



# Public Policies to Expand Savings

**Statewide Conference on Financial Literacy and Asset-Building**

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# CFED

- CFED works to expand economic opportunity by helping more people save and invest, own homes, succeed as entrepreneurs, contribute to and benefit from the economy.
- CFED's special expertise is to connect public policy, private markets, and community practice to bring effective approaches for building wealth and financial security to scale at the local, state and national levels.

# Workshop Outline

- State of Assets Across the Nation
- North Carolina
- Federal Asset Policy Overview
- Existing Programs and Policies
- Proposed Programs and Policies
- Discussion

# Assets Across America: The National Picture

- **Good news in net worth since the 2005 Scorecard:**
  - Median household net worth rose 26% to \$65,150
  - Rose 77% to \$48,500 for women; 114% to \$11,640 for minorities
  - Caution: gains driven primarily by increasing home values, which may not be sustainable
- **Yet, foundation that undergirds asset base is fragile:**
  - 15.5% of all households have zero or negative net worth
  - 21% of middle-class households are asset poor—i.e., could not survive at poverty level for 3 months if income interrupted

# Assets Across America: The National Picture (cont.)

- Further, substantial economic disparities endure:
  - For every \$1 of net worth in white household, minority household has only 13 cents
  - For every \$1 of net worth in male-headed household, female-headed households have only 59 cents
- Negative personal savings rate (-1%)
- Second year in a row at negative since Depression.

# Noteworthy in North Carolina

Rank	Measure
30	Homeownership rate
26	Affordability of homes
6	Asset Poverty (17.6%)
27 & 23	Homeownership by race & gender
33	Foreclosure rate
26 & 33	Microenterprise & small business ownership
51	Head Start coverage
6	Private loans to small business (\$2,431)

# Federal Government Response



- Incent asset building for all: **\$367** billion a year is highly skewed to upper-income citizens
- More than 45% of the benefits went to households whose average income exceeded \$1 million, (less than 1% of the population)
- Those households with incomes exceeding \$1 million receive, on average, an annual tax benefit of \$169,150
- The top fifth (those with household incomes greater than \$80,000) received the vast bulk (88.7%) of the asset-building benefits
- In contrast, the rest of the population shared 11.6% of the tax benefits, and the lowest 60% of households got a bit less than 3% of the benefits
- The poorest 20% of households (those with incomes less than \$20,000) receive \$3 or less in average of these incentives
- Overwhelmingly, tax expenditures for asset building outweigh direct expenditures (\$506 to \$1)

## Existing Savings Programs/Policies Targeted to Low Income People

- Family Self Sufficiency: 71,300
- Assets for Independence Act: 35,000
- Office of Refugee Resettlement: 73,851
- American Dream Downpayment Initiative HUD: 200,000 families over time
- Affordable Housing Program downpayment program, Federal Home Loan Bank: 47,539
- Saver's Credit: 5 million
- IRS Split Tax-Refunds – 80,000

# Existing Program: Family Self Sufficiency, HUD

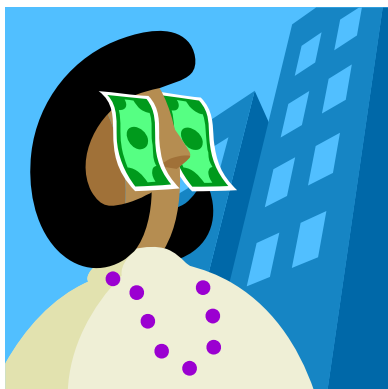
HUD program, 1991 -- largest of the asset building programs

- 71,300 people – declined about 4,000 people over past two years
- Funding instability caused by changes in the procedures HUD uses to allocate funding for FSS program coordinators,
- Unanticipated consequences of recent changes in the Housing Choice Voucher funding formula.
- Goal - return to HUD's prior policy of funding one public housing FSS coordinator per agency out of the public housing operating fund,
- Goal - revise the Housing Choice Voucher FSS Notice of Funding Availability to ensure that *each* agency with a FSS program receives funding for at least one FSS coordinator.

# Existing Program: Assets for Independence (AFI)

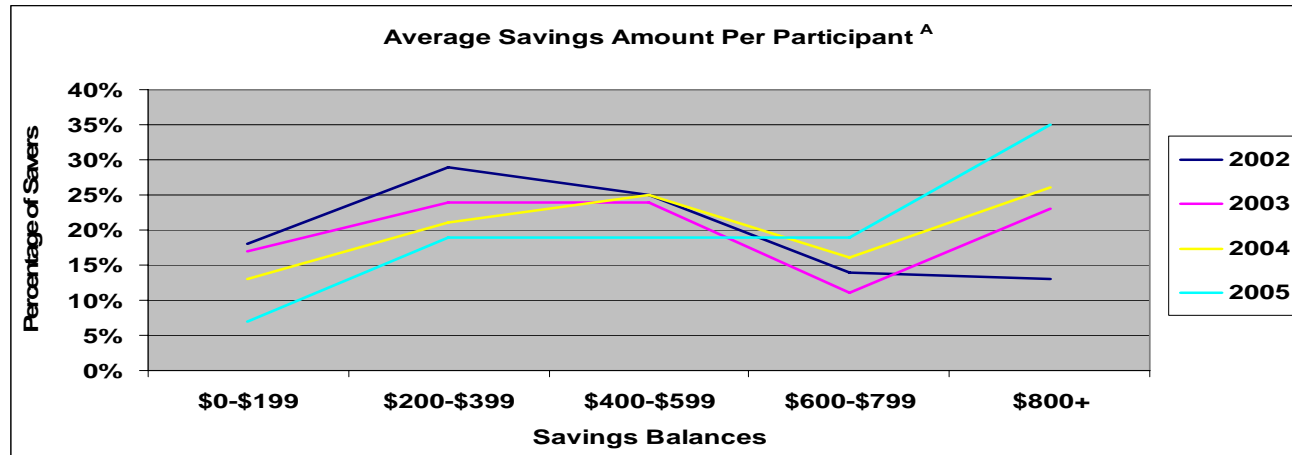
- AFI is administered by the Office of Community Services (OCS), within the U.S. Department of Health and Human Services' Administration for Children and Families. AFI programs assist client families in placing earned income in special purpose, matched savings accounts called Individual Development Accounts (IDAs) and providing financial education.
- From 1999-2005, OCS made more than 300 grants of more than \$94.7million to assist 34,000 savers.
- A total of 317 AFI grantees reported that by the end of FY 2005, slightly more than 86,000 individuals attended an orientation session to learn more about the AFI program. Of those who attended the orientation, about 34,556 (40 %) submitted an application and 25,147 (73 %) actually enrolled in the AFI program. A total of 23,215 (92 % of those who attended the orientation) eventually opened an IDA account.
- Every dollar in savings deposited into an IDA by a participant is matched: more than 50% of the programs provide a \$2 to \$1 match while 26 programs provide varying matches based on the asset goal.
- From FY's 1999-2005, participants had opened 34,454 IDA accounts and at the end of FY 2005, 13,147 accounts with a total savings balance of \$7.6 million were still open and the average balance among these accounts was \$581. For more than 1/3of all grants (38 %), the average balance per account holder is less than \$400 but for more than 40%, the average balance is over \$600.
- Participants saved \$24.8 million with an average savings amount of \$719

# Assets for Independence Participants



- The typical AFI participant is female (76%), not currently married (54%), has an income level between 150-200% of the poverty line (50%), and possesses a high school diploma (80%).
- While the majority of participants live in urban areas (80%), 20% live in remote areas, which is relatively consistent with the nation's population dispersion as a whole.
- African American's rate of participation is higher (45%) than their percentage of the population (14%). Caucasians constitute 27% of the savers, Latinos are 17%, Asian Americans, Native Americans and other races opened 11% of all AFI accounts.
- More than 1/3 of AFI account holders had never used a checking account, just about half had never had a savings account, and 91% had not had direct deposit prior to enrolling in the AFI program.

# Assets for Independence: Savings Activity



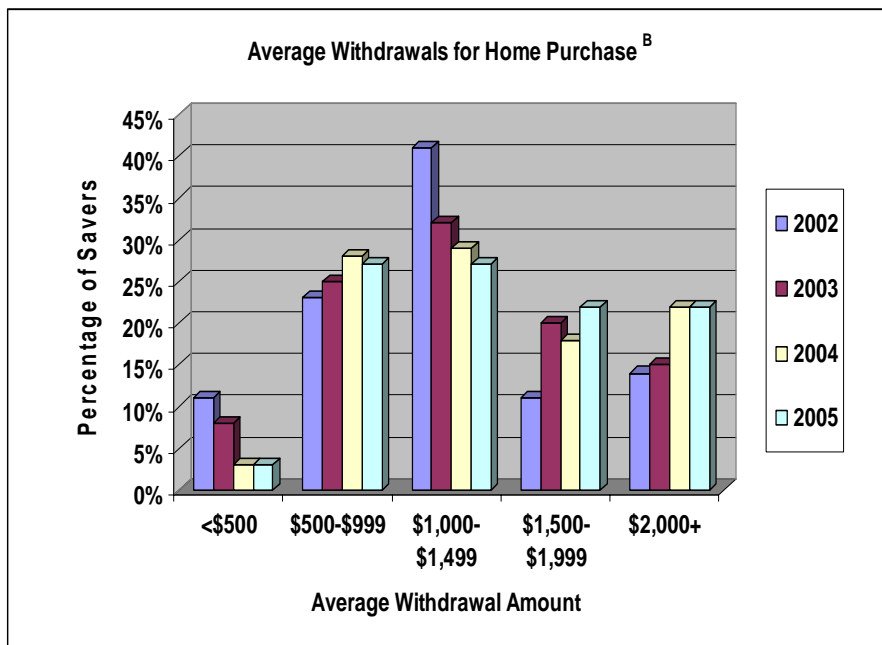
- During their first year in the AFI program, the majority of participants saved between \$0 and \$599, with 29% saving between \$200-\$399.
- By 2005, 35% of participants were saving between \$400 and \$800 (not sure about the 26% stat).

# Assets for Independence: Savings Activity



- By the end of 2005, 16,241 participants (47%) had withdrawn \$12,664,930 from their IDAs.
- The average amount withdrawn was \$719 per participant.
- Of those, 7,191 participants (44%) made unqualified withdrawals (non asset purchases without a match) of \$3,148,233 from their own funds.
- Roughly 45% of all withdrawals were for the qualified purposes of a home, business, or education.

# Assets for Independence: Home Purchase



- Home purchases were the most common asset participants purchased and also accounted for the withdrawals with the largest dollar amounts.
- 3,448 individuals withdrew \$4,392,895.
- Average savings per participant was \$1,460. The average amount of matching funds was \$3,038 and the average total withdrawal plus match was \$4,498 per participant.

# Assets for Independence Reauthorization

## Technical changes sought in reauthorization:

- Allow the critical financial education and economic literacy components of the AFIA program to be funded as direct program costs instead of being included in the administrative costs.
- Allow AFIA grantees full discretion over 20% of the nonfederal funds (up from 15%).
- Expand the eligibility standards to include Adjusted Gross Income (\$18,000 single filer, \$30,000 head of household, \$38,000 for joint filers) and Area Median Income (individuals with incomes equal to or less than 65% of Area Median Income (we would prefer 80% which is consistent with other federal programs and necessary for participation in high cost areas).
- Remove the requirement that grantees calculate interest earned on match funds (e.g. this is highly complex and time-consuming for very little money).
- Other technical changes

# CFED Led Efforts to Re-fund ORR IDAs.

- \$2.8m now for 14 grants!
- Previous funding eliminated (from \$18.4).
- IDAs help refugees integrate and enter financial mainstream.



# Wealth Building Policy Success

- Two major longitudinal studies followed low income savers over two years after the asset purchase. Findings:
  - Program graduates start out very similar to drop-outs. But after leaving the program develop higher incomes, use more bank products, and continue to save at a higher rate.
  - Additionally, IDA savers largely kept their assets (only one homeowner out of 172 lost their home; More than 75% of the 41 entrepreneurs own their business or sold it at a profit; and nearly all of the 110 obtained a degree.
  - Children of parents in the IDA program also developed and maintained savings patterns.
  - Significant benefits from the financial education classes as well.

# FY 2008 Appropriations

- SBA Microloan programs: \$24.7 million for lending; \$14.5 million for Technical Assistance
- SBA PRIME Program: \$3 million
- CDFI Fund: \$100 million
- Rural Housing and Economic Development: \$17 million
- HOME Formula Grants: \$2 billion (Senate); \$1.8 billion (House)
- CDBG Formula Grants: \$4.1 billion (Senate); \$4.2 billion (House)
- 502 Single-Family Direct Loans: \$1.1 billion
- 502 Single-Family Guaranteed Loans: \$3.5 billion (Senate); \$3.7 billion (House)
- 504 Very Low-Income Repair Loans: \$34.7 million
- 525 :
- IRP: \$14.5 million
- RBEG: \$0

## Proposed Federal Policy: Reform Asset Limits for Food Stamps; Encourage Saving

- Asset limits of \$2,000 affect 26 million families – Strong “don’t save” message: penalties, taxes
- Confusing: Funds in pension or 401(k)-exempt; IRA or 529 - not exempt.
- President Bush requested exemptions for retirement & education accounts.
- S. 591 would index asset limits to inflation and exempt all retirement and college accounts. Identical to provisions that passed in the House’s Farm Bill

# Proposed Federal Policy: Saver's Credit: H.R. 2724

- More than 60 million American households could receive credit
- Make credit refundable, expand eligibility, Form 8888
- Expands to Coverdells and 529s

## Proposed Federal Policy: Savings for Working Families Act, S 871 & HR 1514

- If enacted, would create 6,000+ matched savings accounts for NC and SC residents for 1<sup>st</sup> home, business or education
- Financial institutions would be reimbursed for matching funds (\$2,000), plus limited amount for administrative costs incurred (\$50 per year per account)
- \$20 million would be available for financial education provided by nonprofits and tribes
- Bills have 101 cosponsors including 6 from NC: Sen. Dole and Reps. McIntyre (who is a lead sponsor) and Hayes, Jones, Myrick and Price

# Proposed Federal Policy: Automatic IRA

- Half of US workforce does not have access to retirement plan at work (75 million people)
- Payroll deduction to IRAs.
- Tax Credit available for employers but no match permitted
- Employees can opt-out from plan participation

# Proposed Federal Policy: Holy Cow! IDAs for Farmers!

- 400 farmers save towards asset purchase.
- \$5 million available for match & financial education.



# Children's Savings Accounts

- Five legislative options under discussion to incent savings for children, including:
  - 1) Creates a KIDS account for every child born in America with \$500 from the federal government with additional deposits possible.
  - 2) Young Saver's Accounts (YSAs), introduced in the 109th Congress, allowed parents to direct contributions to Roth IRA accounts for their children, not just for themselves.

Essentially Roth IRAs for children, YSAs are able to accept contributions from a variety of sources, including parents, without the child having earned income as is currently the law.

# Preserve Assets: Legislation Aims to Stem Rising Foreclosure Rates

- Low-income and Minority communities most affected
- S. 1299 would create standards to protect the wealth of America's families
- Introduced by Senator Schumer (D-NY); similar legislation to be introduced in House
- Rep. Miller (D-NC) introduced H.R. 3609, the Emergency Home Ownership and Mortgage Equity Protection Act of 2007

# What Can You Do?

- [www.cfed.org/go/scorecard](http://www.cfed.org/go/scorecard)
- [www.dataplace.org](http://www.dataplace.org)
- Sign up for CFED Policy Updates, latest on legislation and Action Alerts, [www.cfed/go/advocacy](http://www.cfed/go/advocacy)
- Attend the 2008 Assets Learning Conference, September 11-13, 2008 in Washington, DC
- Carol Wayman, CFED Senior Legislative Director  
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