



expanding economic opportunity



## Rebuilding American Success: Savings and Opportunity for All

As Congress debates a long-term path to American economic growth, American households confront their own daunting challenges to economic security and success. While tight budgets, polarized politics and a skeptical public constrain policymakers' ambitions, Americans have yet to recover from the recession's losses, and the wealth gap continues to widen. Within this context, CFED offers a new approach to restoring American economic security: empowering Americans to construct their own ladders to success by building savings and assets. This memo offers four ideas from this framework:

- Reforms to make government more *savings-friendly*
- A path to *college savings* for every child in America
- *Financial fitness* for every American
- A new *national campaign against a middle-class crisis*—"asset poverty"

### INTRODUCTION

Five years after the worst economic downturn since the Great Depression, Americans are poised on a knife edge—between optimism and insecurity—about their personal financial and economic futures.

On one hand, Americans are increasingly optimistic about the overall economy, with [consumer confidence](#) strengthening steadily<sup>1</sup> and two-thirds of Americans [expecting](#) to be better off a year from now than today.<sup>2</sup>

But scratch the surface, and the vein of anxiety runs deep:

- More than three in four Americans now [believe](#) the "rich just get richer while the poor get poorer."

Americans see bigger gaps today between the wealthy and the middle class and the middle class and the poor than they did 10 years ago.<sup>3</sup>

- Most Americans—contrary to political wisdom—*don't* see themselves ever being [rich](#).<sup>4</sup> The minority of Americans who entertain that hope has shrunk in the past two decades,<sup>5</sup> while growing numbers—nearly 4 in 10—[say](#) they're unable to live comfortably<sup>6</sup> today.
- As for retirement, the picture is even bleaker. Just 14% of Americans say they're [confident](#) of a comfortable retirement,<sup>7</sup> while the percentage of Americans [expecting](#) to work past 65 has more than tripled since 1990.<sup>8</sup> Most people today expect to stay on the job until they're a ripe 67.<sup>9</sup>

But thanks to a lingering Tea Party hangover and the urgency of fiscal austerity, Americans are also skeptical that government can or should help alleviate these

concerns. While 70% of Americans say it's important for the federal government to "increase equality of opportunity,"<sup>10</sup> most Americans also [agree](#) that when "something is run by the government, it is usually inefficient and wasteful."<sup>11</sup> Congressional [approval ratings](#), meanwhile, continue to bottom out<sup>12</sup> while policymakers stay deadlocked on the big questions of spending and entitlement reform.

The challenges of today's environment—distrust coupled with anxiety, austerity coupled with need—demand a new approach to economic opportunity that can effectively meet Americans' needs.

The economic insecurity American households face today can't be solved through traditional, top-down solutions. Policymakers lack the budgetary freedom to propose expansive new government programs—and Americans are unlikely to embrace them.

This memo argues instead for "asset building" as a new—and effective—framework for expanding economic opportunity and rebuilding the infrastructure of household financial security and success. In fact, this approach is an essential 21<sup>st</sup>-century update to the bedrock programs of the current historical safety net. By helping America's hardworking families build "assets"—whether it's money in the bank, a college degree or the savings to buy a home or start a business—government can help households construct their own launch pads to success in an economy that's increasingly risky and complex.

The assets approach has several major advantages in the current environment. First, it's tested and proven to work. Decades of research now show that even the poorest Americans can save and lift themselves economically when given the right tools, infrastructure and incentives.<sup>13</sup> In a tight fiscal environment when policymakers are looking to proven solutions, "asset-building" passes the test.

Second, an assets agenda is well-suited to current public attitudes toward government and its role in individual success. Rejecting heavy-handed paternalism, this framework instead envisions the potential of all individuals to capably save and invest in their futures, including as students, homeowners and as entrepreneurs. It treats people as partners of governmental policies, not just "recipients" of federal largesse.

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Third, it envisions a new role for government in social policy—as the equalizer of *opportunities* for success. *Asset building is not principally about the redistribution of wealth. Rather, it's about means: empowering more Americans to steward their resources more effectively, changing policies that stand in the way of Americans' financial security, and putting faith in the productive capacity of all Americans to contribute economically and to their own success.* While success is earned, not given, all Americans are given the raw materials to direct their own financial future.

The remainder of this memo offers four ideas for expanding opportunity to all Americans under an assets-based framework. These ideas are based on decades of research and practice, by CFED and others, proving that an "assets-based" approach to opportunity can work—and can do so cost-effectively. These ideas include:

- Reforms to make government more **savings-friendly**, especially for lower- and middle-income Americans.
- A path to **college savings** for every child in America.
- **Financial fitness** for every American.
- A **new national campaign against the middle-class savings crisis**—"asset poverty."

## AMERICANS AND THEIR MONEY: UNDERSAVED, UNDERBANKED AND IN DEBT

### I. Aspirations versus reality

In 2010, according to the [Federal Reserve](#), the median net worth of American families was \$77,300.<sup>14</sup>

While this may seem like a respectable figure, it falls far short of the aspirations that most families in America have for themselves: to live free from the anxiety of paycheck-to-paycheck existence, to send their children to the college of their choice, to pursue the dream of entrepreneurship or continuing education, and to retire with comfort and dignity.

Kiplinger's [retirement needs calculator](#), for example, says that a 45-year-old worker earning \$50,000 a year should be building toward a cash nest egg of \$824,889, just to maintain 70 percent of current income after retirement (including Social Security).<sup>\*\*</sup>

The basic ingredients of financial security and success are clear: (1) emergency savings to weather short-term shocks, such as an illness or a job loss; (2) long-term savings to facilitate successful homeownership, retirement, investment or entrepreneurship; (3) access to affordable higher education that can increase earning power; and (4) financial "capability," or the knowledge and means to manage your finances effectively, together with strong credit and access to affordable, high-quality financial products and services.

Yet many Americans lack either the means or ability to create a strong financial foundation for themselves:

- More than one in four Americans either [lacks a bank account](#) or relies on non-bank providers, such as payday lenders or check cashers, for essential financial services.<sup>15</sup>
- More than half of all Americans have a credit score that would be considered "subprime."<sup>16</sup>
- More than four in ten Americans [lack the cash](#) to live for three months at the federal poverty line if they lose a job.<sup>17</sup>

Several underlying factors account for the less-than-stellar state of American household finances today and have helped to drive an even greater wedge between families and their ability to pursue their personal versions of the American Dream.

Most obviously is the Great Recession. According to the [Federal Reserve](#), American households lost roughly 40% of their net wealth between 2007 and 2010.<sup>18</sup> For lower-income families, the loss of wealth was near total. The [Pew Economic Mobility Project](#) found that families in high-poverty neighborhoods lost more than 90% of their net wealth, mostly due to the collapse in housing.<sup>19</sup>

Another major drag on families has been income stagnation—people have had less to put away. According to the Census Bureau, median income in 2011 was \$50,054—8.1% lower in real dollars than in 2007 and 8.9% lower than its peak in 1999. Even for families at the height of their earning power, between ages 45 and 54, real median income declined from \$64,307 in 2010 to \$63,861 in 2011.<sup>20</sup> But there are also new structural barriers to financial security that are among the side effects of a globalized, technologically complex economy.

<sup>\*\*</sup>This calculation assumes that the worker would retire at age 65, would receive the average Social Security benefit today of \$1,230 (adjusted for future dollars) and would not draw down home equity. The calculation also assumes a conservative 6% rate of return on investments.

The following chart, based in part on data from CFED's [Assets & Opportunity Scorecard](#), illustrates the gulf between “have” and “need” for many American households.

## AMERICAN HOUSEHOLDS: SAVINGS NEEDS VERSUS REALITIES

	NEED:	REALITY:
<b>Emergency savings in case of job loss or illness</b>	\$5,800 in cash savings to live three months at the federal poverty line	<ul style="list-style-type: none"> <li>■ 44% of households lack the savings to meet this threshold (they are “liquid asset poor”)<sup>21</sup></li> <li>■ Just 51% of private sector workers in medium and large businesses have short-term accident or sickness insurance.<sup>22</sup></li> </ul>
<b>Access to higher education</b>	\$17,860 to cover one year's tuition, fees, room and board at a four-year public college <sup>23</sup>	<ul style="list-style-type: none"> <li>■ In 2011, college graduates faced an average student debt burden of \$26,600.<sup>24</sup></li> <li>■ 69% of families have eliminated college choices due to cost.<sup>25</sup></li> <li>■ Aggregate student debt has nearly quadrupled since 2004 and now outstrips every other form of household debt except mortgages.<sup>26</sup></li> </ul>
<b>Homeownership</b>	\$35,720 for a 20% downpayment on a home worth the <a href="#">median</a> existing home price of \$178,600 in October 2012 <sup>27</sup>	<ul style="list-style-type: none"> <li>■ Homeownership rates dropped to 64.6% in 2011, down from nearly 67% in 2008.<sup>28</sup></li> <li>■ The share of <a href="#">first-time</a> homebuyers dropped to an historic low of 35% in October 2012, compared to 46% in May 2010.<sup>29</sup></li> </ul>
<b>Retirement</b>	At least <a href="#">10%</a> of annual pay in a retirement savings account. <sup>30</sup>	<ul style="list-style-type: none"> <li>■ The average monthly <a href="#">personal savings rate</a> in 2012 was just 3.9%.<sup>31</sup></li> <li>■ Total median retirement account savings was just \$44,100 in 2010.<sup>32</sup></li> <li>■ Only 66% of workers in medium and large businesses—and 35% of workers in small businesses—<a href="#">participate</a> in employer-provided retirement plans.<sup>33</sup></li> </ul>
<b>Good credit</b>	A <a href="#">FICO</a> credit score of at least 760 to qualify for “prime” interest rates. <sup>34</sup>	<ul style="list-style-type: none"> <li>■ 56% of Americans have “subprime” credit scores.<sup>35</sup></li> <li>■ Only <a href="#">42%</a> of Americans have seen their credit score in the last year.<sup>36</sup></li> <li>■ Average credit card debt in 2012 was \$10,736.<sup>37</sup></li> </ul>

## 2. The DIY economy: On your own with fewer tools

Some will argue that as the economy continues to recover and grow stronger, many of the harsher hues of the current state of household financial fragility will soften of their own accord. But there is more to the picture, and some of the larger structural problems with the “infrastructure of opportunity” simply can’t be erased by economic growth.

**The DIY economy.** The first of these structural problems is what Jared Bernstein, former Chief Economist for Vice President Joe Biden, calls the “you’re on your own” (“YOYO”) movement—“the trend toward shifting economic risks from the government and the nation’s corporations onto individuals and their families.”<sup>38</sup>

Traditional employer-provided pensions, for example, with their guarantee of steady retirement income, are rapidly going the way of the dinosaur. Between 1980 and 2007, according to the [Employee Benefit Research Institute](#), worker participation in traditional pensions at medium and large companies plummeted from 84% to 32%.<sup>39</sup> Today’s workers must now contribute their own money to a 401(k) (if they have one), make their own investment decisions and manage their assets on their own at retirement. If they’re lucky, their company provides some matching funds and whatever level of investment advice is permissible without triggering concerns over liability.

On the governmental side, New Deal-era safety net programs are also under siege. Over the next several years, as Congress embarks on entitlement reform, the question on the table will not be whether to change Medicare, Medicaid and Social Security, but how. The support provided by these programs to Americans faces the real risk of a downgrade from “basic” to “bare bones,”

which means that personal savings and assets will become increasingly critical to households.

### 21<sup>st</sup>-century world versus 20<sup>th</sup>-century government

The second set of structural challenges is the result of a mismatch between slow-moving governmental policies and a fast-paced, technology-driven, global, mobile economy. While the financial pressures on America’s households have increased, financial decision-making has also become more complex.

Financial innovation, for example, has been both a boon and a bane for consumers. While consumers now enjoy a plethora of choices for financial products that can boost their financial security, if used wisely, many consumers also lack the knowledge to make those choices or to avoid the many predatory products that have also proliferated the marketplace.

At the same time, social media, mobile technology and increasingly sophisticated, science-based marketing techniques have pushed our consumption-driven society to an extreme. Consumers are barraged by dozens of emails and texts a day—everything from the seemingly innocuous (albeit-annoying) messages from retailers advertising “limited-time-only” specials and “daily deals,” to more deceptive and fraudulent offers of predatory products and services that can wreak havoc on financial well-being. In the face of this onslaught, government has failed to catch up—either by arming consumers with the skills they need to cope or by modernizing its approach to regulation. According

to CFED’s [Scorecard](#), the number of states that test high school students on basic financial concepts as a graduation requirement is declining. Only five states require this today, versus nine states three years ago. Overall, only 12 states require any sort of financial education at all.

And while the creation of the federal Consumer Financial Protection Bureau is a highly promising development, the

The Great Recession wiped out 40 percent of American households’ net wealth.

Source: Federal Reserve

Only five states require testing in financial education as a graduation requirement.

Source: Assets & Opportunity Scorecard

agency is less than two years old and still just spreading its wings. Moreover, regulation alone can't ensure household financial security. Not only is innovation fast and government slow, America's households need more than just protection from predatory practices if they are to build real wealth.

## ASPIRATION AND OPPORTUNITY FOR ALL: FOUR IDEAS

More urgently than ever, federal policy on household financial security can and should remake itself. Government's straitened fiscal circumstances, combined with Americans' growing needs, demand fresh policies to help households get ahead.

In particular, policymakers should embrace a modern policy framework based on an approach—"asset-building"—aimed at helping all Americans have access to the financial tools and knowledge they need to build a secure future. Pioneered by Washington University in Saint Louis researcher Michael Sherraden and now a rapidly growing field, the assets approach to opportunity has proven successful in helping even very-low-income households save.

An assets-based approach to social policy carries many benefits: (1) it's cost-effective, by empowering Americans to steward their *own* earned income and resources more effectively; (2) it's enduring, by focusing on long-term investment and savings over short-term consumption and spending; (3) it's nimble, by giving Americans the capability themselves to adapt to a changing financial and technological environment; and (4) it's politically appealing, by centering on people, not government programs, as the drivers of economic security and success.

The four ideas below embody what an assets-based

opportunity agenda could look like:

### Idea 1: Savings-friendly government reforms

*Federal policies are surprisingly hostile to savers, particularly at lower- and middle-incomes. Government should be more savings-friendly: (1) Improve tax incentives for low- and middle-income savers, (2) Stop punishing working-poor savers, (3) Turbo-charge "auto-saving," (4) Reauthorize the Assets for Independence program and (5) Revive U.S. savings bonds.*

According to a [2010 analysis](#) by CFED and the Annie E. Casey Foundation, the federal government spends roughly \$400 billion a year to help Americans save and build assets,<sup>40</sup> mostly on tax breaks for such priorities as homeownership and education savings.

Given the size of these expenditures, it would seem that promoting personal savings is a top-tier federal priority. But the reality—perhaps surprisingly—is that federal policy is hostile to savers and savings in several key ways, especially at the lower end of the income spectrum. Moreover, this hostility undermines the investments the federal government does make in promoting savings.

As CFED founder Bob Friedman puts it, the current system "rewards the rich, misses the middle and punishes the poor." CFED's analysis, *Upside Down*, found that millionaires get \$188 in federal tax breaks to incentivize savings and investment for every \$1 in tax benefits that middle-income families receive.<sup>41</sup> On average, millionaires receive a tax benefit of \$95,820 each year for their savings efforts, while families earning \$50,000 receive \$509. Families with incomes of \$30,000 get just \$81.\*\*

A more savings-friendly government is essential to helping Americans accumulate wealth. Here's what policymakers should do:

\*\* See a graphic [here](#) for a breakdown of who gets what.

■ **Improve tax incentives for low and middle-income savers.**

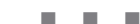
Despite the recent agreement by Congress to raise tax rates on the wealthiest Americans, no one should mistake these changes for genuine tax reform.

Under current law, the only tax incentive specifically targeted to lower- and middle-income savers is the “[Saver’s Credit](#),” which

was passed in 2001 and which offers a modest credit on retirement contributions for taxpayers earning up to \$55,500 for a married couple.<sup>42</sup> While the number of taxpayers benefiting from this credit has grown, it’s also not refundable, which means it misses the majority of potentially eligible taxpayers, who either do not make enough to itemize their taxes or whose incomes are too low to have tax liability.

A variety of proposals offer to improve the credit by making it refundable, expanding who can benefit and boosting other features. Chief among these is HR 837, the Saving for American Families’ Future Act, introduced by

**Federal policy is hostile to savers and savings, especially at the lower end of the income spectrum, and undermines other federal investments in promoting savings.**



**Millionaires get \$188 in federal tax breaks for savings for every \$1 that middle-income households receive.**

*Source: CFED*



Rep. Richard Neal (D-Mass.). Other proposals, such as the [Freedom Savings Credit](#) proposed by the Aspen Institute,<sup>43</sup> would replace the current Saver’s Credit with a more streamlined and generous incentive, while the New America Foundation’s [Financial Security Credit](#) would replace



and expand the existing credit, making it refundable while also allowing the match to go toward shorter term savings such as an education savings account or a certificate of deposit.<sup>44</sup>

The most generous of these proposals would cost in the neighborhood of \$3 billion a year—practically a rounding error compared to the \$76.9 billion that the government will spend on tax breaks just for defined contribution plans in 2013, according to the Congressional [Joint Committee on Taxation](#).<sup>45</sup> Assuming Congress takes up genuine tax reform this year, proposals such as these deserve serious consideration.

■ **Stop punishing working-poor savers.**



Another aspect of federal policy that is hostile to savings is the punitively low limit on savings that people can have and still be eligible for safety net programs such as federal disability benefits (“Supplemental Security Income” or “SSI”). Under [current law](#), SSI applicants can’t have more than \$2,000 in savings (\$3,000 for a couple).<sup>46</sup> While this limit excludes one car and a person’s home, it punishes anyone with a modicum of retirement or emergency savings and forces them to live with no financial cushion.

**Overly strict limits on the assets people can own and still be eligible for some federal programs trap people in poverty by penalizing, instead of rewarding, work.**



More worrisome are efforts by some in Congress to reinstate strict asset limits on beneficiaries of the Supplemental Nutrition Assistance Program (“SNAP,” formerly food stamps) in a misguided effort to cut federal spending. Current [law](#) gives states the flexibility to waive asset limits for SNAP recipients with savings and assets that are slightly above the current federal limit of \$2,000.<sup>47</sup> (Currently, 36 states have used this flexibility, according to CFED’s [Scorecard](#).)

The [Center on Budget and Policy Priorities](#) (CBPP) concludes that eliminating this state flexibility would throw between two and three million Americans off the program—most of whom are working poor.<sup>48</sup> While this policy would purportedly save about \$1 billion a year, it would cost the federal government more in the long run by punishing low-wage workers who are trying to break out of poverty by increasing their incomes and savings. Strict asset limits essentially trap people in poverty by penalizing, instead of rewarding, work.

Overly stringent “asset limits” on who can qualify for SNAP and other benefits not only send the wrong signal to working-poor Americans (“don’t save”), they punish the success of those on the cusp of self-sufficiency. CBPP has proposed numerous ideas that policymakers should adopt, including a “[safe harbor](#)” for retirement savings up to a certain amount before they’re counted toward the limit.<sup>49</sup> CBPP has also proposed [adjusting](#) the \$2,000 limit to today’s dollars (it’s been unchanged since 1989) and indexing it for inflation.<sup>50</sup>

## Savings-friendly government

- **Improve** tax incentives for low-and middle-income savers.
- **Stop** punishing working-poor savers.
- **Turbo-charge** auto-saving.
- **Reauthorize** the Assets for Independence (AFI) program.
- **Revive** U.S. savings bonds.

### ■ Turbo-charge auto-saving.

The introduction of “auto-enrollment” in employer-provided savings plans has dramatically improved worker participation and savings in these programs. According to a [survey](#) of mid-to-large companies by the human resources firm Aon Hewitt, 57% of employer retirement plans automatically enrolled workers in 2010, compared to just 24% in 2006.<sup>51</sup> One study by the Employee Benefit Research Institute ([EBRI](#)) projected that automatic enrollment would enable low-income workers to accumulate more than five times their annual earnings by age 65—compared to near zero when participation is voluntary.<sup>52</sup>

The next step is to automate even more. For example, J. Mark Iwry and the Heritage Foundation’s David John have proposed an “[auto-IRA](#)” for workers who don’t otherwise have access to an employer-provided retirement plan (in 2011, just 45% of workers were covered by workplace plans).<sup>53</sup> This idea, which has been included in President Obama’s budgets and introduced as legislation by Rep. Neal, would automatically enroll workers in an Individual Retirement Account (“IRA”), with contributions automatically deducted from their paychecks. Similar proposals made by Iwry, John and others call for “auto-escalation”—automatic increases in the amount of contributions—and increasing initial contributions beyond the currently standard three percent of earnings.

### ■ Reauthorize the Assets for Independence (AFI) program.

The Assets for Independence (AFI) program, passed in 1998, is a small but powerful program that supports community organizations helping families build savings. In particular, AFI supports the creation of special matched savings accounts (“Individual Development Accounts,” or “IDAs”) for families to save toward homeownership, college tuition or investment in a business. With a budget of just \$19.9 million in fiscal 2012, AFI has helped more



than 81,000 low-income families open a total of more than 71,100 accounts with more than \$66.5 million in savings since 1999.<sup>54</sup>

AFI is a potentially pivotal piece in continuing to ensure that lower-income households have access to opportunities to save. With years of accumulated research and practice on the “infrastructure” of savings, AFI could be an important conduit of resources, expertise and seed funding to cities and organizations that want to establish programs helping low- and moderate-income families save successfully.

To reach this potential however, policymakers should reauthorize the program with small adjustments to give it more flexibility and potentially more funding to help launch more savings programs nationwide.

### ■ Revive U.S. savings bonds.

Finally, federal policies are also failing to leverage effective policies to promote savings that are already in place. In 2003, for example, Congress cut off funding for the marketing of U.S. savings bonds and has since made it virtually impossible to get paper savings bonds, despite overwhelming [evidence](#) that paper bonds are an ideal savings vehicle for lower-income savers.<sup>55</sup>

Former Harvard Business School professor and founder of the nonprofit Doorways to Dreams (D2D) Fund, Peter Tufano, has been at the forefront of an effort to bring back savings bonds, once a popular savings vehicle, as a safe, relatively liquid asset, especially for lower-income savers who don’t otherwise have a bank account.

In particular, D2D has been running a highly successful effort to encourage investments in savings bonds at tax time, when people often receive a lump sum tax refund. In the 2012 tax year, the tax time [savings bond campaign](#) encouraged more than 35,000 people to save more than \$20 million in savings bonds.<sup>56</sup> Moreover, one [study](#) of this initiative by D2D and H&R Block found that 40% of bond buyers had never saved or invested before. According to the D2D Fund, preserving the availability of paper bonds is central to ensuring this program’s continued success and growth. In addition to reviving paper bonds, policymakers should also consider resuscitating the savings bond marketing program, even on a modest scale.

## Idea 2: A path to college savings for every child in America

*While college is the gateway to middle-class security, soaring costs are putting college out of reach and burdening new graduates with crushing debts. But by starting a nest egg early—through savings accounts for children—college hopes can become reality for more students. Policymakers can help every child save early and often for college by eliminating barriers to the widespread adoption of children’s savings accounts, encouraging innovation and integrating children’s savings into existing programs that reach low-income children and their families.*

If you’re the parent of a kindergartener in San Francisco, California, the first few weeks of school will bring more than new teachers, new friends and new routines for your child. Your child will also take the first steps toward college—with a savings account opened in his or her name and \$50 to start.

San Francisco’s [“Kindergarten to College”](#) program is the pioneer in a bold and burgeoning state and local effort to make “Children’s Savings Accounts” widely accessible to all children. More recently, [Cuyahoga County](#), Ohio, announced an effort to open \$100 college savings accounts for all kindergarteners starting the fall of 2013, while other similar initiatives are in planning stages in Colorado and Washington State.

The growing interest in Children’s Savings Accounts is an acknowledgement of today’s reality: While it’s undisputed that college is a ticket to mobility, it’s also undisputed that soaring costs are making college increasingly unattainable. Fewer than half of American families believe that someone can succeed today without a college degree.<sup>57</sup> At the same time, more than half of families feel “behind” in saving for their children’s

education.<sup>58</sup>

The [College Board](#) says the real cost of annual in-state tuition and fees alone at four-year public colleges has almost quadrupled in the last 20 years, from \$2,423 in 1982 (2012 dollars) to \$8,655 in 2012, while private college tuitions have risen from \$10,901 to \$29,056.<sup>59</sup> Nevertheless, the investment is worth it. Having a college degree will earn you at least [\\$550,000](#) more in your career than having only a high school diploma.<sup>60</sup>

And according to the [Brookings Institution](#), children in the bottom income quintile are about three times more likely to stay at the bottom as adults if they don't earn a college degree.<sup>61</sup>

But rising costs are doing damage: middle-income families are increasingly squeezed, while lower-income families are shut out. According to the [Brookings Institution and the Pew Economic Mobility Project](#), barely 1 in 3 children from the poorest fifth of families enroll in college, and only about 1 in 10 graduate. By comparison, among the wealthiest fifth of families, 4 in 5 children go to college and more than half (53%) graduate.<sup>62</sup>

Children's Savings Accounts, though not a panacea, offer an innovative solution to this dilemma.

**Less student debt.** To keep up with rising college costs, students are increasingly relying on debt. The [Institute for College Access and Success](#) estimates that 66% of 2011 college graduates have student loans.<sup>63</sup> Student loans now outstrip all other forms of consumer debt outside home mortgages, according to the [Federal Reserve Bank of New York](#), totaling \$902 billion in the first quarter of 2012.<sup>64</sup> At the same time, however, private savings haven't kept up. For example, only 11% of families in 2012 used a 529 college savings plan to pay for college.<sup>65</sup>

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**Growing interest in Children's Savings Accounts is an acknowledgment of today's reality: While college is a ticket to mobility, soaring costs are making college increasingly unattainable.**

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By boosting private savings from an early age, Children's Savings Accounts can equip college-bound students with a bigger nest egg, which means less student debt.

**Increased college attendance.** More than a decade of research shows that even small amounts of savings can have big impact on both college aspirations and attendance. Researchers such as William Elliot at the University of Kansas and Washington University in St. Louis, for example, have found that children with college savings accounts in their own names are [six times](#) more likely to go to college than children who don't.<sup>66</sup> As Cuyahoga County Executive Ed FitzGerald put it at his program's [launch](#), "every child in our area will grow up knowing that college is a real and attainable goal."

**Relatively low cost.** And because small amounts of savings can have big impacts, children's savings programs can offer big returns on relatively small investments. Cuyahoga County's program, for example, is expected to reach 15,000 students at an estimated cost of just \$2-3 million a year. Moreover, funding to "seed" and "match" the accounts can come from private and philanthropic sources. For example, CFED's recently launched social venture, the [1:1 Fund](#), raises private dollars for the purpose of "matching" college savings by lower-income kids.

**"Gateway" to lifelong financial security.** Providing kids with their own savings accounts can also have ripple effects throughout a family, particularly for those households who are otherwise disconnected from the financial mainstream. According to the [FDIC](#), 17 million adults live in households without a bank account (are "unbanked").<sup>67</sup>

## A path to college savings for all kids

- **Eliminate** barriers to children's savings accounts.
- **Encourage** innovation.
- **Integrate** children's savings into existing programs.

In addition to providing a direct connection to the financial mainstream, Children’s Savings Accounts can also be “integrated” with financial education targeted to the entire household so that families can practice what they know in real-time. (CFED has [proposed](#), for example, that children’s savings accounts be embedded into the federal Head Start program for low-income preschoolers.<sup>68</sup>) In San Francisco, the accounts are directly tied to students’ classroom-based lessons in financial education.

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**Children with college savings accounts in their names are six times more likely to go to college than kids who don’t.**

Source: Center for Social Development

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With state and local interest in Children’s Savings Accounts gaining momentum, policymakers should seek every avenue to encourage the availability of these accounts nationwide. Ultimately, the goal should be to make a low-cost, easy-to-use college savings account available to every child in America. Here are three steps policymakers can take to broaden access to Children’s Savings Accounts:

■ **Eliminate barriers to the widespread adoption of Children’s Savings Accounts.**

The first thing policymakers can do is to eliminate the barriers that stand in the way of a robust children’s savings account program at the state or local level. And once again, asset limits are the culprit. Some federal programs exempt tax-preferred education savings, such as a Coverdell Education Savings Account, from affecting a family’s eligibility for public benefits.

However, education savings accounts that are *not* tax preferred—such as the accounts that could potentially be created under a state or local child savings program—

could count toward a family’s assets. This means that even if a college savings account is in a child’s name and can’t be touched for anything other than educational purposes, that child’s family could still lose access to needed benefits. Needless to say, these limits present low-income parents with a powerful disincentive to save for the children’s future.

At a minimum, policymakers should exempt all specifically sanctioned education accounts from asset limits under federal benefits programs.

■ **Encourage innovation.**

Second, policymakers should encourage innovation in children’s savings. For example, Sens. Chris Coons (D-Del.) and Marco Rubio (R-Fla.) introduced bipartisan legislation in the 112<sup>th</sup> Congress to create “American Dream Accounts”—an online account with a savings component—aimed at preparing students for college. The Coons-Rubio proposal uses existing Department of Education dollars to encourage the development of online platforms that partner students with colleges, schools, nonprofits and businesses and provide them with both a savings account and the college readiness tools they need.

If passed, the Coons-Rubio bill could prove to be an important catalyst for the creation of new children’s savings efforts nationwide.

■ **Integrate Children’s Savings Accounts into existing programs.**

Policymakers can also work to leverage existing federal programs as platforms for increasing access to children’s savings opportunities.

For example, the Obama Administration announced in 2012 that it would commit \$8.7 million in funds under its GEAR UP program for a demonstration program providing college savings accounts to low-income middle school and high school students. This project is expected to reach about 10,000 students across the country, providing them with a college savings account as well as financial counseling.

This is not the only federal program where the integration of a savings opportunity could make sense. The federal Head Start program and even programs within public housing could provide opportunities to reach low-income children and their families with the opportunity to save and to aspire to college.

### Idea 3: Financial fitness for every American

*“Financial capability” should be a lifelong goal for every American. Not only should Americans have the knowledge to make sound financial decisions, they should have the means to act in their best interests as well. This means: (1) embedding financial education in a wide variety of settings to make it accessible and accepted; (2) “banking” Americans disconnected from the financial mainstream; and (3) ensuring robust consumer protections from predatory products.*

Americans are famously—perhaps even proudly—uninformed about basic facts.

When Newsweek asked 1,000 Americans to take its “[citizenship test](#)” in 2011, 73% couldn’t say why we fought the Cold War, and 29% couldn’t name the Vice President (for the record—Joe Biden).<sup>69</sup> In another well-known poll, by [Gallup](#) in 1999, 18% of Americans said the sun revolves around the Earth (for the record—it’s the opposite).<sup>70</sup>

Unfortunately, this lack of knowledge also extends to financial know-how, but with far more immediate and destructive consequences for Americans’ economic well-being. For example:

- Only 69% of high school students passed the [2011 National Financial Capability Challenge](#), administered by the U.S. Department of Education and the Department of the Treasury.<sup>71</sup>

- Many people don’t know the basics about maintaining good credit. For instance, 56% of Americans think that age affects your credit score, according to a [survey](#) by the Consumer Federation of America.<sup>72</sup>
- More than 1 in 4 American households rely on check cashers, payday lenders and other high-cost financial services, despite annualized interest rates on some products of 400% or more.<sup>73</sup>

According to Annamaria Lusardi, a leading expert on financial literacy, “The majority of Americans do not plan for predictable events such as retirement or children’s college education. Most importantly, people do not make provisions for unexpected events and emergencies, leaving themselves and the economy exposed to shocks.”<sup>74</sup>

Among other things, Lusardi’s research finds that many people don’t understand their mortgages, if they have one, and they lack understanding of such basic concepts as inflation and diversifying risk.<sup>75</sup> Even “basic numeracy” is a problem—that is, how to add and subtract.

With financial products becoming ever more varied and complex, and more responsibility for financial security landing on individuals’ shoulders, financial capability is a “must-have” skill for Americans. Yet, as mentioned above, only a small fraction of states require financial education for graduating seniors, and CFED’s [Scorecard](#) finds that only 14 states require any sort of financial education in schools.

Yet class time alone is not enough to make Americans financially capable—that is, able to *act* in ways that are best for their financial interest as well as knowing what to do. People also need access to low-cost, mainstream financial products that help them facilitate everything from bill payments and transactions to savings and investment, and they need to be protected from outright abuses. To create “financially fit” Americans, policymakers should:

■ ■ ■

**More than 1 in 4 Americans rely on check cashers, payday lenders and other non-bank financial services.**

Source: FDIC

■ ■ ■

## ■ Embed financial education everywhere.

Americans should live, breathe and think financial capability. In addition to making financial education a part of the core curriculum for American students, CFED has [recommended](#) that all states require financial education as a graduation requirement.<sup>76</sup>

But financial fitness, like physical fitness, is a lifelong habit that requires constant maintenance. Moreover, researchers now know that static classroom instruction is the least effective way to help Americans become more financially capable.

One exceptionally promising avenue for making financial education effective is to embed it seamlessly into other human services programs. For example, as CFED has [proposed](#), financial education, coaching and other strategies can be embedded into homelessness and foreclosure prevention programs so that clients are more likely to leave a crisis situation successfully.<sup>77</sup>

Embedding—or “integrating”—financial education makes it more likely to stick because it’s being delivered in a context that’s relevant to the individual (understanding your mortgage becomes more important if you’re at risk of foreclosure) and because the knowledge can be applied immediately.

Jonathan Mintz, Commissioner of the New York City Department of Consumer Affairs, calls the integration of financial education and other financial empowerment strategies into city-provided services, a “supervitamin” that can cost-effectively boost the effectiveness of core programs.<sup>78</sup>

As a report on New York City’s initiatives argues, “financial empowerment groundwork can help a social service program to succeed, such as cleaning up and improving credit scores before applying for housing, employment, or a loan modification. For others, subsequent safe banking opportunities can help the newly employed make optimum use of new and regular income streams, as another example.”<sup>79</sup>

The Obama Administration has begun to embrace this approach as well, with its recently announced [ASSET Initiative](#). This effort, administered by the Department of Health and Human Services (HHS), will aim to integrate financial education and other strategies into programs such as Head Start and programs for fathers and families, refugees and other at-risk populations. Policymakers should endorse and expand upon these efforts. In particular, the ASSET Initiative should be expanded beyond HHS to every key federal agency that administers a program aimed at savings or financial security, including the Departments of the Treasury, Labor, Education, Housing and Urban Development, and even the Small Business Administration.



### Can you answer this question?

Marco went to the grocery store to buy a box of cereal. The type of cereal he liked came in three different brands and three different size boxes. To select the brand and the box with the lowest unit cost, he should look at the:

- A. largest cereal box on the shelf.
- B. most popular brand of cereal.
- C. price per ounce of cereal in each box.
- D. I don’t know.

(Answer: C)

Source: U.S. Department of Treasury, 2011 National Financial Capability Challenge



## ■ Bank “unbanked” Americans.

In the same way that you can’t run a marathon if you don’t have the shoes, Americans can’t save and build wealth if they are disconnected from affordable, financial products such as a bank account. Unfortunately, too many Americans live on the fringe of the financial mainstream, relying on such high-cost services as check cashers, payday lenders, auto title lenders, rent-to-own stores and other “alternative” financial services providers.

■ ■ ■

**10 million American households have no bank account.**

Source: FDIC

■ ■ ■

As mentioned above, more than 1 in 4 American households relies on these alternative providers (are “underbanked”), according to the [FDIC](#).<sup>80</sup> And nearly 10 million

American households have no bank account at all (are “unbanked”).

While slightly more than half (53%) of America’s unbanked told the FDIC in 2011 that they didn’t have accounts because they didn’t have enough money or because they didn’t think they needed an account, people also cited institutional and structural obstacles to being banked. Roughly 15% of unbanked households, for example, say they have ID, credit or other problems that make it difficult for them to get an account or that they simply distrust banks, while another four percent cite perceptions of high fees. On the flip side, 40% of people who use alternative financial services say they do so because it’s easier for them to get a payday loan or money from a pawn shop than to qualify for a bank loan.<sup>81</sup>

The cost of being unbanked is potentially high. A 2008 Brookings Institution study estimated that a full-time worker could save \$40,000 over the course of her career (or \$1,000 a year over a 40-year career) by using a low-cost checking account instead of check cashers (although this figure assumes that an account holder is able to avoid overdraft fees and other charges).<sup>82</sup> The same study estimated that check cashers, payday lenders and

other alternative financial services providers collect at least \$8 billion in fees a year—money that could otherwise have gone toward savings.

To get unbanked households connected to the financial mainstream, policymakers should support efforts such as “[Bank On](#),” a locally driven public/private initiative to reduce barriers to being banked. First launched in San Francisco in 2006, Bank On programs work with local and state governments, community nonprofits and financial institutions to design and offer free or low-cost bank accounts, coupled with financial education. More than 70 cities now offer Bank On programs, and six states have set up Bank On programs.

Policymakers should also encourage product innovation by financial institutions to design “safe” products that can effectively compete against alternative financial service providers but also provide a vehicle for savings. One way to do this, as the [Center for Financial Services Innovation](#) has proposed, is to create a regulatory “safe harbor” for banks to pilot innovations without the full brunt of federal regulatory scrutiny from the Consumer Financial Protection Bureau (CFPB).<sup>83</sup>

## ■ Protect consumers from abuses.

While financial know-how and access to “safe” products can protect most consumers most of the time, there will always be unscrupulous providers ready to pounce on the unwary. Despite the initial controversy around its creation, the CFPB promises to be a vitally important agency for consumers.

In contrast to what naysaying opponents first feared, the agency has been measured and deliberate in its approach. Eschewing pitchforks and torches, it has relied on research, evidence and the input of all stakeholders, including financial institutions, in its rulemaking.

While no federal agency is perfect, the CFPB—launched in 2011—is off to a promising start and deserves continued support, particularly for its efforts around research and the establishment of “standards” for financial capability.

## Idea 4: A campaign against the middle-class crisis of “asset poverty”

*“More than 4 in 10 Americans lack the cash to survive three months at the federal poverty line if they suffer a loss in income. This lack of a cushion makes households uniquely vulnerable to financial shocks, such as an accident, illness or the loss of a job. A new national campaign to halve the “liquid asset poverty rate” by 2025 can encourage all Americans to maintain emergency savings. To reach this goal: (1) Make “asset poverty” an official indicator of household well-being, (2) Encourage employer-linked emergency savings, (3) Broaden access to accident and disability insurance, and (4) Encourage innovations to make savings automatic, convenient and even fun.*

Most American families – even those who technically fit the federal definition of income poverty – simply do not self-identify as “poor.” But when it comes to sizing up the capacity of America’s households to absorb economic shocks and weather the financial hardship that can stem from losing a job or suffering an accident or illness, the reality is that *more than 100 million Americans* are at great risk of falling into poverty.

According to CFED’s [Scorecard](#), 44% of Americans have less than about \$5,800 in savings—or the amount of emergency savings necessary for a family of four to live three months at the federal poverty line. (Technically, this is known as being “liquid asset poor.”) And while many of these Americans do own homes and cars, these assets either can’t be quickly or readily converted to cash in the case of an emergency.

Americans living paycheck to paycheck, without a financial cushion, are highly vulnerable. Losing a job could mean missing a rent or mortgage payment, which could easily spiral into eviction or foreclosure. Never mind gas, groceries, utilities, out-of-pocket medical

costs or an outstanding balance on a credit card.

The national lack of emergency savings is particularly acute today, while unemployment remains high. The [Bureau of Labor Statistics](#) says 40% of Americans unemployed in November 2012 had been jobless for longer than 27 weeks.<sup>84</sup> In fact, the average duration of joblessness in November was 40 weeks—more than nine months.

Research by the [Urban Institute](#)<sup>85</sup> and others has found that even relatively small amounts of emergency savings can protect low-income Americans from serious hardship, such as hunger. But all Americans, even the most affluent, can benefit from having the resources to weather an unexpected shock. While Americans with savings might recover their losses with time, those who lack a cushion may find their fall from the middle class or into poverty to be permanent.

Policymakers should make it a national goal to cut the “liquid asset poverty” rate in half by 2025. This means that policymakers should aim to reduce the share of Americans who lack the cash to live three months at the federal poverty line (i.e., who are “liquid asset poor”) from 4 in 10 Americans to 2 in 10 Americans, if not fewer.

First of all, more Americans with emergency savings will mean less hardship and human misery, particularly for families with children. Moreover, the availability of private resources can also help ease the strain on already strapped public programs. Finally, a new campaign to promote emergency savings could serve as a vehicle for teaching financial literacy and creating a “culture of saving.” Relatively small investments in promoting savings could potentially lead to big dividends.

To lower asset poverty, policymakers should:

### ■ Officially measure and track “asset poverty.”

Following the adage that “it doesn’t count if you can’t count it,” policymakers should elevate the concept of “asset poverty” by making it an official measure of economic well-being, on par with current measures of

income poverty and access to health insurance.

This should be a relatively easy lift for the Federal Government. Both the Census Bureau and the Federal Reserve collect data on savings and asset ownership through the Survey on Income and Program Participation (SIPP)\* and the Survey of Consumer Finances, respectively. What policy makers need to do is set a federal “asset poverty line” equal to the resources needed to live three months at the federal poverty line and track it over time.

### ■ Encourage employer-linked emergency savings.

At work is perhaps the one place where employees can count on being encouraged to save, especially now that automatic enrollment in employer-sponsored retirement accounts is increasingly the norm. But the retirement-only focus of the current system means that workers aren’t also being “defaulted” into other types of saving for short-term needs.

As a result, according to a well-publicized report by the firm HelloWallet, more than a quarter of workers who have retirement accounts have been raiding them for non-retirement purposes.

One idea, championed by [David John](#) of the Heritage Foundation, is to encourage employers to broaden their employer-sponsored plans to include all forms of savings. For example, John says, the United Kingdom encourages “corporate platforms” that allow employer-provided contributions to be used for both retirement and non-retirement purposes and where employees can have one-stop-shop access to all of their accounts.

Under this approach, employees could “auto-save” into an emergency savings account or even an employer-sponsored plan to buy U.S. savings bonds (see Idea 1 above).

### ■ Broaden access to disability and accident insurance.

While disability and access to insurance aren’t a perfect substitute for savings, it can be a critical source of income for someone who is sick or has an accident and can’t work. Yet most workers don’t participate or have access to this benefit.

According to the [Employee Benefits Research Institute](#), just over half of workers in medium and large businesses have accident or sickness insurance. In small business, only a quarter have any form of short-term disability insurance at all.

More employers should be encouraged to offer it, and more workers should be encouraged to participate. Greater demand could also spur innovations for lower-cost, broadly accessible products.

### ■ Encourage innovations in savings.

Recent advances in “behavioral economics” and social psychology have also led to an explosion of innovations aimed at making it easier—and more attractive—for people to save.

For example, the Boston-based Doorways to Dreams (D2D) Fund is directly challenging the belief that saving means pain and sacrifice. Their idea, “prize-linked savings,” literally rewards savings by offering people a chance to win up to \$10,000 in cash prizes if they make a deposit into a savings account. Their approach is to make savings “fun” — and it seems to work. In a 2009 pilot project sponsored by D2D and the Michigan Credit Union League, a relatively small-scale prize-linked savings program attracted 25,000 new savers and \$40 million in new savings.<sup>86</sup>

Another example of innovation involves the creation of “safe” alternatives to payday loans. In Pennsylvania, for example, the Pennsylvania Credit Union Association partnered with the Pennsylvania State Treasury Department to create “better choice” short-term loans with lower interest rates, no “rollovers” and other features to

\*SIPP data is the source of CFED’s asset poverty analyses in the [Scorecard](#).



help ensure that borrowers aren't trapped in an endless cycle of loans they can't repay.

While these products may not be perfect, the federal government should encourage more innovations like these. For example, it could post a call for emergency savings innovations on its website, [www.challenge.gov](http://www.challenge.gov). On this site, the Obama Administration has been successfully experimenting with "crowdsourcing" ideas from the public to solve public policy problems. One contest, for example, invites the public to submit ideas to the Federal Trade Commission on how to block illegal robo-calls.

Policymakers could also set up a small clearinghouse for the dissemination of ideas and best practices so that the most promising innovations can quickly come to scale. In addition, as CFED's Pamela Chan has proposed, policymakers should consider investing in product design and marketing research so that financial institutions have more incentive to develop savings products that lower-income consumers will find appealing.<sup>87</sup> This research may in fact prove to be a necessary step to persuade financial institutions that affordable products for lower-income consumers can still be good business.

## CONCLUSION

On a remarkable website created by the Boston nonprofit Boston Rising, [www.risingclass.org](http://www.risingclass.org), Americans who have worked their way to success can share a first-person story of their "rise," often from poverty and difficult circumstances.

[Beverly Hilaire](#), for example, wrote of her father's death when she was 7, and the loss of her neighborhood to crack cocaine. But after that tough beginning, Hilaire is the owner of A Sweet Place, a small but successful Boston candy shop, and a wife and mother of three.

"We did not start a business to make a quick buck," she writes on the site. "We know it takes time. We used every penny we had to start this business debt free. We started a business to take charge of where our lives were going and write our own script."

Hilaire's story is the quintessential story of American success, but it was only possible because of the assets she was able to accumulate, including the savings to start her business "debt free" and the financial skills to plan and manage a business successfully.

The framework in this memo is aimed at Americans like Hilaire, or who aspire to Hilaire's success. They are what Boston Rising calls the "[rising class](#),"—"self-determined people committed to achieving their own American Dream... who, through their aspirations and their progress, are the basis on which we build opportunity and growth."

Assets are essential for any American to join this "rising class." Helping Americans build assets can also help them build their aspirations and, eventually, to own their success in a way that traditional governmental approaches cannot. Moreover, the strictures of fiscal reality and public opinion make it impossible, at least in the short term, to expand a traditional framework in the mold of the New Deal or the Great Society.

Assets, however, present a new framework that is potentially at least as effective, if not more. By embracing an assets-based approach to opportunity, policymakers can bring about a transformation in social policy that is much-needed, long overdue and that Americans of all ideologies can embrace.

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