

**CRITICAL FEDERAL
ASSET-BUILDING
POLICIES FOR LOW-
INCOME POPULATIONS
NORTH CAROLINA, 2011**

“We cannot rebuild this economy on the same pile of sand. We must build our house upon a rock. We must lay a new foundation for growth and prosperity – a foundation that will move us from an era of borrow and spend to one where we save and invest.”

-- President Barack Obama, April 2009

About CFED

- CFED (Corporation for Enterprise Development) has worked for over 30 years to expand economic opportunity by helping 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

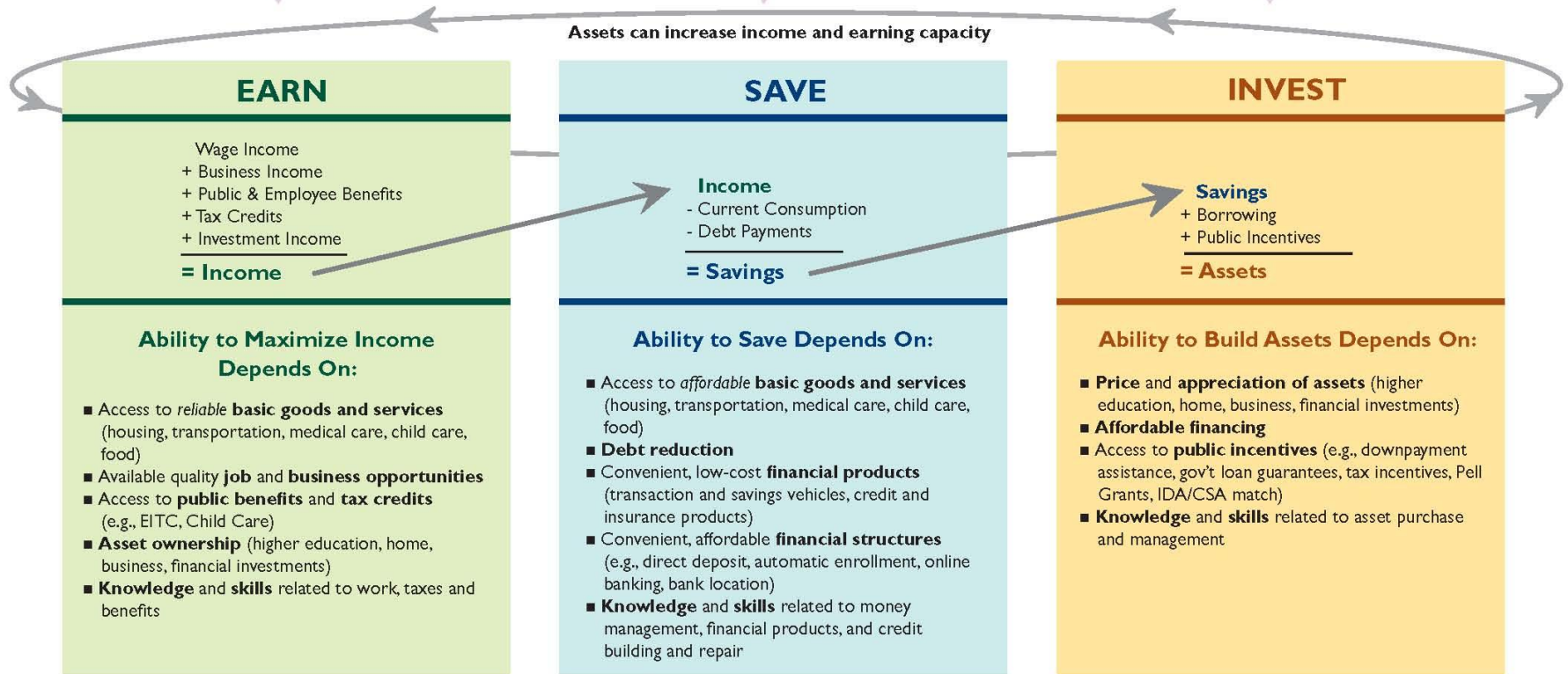
Household Financial Security Framework

LEARN

Knowledge and skills that enable navigation of and success in markets (labor, financial) have a direct bearing on financial security

- **K-12 & Postsecondary Education:** Basic literacy and math skills, plus commitment to lifelong learning are critical for employment and advancement
- **Financial Education & Counseling:** Timely, relevant, accurate information on basic budgeting, taxes, financial products and services, and use of credit
- **Asset-specific Education:** Preparation for homeownership, business ownership, postsecondary education, and financial investments

Assets can increase income and earning capacity



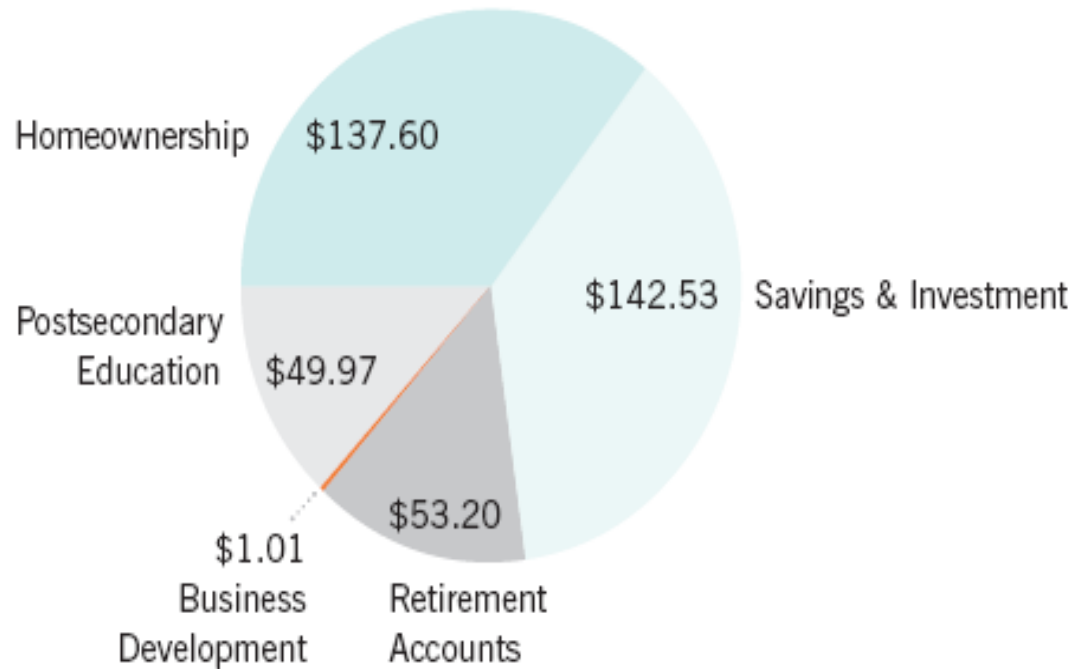
PROTECT

Gains must be protected against loss of income or assets, extraordinary costs, and harmful or predatory external forces

- **Insurance (public or private):** Protects against loss of income or assets as well as against extraordinary costs (e.g., unemployment, disability, life, health/medical, property)
- **Consumer Protections:** Protect consumers from discriminatory, deceptive and/or predatory practices (e.g., redlining, predatory mortgage lending, payday lending, banking practices)
- **Asset preservation:** Depends on government policies (e.g., community investments, blight ordinances, foreclosure prevention) and market conditions

Federal Asset Budget

IN BILLIONS OF DOLLARS, FY 2009



9:1 tax to outlays

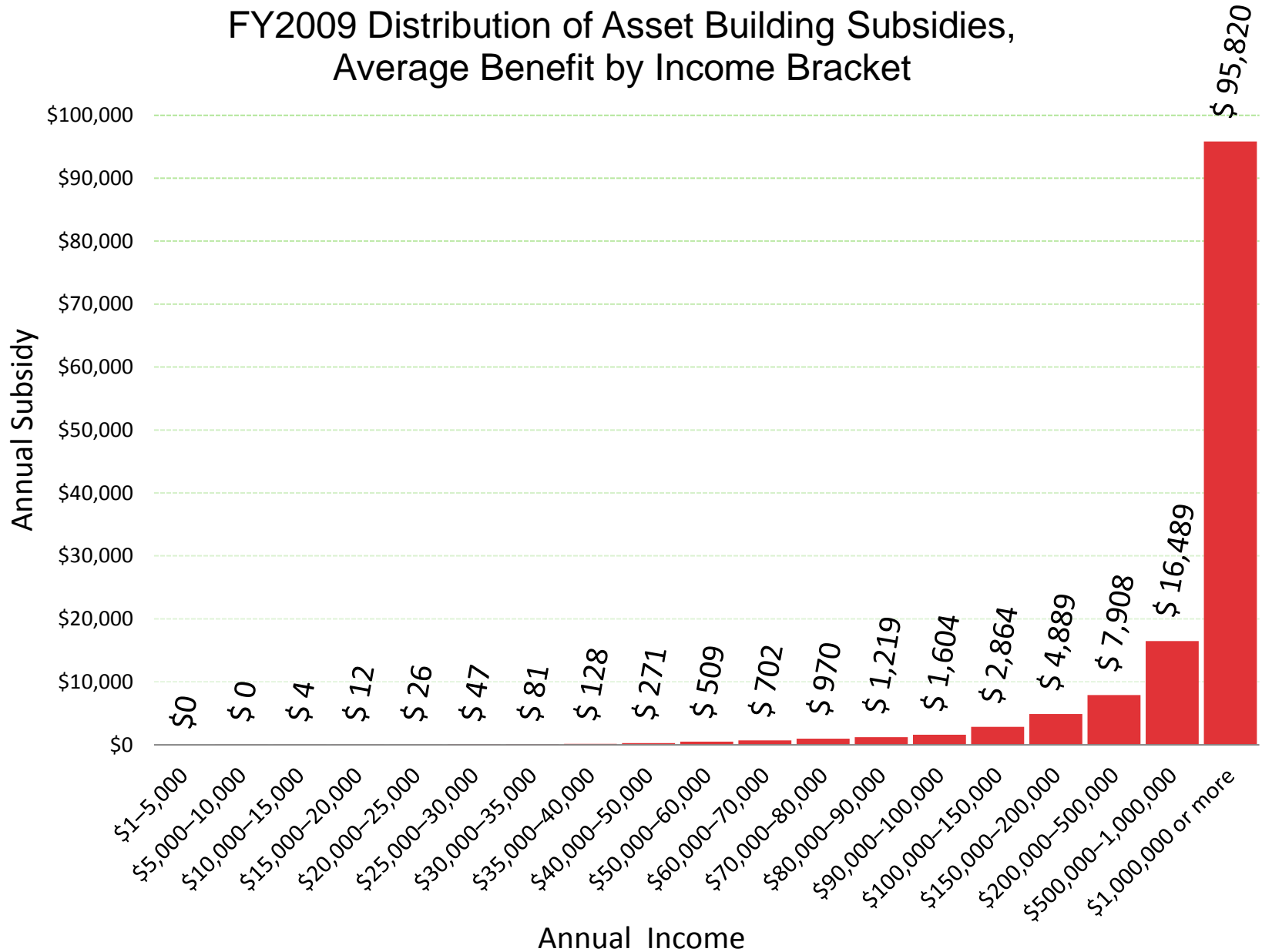
Table 1. 2009 Federal Asset Budget

IN BILLIONS OF DOLLARS, FY 2009

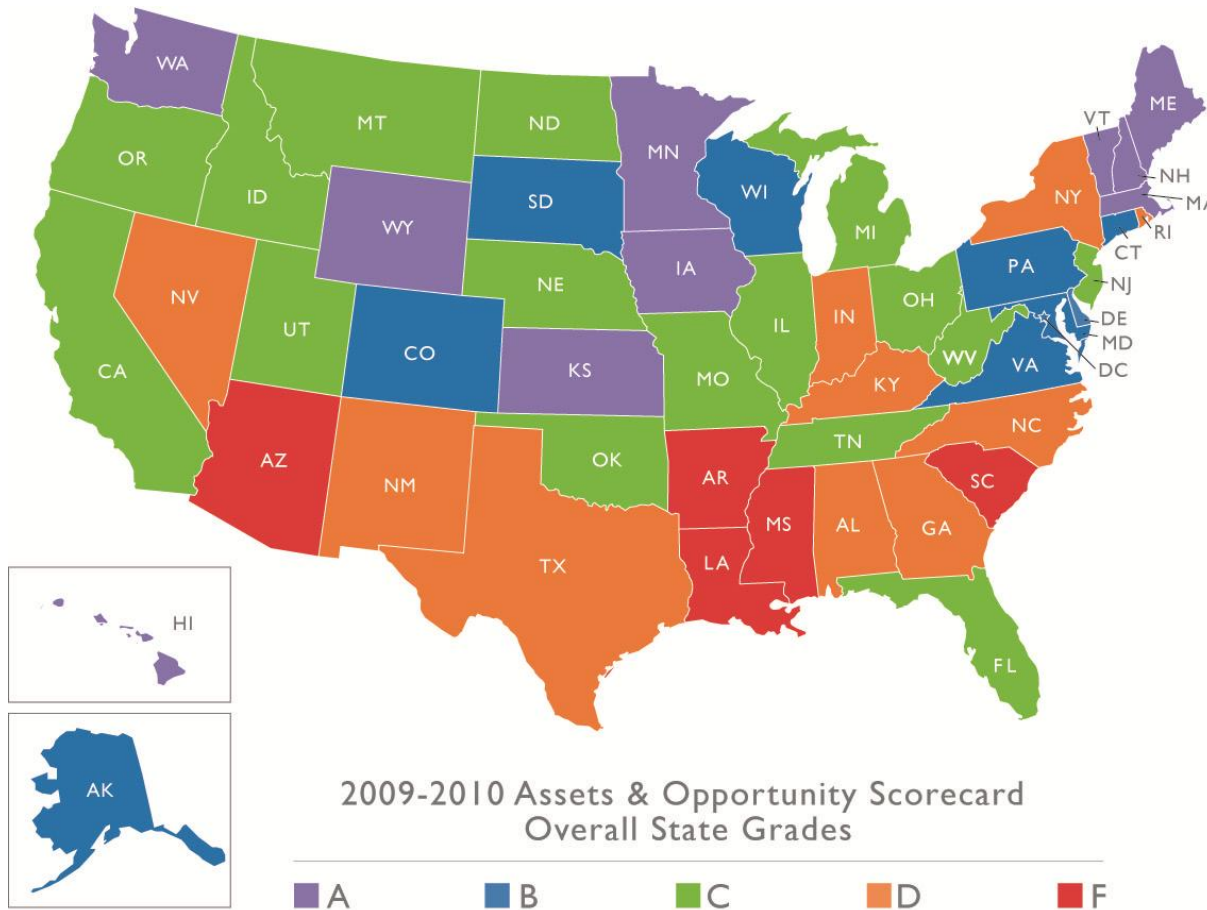
	Direct Outlays	Tax Expenditures	Total
Homeownership	\$ 1.10	\$136.50	\$137.60
Savings & Investment	\$ 0.03	\$142.50	\$142.53
Retirement Accounts	–	\$ 53.20	\$ 53.20
Business Development	\$ 0.11	\$ 0.90	\$ 1.01
Postsecondary Education	\$35.27	\$ 14.70	\$ 49.97
Total	\$36.52	\$347.80	\$384.32

Asset Distribution & Trends: Upside-Down Subsidies

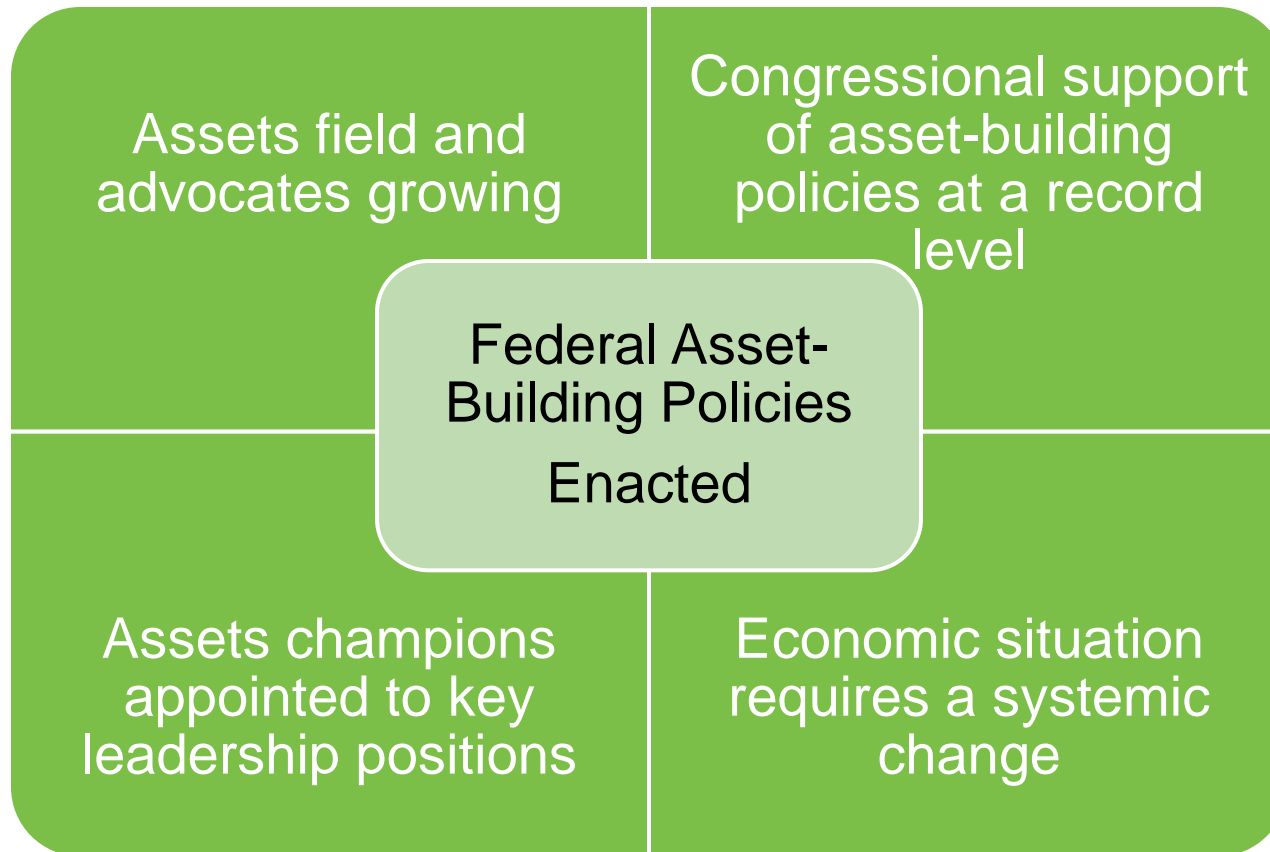
FY2009 Distribution of Asset Building Subsidies,
Average Benefit by Income Bracket



Assets Across America



Policy Window - Open



A balanced approach!



Any tax bill should include asset-building opportunities for low-income families.

Infrastructure Improvements

- **SSI Saver's Act (H.R. 2103)**
 - Raising the asset limit to \$5,000 for a single and \$7,500 for joint filers and index these limits for inflation
 - Excluding retirement savings from inclusion in the asset test (<65 age)
 - Excluding savings in qualified retirement accounts below a specified ceiling of (indexed for inflation) \$10,000 for an individual and \$15,000 for a couple or household (indexed for inflation) (>65 age)
 - Exclude IDAs and Education Savings Accounts as well

Automatic IRA, (S. 3760/HR 6099 in the 111th)

- **Automatic IRA Act of 2010 (S. 3760/HR 6099)**
- Success of automatic enrollment in private sector
- > half U.S. workforce (78 million) do not have access to employer-sponsored retirement plan
- Obama FY 2011 budget request included requirement: employers w/o retirement plans must offer auto payroll deductions into IRAs

Assets for Independence Program Facts

AFI Program Success:

- IDA programs: 1,100 sites
- IDA participants: 82,000
- Personal savings: over \$46 million
- Asset purchases: 19,000
- Average savings: \$889
- Savings rate: 1.6%
- 75% female, 45% African-American, 18% Hispanic and 76% with children

- AFI provides the majority of federal funding for IDA matched savings programs across the country.
- Many AFI projects offer services targeted to specific groups, including refugees/immigrants, victims of domestic violence, the homeless, and individuals with disabilities.
- Tens of thousands of AFI savers have gone on to buy a home, attend college, or start a business.
- IDA savers keep their homes and businesses and complete their college education

AFI Reauthorization



- Stephanie Tubbs Jones
Assets for Independence
Reauthorization Act of 2011
(H.R. 1623)
- Waivers included
- Ways and Means Committee
in House
- Health, Labor, Education and
Pensions in the Senate

AFI Reauthorization: Proposed Changes

Simplification for Grantees

- ❑ Lower the federal to non-federal match rate from 1:1 to 3:1
- ❑ Allow the critical financial education and economic literacy components of the AFI program to be funded as direct program costs instead of being included in the administrative costs
- ❑ Allow AFI grantees full discretion over 20% of the nonfederal funds (up from 15%)
- ❑ Remove the requirement that grantees calculate proportional interest earned on match funds in the reserve accounts
- ❑ Clarify investment rules
- ❑ Support training costs for grantees

AFI Reauthorization: Proposed Changes continued

Expand Participant Eligibility

- Income eligibility standards -- 80% of Adjusted Gross Income not to exceed \$20,000 single, \$30,000 head of household or \$40,000 joint tax filer or 80% of Area Median Income
- Remove earned income requirement allowed as waiver with SSA cooperation
- Raise savings amount to \$5,000/individuals and \$10,000/families

AFI Reauthorization: Proposed Changes continued

Definitions of Qualified Expenses

- Include preparatory courses and professional licensing or certification examinations in education expenses
- Grantees verify all post-secondary education payments
- Expand eligible education costs to include room, board and transportation, 529 contributions (not coverdells)
- Expand the definition of qualified expenses for homeownership to include home repair and replacement of substandard homes including replacement of pre-1976 mobile homes and those who have not had sole ownership of a home

AFI Reauthorization: Proposed Changes continued

Promote Research and Encourage Innovation:

- Allow other entities to apply directly
- Allow Indian Community Development Block Grant and the Native American Housing and Self-Determination Act as match
- Allow match for any statewide IDA program with an annual state appropriation of at least \$250,000
- Demonstration projects targeting specific populations including foster youth, returning prisoners and people with disabilities
- Raise the evaluation expense limit from \$500,000 to \$1,500,000 and expand the types of research permitted
- Raise the authorization limit from \$25 million to \$75 million

Senators on HELP

Richard Burr



Kay Hagan



The Saver's Credit - current

- The Saver's Credit is a non-refundable tax credit available to eligible taxpayers who make salary-deferral contributions to their employer sponsored retirement plans (401(k), 403(b), SIMPLE, SEP or governmental 457 plan), and/or make contributions to their Traditional/Roth IRAs
- The current credit is 10%, 20% or 50% of the individual's eligible contribution of up to \$2,000, which means it cannot be more than \$1,000

The Saver's Credit - current

- Adjusted gross income must not exceed the following limits:

Credit Rate	Married and files a joint return	Files as head of household	Other category of filers
50%	Up to \$30,000	Up to \$22,500	Up to \$15,000
20%	\$30,001 – \$32,500	\$22,501 – \$24,375	\$15,001 – \$16,250
10%	\$32,501 – \$55,500	\$24,376 – \$37,500	\$16,251 – \$27,500

- Lower the individual's AGI, the higher the saver's credit eligibility
- Vastly underutilized – 50 million individuals eligible, 6.4 m claim
- NC: 242,571 claimed \$39,678,000 average of \$164
- Partner with employers – W2 strategy

The Saver's Credit – Proposed:

- Expands the credit to additional middle-income working families by raising the income eligibility for families from \$55,500 in FY09 to \$65,000;
- Matches 50% of the first \$1,000 of savings for families (\$500 for individuals) earning <\$65,000;
- Automatically deposits matching funds into designated personal retirement accounts by using account information listed on IRS tax filings through IRS Form 8888;
- Indexes contribution limits for inflation

Children's Accounts

- **HR 529**
 - Saver's Credit for 529 College Savings Account contributions and computers are eligible
- **ASPIRE (HR 4682 & S 3577 in 111th)**
 - one-time, \$500 government contribution at birth
 - supplemental contribution as much as \$500
- **Foster Youth Financial Security Act (HR 6193 in 111th)**

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<http://cfed.org/policy/>

<http://scorecard.cfed.org/>

<http://saverscreditalliance.cfed.org>

<http://www.childsavingscoalition.org/>

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Latest on legislation, track bills, send messages

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