to underwrite to

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[31] Howard Karger describes some of these disturbing trends in his recent book *Shortchanged: Life and Debt in the Fringe Economy.*
[32] See www.responsiblelending.org.

ensure customers can pay after teaser rates expire and full amortization begins. More effective state oversight of mortgage brokers and others under their jurisdiction is also required.

Reduce the Cost of Tax Preparation and Restrict the Marketing of Refund Anticipation Loans
The IRS should continue to expand the provision of free electronic filing. Further, it should ensure that 1) the free services are easier for eligible tax filers to access and navigate; 2) the marketing of Refund Anticipation Loans is limited; and 3) options to open IRAs online are included.

Promote Strategies to Avoid Foreclosure
Overall foreclosure levels, and in particular foreclosure levels for sub-prime loans have hit record levels, and are expected to continue to increase, damaging not only families but also whole communities. Borrowers in trouble need access to both information to enable them to understand the potential for trouble while they still have the ability to refinance or to otherwise avoid foreclosure; and to non-predatory alternative mortgage products. In neighborhoods at risk of large numbers of foreclosures, lenders should be encouraged to make available homes vacated by borrowers who must move at no or low cost to community-based organizations that can resell the homes to borrowers who can afford the home, using an affordable mortgage product. Modifications to loan contracts (especially those that use pre-payment penalties to lock borrowers into loans they cannot pay), securities terms or laws (to allow modification of securities to allow loan prepayment or payment at less than par), or the Bankruptcy Code (to allow the secured part of a mortgage obligation to be reduced to no more than the value of the house) may also be required.

Increase Scrutiny of Payday Loans
Payday loans—which are short-term, low-dollar loans secured by a post-dated check—have become a serious asset-depleting type of lending, especially in moderate-income, working communities. Auto title lenders and pawn shops serve similar functions. While some states have been able to enact laws that limit or reduce payday lending, others have enacted more permissive statutes. Following revelations about the damage this type of lending was having upon the military, in 2006 Congress enacted the Talent Amendment to the Defense Appropriations bill, which establishes strict standards for consumer lending to members of the military and their dependents. While the Department of Defense must write implementing regulations before the law goes into effect in October 2007, the statute has focused attention more broadly on why there is a growing demand for such credit, why the demand is not being met by traditional financial institutions such as banks and credit unions and how consumers can be better served. The Federal Deposit Insurance Corporation (FDIC) has issued proposed guidelines to encourage banks to provide both payday loan alternatives and savings products to reduce the need, and is considering a pilot program to explore how banks could get back into this business in a sustainable manner while helping customers move toward more constructive forms of credit. It is important that the FDIC's efforts are encouraged, that other bank and credit union regulators take similar steps, and that efforts to restrict payday and similar lending continue in the states.

Prevent Credit Card Abuses
The terms under which most credit cards are issued are virtually impossible to understand and present a substantial trap for the unwary and, especially, those who are financially stressed. Congress has recently held a series of hearings that have highlighted some of the worst abuses, such as double-interest and universal default clauses, and some financial institutions have begun to change the most egregious terms. But there is need for additional action, both to help card issuers who are willing to improve terms not be undercut by competitors, and to ensure that credit cards are offered on terms that are fully, accurately, and timely disclosed in a manner that is easily understood; make sense to consumers (e.g., a credit limit is a limit on credit granted, not an opportunity to charge an over-limit fee); and fairly enforced. Special protections are also needed concerning card offers to youth and to consumers already showing signs of financial distress.

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