Promoting Saving and Financial Security for America's Working Families

2009 Legislative Priorities of the Asset Building Program

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<u>The ASPIRE Act – Universal, lifelong savings accounts at birth</u>

- *The ASPIRE Act* promotes lifetime savings, financial literacy, and opportunities for all young adults by establishing a progressively funded savings account for every child born in America.
- Each account receives $500 at birth. Households below national median income receive up to an additional $500 at birth and qualify for annual matching deposits, capped at $500 per year.
- After-tax contributions are limited to $2,000 per year; earnings are tax-free for approved withdrawals.
- Between the ages of 18 and 25 funds can be used only for post-secondary education. After 25, withdrawals are also permitted for first-home purchase and (at age 59 ½) retirement.

<u>The Saver's Bonus Act – Rewarding savings for low- and moderate-income families at tax time</u>

- *The Saver's Bonus Act* rewards working-poor families who save their tax refunds for retirement, their children's college education, and other purposes.
- The Saver's Bonus Act matches the savings of low-income workers who save in IRAs, 401(k)s, 529s, Coverdells, Savings Bonds, and 6-month or longer Certificates of Deposit.
- For taxpayers earning up to 120 percent of the EITC eligibility, savings are matched dollar for dollar, up to $500 per year, when families file their tax return. All matching funds are directly deposited into the preferred savings vehicle.

<u>The New Saver's Act – 14 low-cost ideas to promote savings for all families</u>

- *The New Saver's Act* introduces a series of targeted, innovative and low-cost ideas to increase savings and access to financial services for all Americans.
- Specifically, the *New Saver's Act* would bank the unbanked; create Young Savers Accounts; add college savings to the Saver's Credit; revive and promote U.S. Savings Bonds; improve 529 college savings accounts; and promote asset building and financial education at tax time.

<u>U.S. Savings Bonds – Improving access and awareness of a vital savings tool</u>

- U.S. Savings Bonds are an easy, safe way for millions of families to save for a broad range of purposes.
- The Treasury Department should reinstate the option to purchase U.S. Savings Bonds (Series EE and I) directly on tax returns using the "split refund" form 8888.
- Marketing funds should be restored to the program to increase awareness of U.S. Savings Bonds.

<u>SAFE-T Accounts – Electronic bank accounts for the unbanked at tax time</u>

- For taxpayers who do not elect direct deposit for their tax refunds, a safe and affordable electronic banking account—a "SAFE-T Account"—is automatically provided, which can receive tax refunds and payroll deposits, pay bills, and hold savings. Taxpayers who prefer to receive a paper check would still have the option to opt-out of the account.

<u>Young Savers Accounts – Establishing a "Kids Roth" to encourage saving by and for children</u>

- Young Savers Accounts, or YSAs, are a "Kid's Roth" that allow families, for the first time, to make tax-benefited contributions to a Roth IRA in their child's name. Presently, there are no age restrictions on owning a Roth, but only those with earned income are eligible to make contributions.
- With YSAs, parents use their own contribution limits (now $5,000 for those aged 49 and under), to make contributions. Contributions to YSAs count toward that limit. No new tax shelters are created.
- Contributions made by low-income families would qualify for the Saver's Credit, and all savings in YSAs would be excluded from determining eligibility for means-tested public assistance programs.

NEW AMERICA FOUNDATION

New Ideas for 2009 from the Asset Building Program

Progressive 529s – Helping low-income families save for their children's college education

- Section 529 college savings accounts are administered by states and allow families to save for higher education expenses tax-free. Accordingly, 529s primarily benefit higher-income households.
- To enable more low- and moderate-income families to save in and benefit from 529s, Congress can:
  - Encourage greater transparency of 529s, including who benefits from 529s.
  - Building on innovations in various states, encourage all states to promote progressive innovations—such as matching deposits, automatic enrollment features at birth and other times, and deposits for good grades, etc.
  - Expand the Saver's Credit tax credit (now restricted to retirement savings) to contributions to 529s and Coverdells.

AutoSave – Promoting non-restricted savings at the workplace

- To encourage savings, "AutoSave" would set up an automatic payroll deduction of after-tax wages into a non tax-advantaged savings account. Non-restricted savings provide financial security for workers by creating a source of emergency savings.
- A pilot will be launched in 2009 to explore AutoSave's feasibility among employers, employees and financial institutions.
- Currently no systematic savings policy exists to intentionally encourage short-term, non-restricted savings.

Financial Service Corps – Mobilizing financial professionals to provide financial coaching for low-income households

- Today's complex financial marketplace has become increasingly difficult for individuals to understand and navigate. At the same time, there is a dearth of financial advisors to help low- and moderate-income families with these issues.
- A Financial Service Corps (FSC) should be established and integrated with other existing national service programs such as the Legal Services Corporation and AmeriCorps.
- The FSC would be made up of financial experts, planners and advisors who volunteer their time to deliver one-on-one financial advice to low- and moderate-income individuals and families.

Rental Assistance Asset Accounts – Encouraging rental assistance recipients to become economically self-sufficient

- Based on HUD's successful Family Self Sufficiency Program, each recipient of rental housing assistance would receive an account. Recipients currently must pay 30 percent of their income for rent. As their earnings rise their rent increases, but under this proposal the increased rent payment would be placed in a personal account.
- Eventually the account balance would grow and recipients could use the funds to make a down payment on a house, invest in education or in some other way that advances their goals.
- A rigorous, multi-city pilot program should be launched to determine the ideal account design to take to scale.

Community Banks – Strengthening the financial services sector by supporting small-scale community banks

- In 2008, the failure rate among big banks was seven times greater than among small banks.
- Small-scale community banks, thrifts and credit unions have the potential to help ameliorate many of the country's deepest problems, such as the high level of concentration within the financial services industry and the lack of mutual interest between borrowers and lenders.
- A Community Banking Trust Fund should be established and used to make equity investments in small-scale depository institutions that need patient equity capital to serve their communities effectively.

The Basic American Mortgage – Simplifying and improving the mortgage purchasing process

- Utilizing insights from behavioral economics, all borrowers would be defaulted into a standard mortgage product—the "Basic American Mortgage"—such as a 30 year fixed-rate mortgage loan with reasonable underwriting standards.
- Homebuyers would still be allowed to choose whichever mortgage best meets their individual needs. Lenders however would face greater legal consequences if there is not straightforward and reasonable disclosure to homebuyers about the terms and risks involved in choosing an alternative mortgage product.

Green Bonds – Supporting families, communities, the economy and the environment through small savings

- Green Bonds would help strengthen the national economy, provide families with an incentive to save, create well-paying green jobs, and mitigate the causes of global climate change.
- Like War Bonds before them, Green Bonds would be a special version of the EE U.S. Savings Bond sold to the public, the proceeds of which would be used exclusively to fund green government infrastructure projects, such as retrofitting public buildings, expanding mass transit, constructing smart electrical grids, advancing bio fuels and wind and solar power projects.