Asset Building Program

Savings and Assets Over the Life Course

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This paper argues that public policies to promote savings and asset building should be conceptualized and advanced with a "life course" perspective. The paper demonstrates a growing consensus towards this approach and presents relevant data as well as "asset effects" research in support of this perspective. The paper also presents a series of principles and two policy frameworks—behavioral economics and institutional models—to guide policy design over the life course. The paper continues with describing the key moments in our financial lives to build savings and assets, as well as those asset building measures that occur throughout a lifetime. Policy options for purchasing key assets and promoting those asset measures are then presented in accordance with these key and ongoing moments in our lives. The paper closes with moving this life course agenda forward in the current Congress, with specific attention to opportunities to (1) advance life-time savings accounts at birth as part of an expansion of the federal Saver's Credit, and (2) actively participate in the development of regulations for the financial services overhaul bill (the Dodd-Frank Act) recently signed into law by President Obama.

Assets and the Life Course Perspective

The asset building field has always promoted the idea of building assets through a lifetime. Emblematic of this "cradle to grave" or life course perspective are children's savings accounts, or CSAs, the automatic creation of savings accounts at birth that would then remain with that person until death to help meet their asset needs (higher education, home purchase, skills upgrading, etc.). In fact, Sherraden's (1991) original vision for Individual Development Accounts, or IDAs, was of life-long savings accounts created at birth and the CSA concept has subsequently been reflected in books, papers and policy proposals. In the last few years, asset building through the life course has reemerged as a more explicit focus within the field. For example, when the bi-partisan ASPIRE Act was first introduced in 2004, it created "KIDS Accounts" at birth for every newborn; the 2010 version of the bill establishes "Lifetime Savings Accounts," or LSAs, at birth (Cramer and Newville 2009).

Many leading scholars have also recently advanced the life course perspective for asset building research, policies, and programs. Mark R. Rank, who observes that the life course perspective has been applied in the social sciences for most of the 20th century, states that, "The area of asset building lends itself quite naturally to a life course framework. By its very nature, asset accumulation unfolds over a period of years and decades within an individual's lifetime, and the effects of such accumulation can best be understood within the context of the entire life course. Whether the asset is a college degree, homeownership, or retirement savings, the process of asset building is readily understood within the wider framework of the life course." (Rank 2008)

Rather than think about each asset in isolation—education, homeownership, or retirement savings—effective public policy should treat wealth building as a whole, understanding how assets play out in each stage of life.

Dalton Conley (2009), too, embraces this perspective. He remarks, "Americans need a much longer-term strategy. I argue that we need a broad definition of retirement security initiatives that includes savings policy from cradle to grave. With parents spending more and more for their children's education, one can no longer talk about retirement security without acknowledging the need to save for all of life's important investments and expenses. When we recognize the imperative of savings across the life course, we see significant deficiencies in our current approach that call out for action."

McKernan, Steuerle, and Lei (2010), reflecting a consensus reached at a roundtable of assets and social policy experts, write, "Policies to combat poverty or build wealth should be considered from a lifetime perspective—one that accounts for people's needs and ability to acquire different types of assets over a lifetime. Rather than think about each asset in isolation—education, homeownership, or retirement savings—effective public policy should treat wealth building as a whole, understanding how assets play out in each stage of life."

Data on Assets and Wealth

Data support the life course approach to asset building as well, especially for the low-income Americans for whom the asset building field primarily exists. Carasso and McKernan (2008), synthesizing various wealth databases, report that a typical (median) family in the bottom income quintile has about $7,500 in net worth—possibly the best measure of one's financial holdings—which is approximately one-fifth of the wealth of the second quintile, one-eighth of the third, and one-seventeenth of the fourth. McKernan, Steuerle, and Lei (2010) also show that examining levels of wealth for persons age 55-64 reveals stark differences in asset accumulation over the life course: the median wealth of the top fifth of households is seven times that of the bottom fifth by this age, before households begin to draw down their assets for retirement. Starting asset accumulation early in life, especially using tools and policies that target lower-wealth families, could begin to narrow these substantial gaps.

Beyond these snapshots of wealth, measures of income and wealth volatility support a life course perspective as well. Jacob Hacker (2006) reports that family incomes have fluctuated three times as violently today as they did in the early 1970s because responsibility for managing economic risks has increasingly shifted away from social insurance programs and employers and towards individuals. Dalton Conley and Rebecca Glauber (Conley 2009) found that significant numbers of Americans experienced at least one drop in wealth between 1984 and 2003, with over half of the U.S. population experiencing a 25 percent drop in wealth, and over a third experiencing at least one 50 percent drop in wealth. Asset building policies early and throughout life can reduce these economic shocks, even out consumption patterns, and allow for better long-term planning.

Measures of "asset poverty" developed by scholars over the last decade also demonstrate the necessity of considering a life course perspective (Haveman and Wolff 2004). Under the most common definition of asset poverty, households that do not have enough assets to survive at poverty line for three months are considered asset poor. Rank and Hirschl (2010), using this baseline, construct three different measures of assets—net worth, financial wealth, and liquid wealth—to determine levels of asset poverty throughout the life course from 1984 to 2004, and find that "asset poverty is widespread across the life course." The different measures capture the impact of home equity and other assets that are readily convertible to cash. Specifically, they find that: "The vast majority of those in early adulthood will experience asset poverty in terms of their net worth, financial wealth, and liquid wealth. For those in the middle and later stages of the life course, there remains a substantial risk of encountering financial wealth and liquid wealth asset poverty. In addition, individuals who have less education, are not married, are black, and who do not own a home, are all significantly more likely to experience asset poverty."

Assets and Generational Outcomes

By its nature, asset building is a longer term process. Benefits compound within an individual's lifetime and across generations. Research suggests assets can play a powerful role in determining outcomes and opportunities far beyond when and for whom they are initially acquired. A life course perspective is thus necessary to measure the effect of asset development strategies.

Thomas M. Shapiro (2004), combining data analysis and in-person interviews with a broad range of families, finds that the presence of even small amounts of wealth at the right times can have a "transformative" effect on the life course. He states: "A lack of assets not only makes it harder for many families to secure their position in the middle class, but also affects the ability of their children, and their children's children, to secure such a position in the coming decades. This is because assets have what has been called a 'transformative power' in transmitting financial stability and security across generations. This transformative power gives current generations an important safety net and future generations a head start."

Conley (2009), using intergenerational data, shows that parental education and parental assets "are the single best predictor of educational (and other socioeconomic) success for blacks and whites. Parental wealth proves so powerful, in fact, that when added to statistical models, parental income, occupation and race no longer appear to matter. That is, while race, income, job status and net worth all tend to vary hand-in-hand, careful statistical parsing shows that it is really net worth that drives opportunity for the next generation."

In a paper released by the Economic Mobility Project of the Pew Charitable Trusts, Cooper and Luengo-Prado (2009) find that children of low-saving, low-income parents are significantly less likely to be upwardly mobile than children of high-saving, low-income parents. Specifically, they find that 71 percent of children born to high-saving, low-income parents move up from the bottom income quartile over a generation, compared to only 50 percent of children of low-saving, low-income parents. Moreover, Cooper and Luengo-Prado find that among adults who were in the bottom income quartile from 1984-1989 34 percent left the bottom by 2003-2005 if their initial savings were low, compared with 55 percent who left the bottom if their initial savings were high.

The mobility-enhancing role of assets has been affirmed by researchers spanning the ideological spectrum. In another paper released by the Economic Mobility Project, Stuart Butler, William Beach and Paul Winfree (2008) of the Heritage Foundation found that financial capital, defined as "personal savings, investments or skills which individuals can leverage to get ahead," including, "wealth transfers, homeownership, retirement savings and entrepreneurship, and each positively affects mobility," along with family structure and educational attainment, are the three strongest predictors of economic mobility in America.

Asset Effects

In addition to seeding economic and educational development, assets nurture positive attitudes and expectations, future orientation, and behavior changes—collectively known as "asset effects"— that underscore a life course approach to building assets. Research tells us that the more assets in the home, the better the child will do, and that saving and accumulating assets should begin as early in life as possible. Assets, attitudes, and choices become mutually reinforcing.

For example, William Elliot III and Sondra Beverly (2010) discovered that, remarkably, children with any kind of an account, as long as the account was in the child's name, are seven times more likely to attend college than those lacking accounts. Similarly, Min Zhan and Michael Sherraden (2009) found that, after controlling for family income and other parent/child characteristics, financial and non-financial assets are positively related to, and unsecured debt is negatively related to, children's college completion.

Also, summarizing several recent studies, Trina Williams Shanks (2009) reports that children who grow up in homes with assets have lower rates of teen pregnancy, fewer behavioral problems, better self-esteem, more confidence, and a future orientation. And early results from the SEED Initiative (Sherraden and Julia Stevens 2010) in the U.S., which is testing child development accounts, found that the accounts instill a sense of security, reduce stress, encourage thrift, and provide a sense of hope for the future.

These findings extend beyond U.S. borders. Columbia University Professor Fred Ssewamala's Suubi project in Uganda has demonstrated that owning a Child Development Account instills a future orientation powerful enough to motivate orphans to avoid the risky behavior that can lead to AIDS. Chowa, Ansong and Masa (2010), examining a number of studies in developing countries, report that households with access to assets are better able to provide for their basic needs and make important investments in future generations through health care, education, and training, while those lacking assets are more vulnerable to poverty. John Bynner and Will Paxton (2001), in a paper published by the British think tank IPPR, found that, regardless of income, holding assets at age 23 is associated with later positive outcomes such as better labor market experience, marriage, health, and political engagement.

Interestingly, this "asset effect" appears to persist regardless of the amount of the asset: Shanks (2005) and others have corroborated that the simple presence of the asset seemed to matter most in generating a positive asset effect. Simply put, even modest amounts of assets appear to generate positive asset effects.

Principles and Savings Models for Assets over the Life Course

As we will see, various moments in our lives, beginning at birth and ending at death, present unique and specific policy opportunities to accumulate savings and productive assets. Before detailing those, however, a few principles and promising institutional models should guide our efforts.

The SEED Policy Council—a diverse body of policy experts, advocates, practitioners, and funders—met annually over five years to attempt to forge a consensus on CSA values, design principles, and policy recommendations. In 2008, it and the SEED national partners produced a paper entitled, "Child Development Account Policies Core Values and Key Design Features Discussion Paper," with four core values and eight design features (SEED Policy Council, 2008). For simplicity, these have been condensed into seven core principles described in Table 1.

While these principles should inform our policy development efforts, at times the principles will conflict. For example, the most progressive policy (with varying levels of matching deposits) may not necessarily be the simplest nor (from a federal government perspective) the most cost-effective to administer. Similarly, can automatic features (such as auto-enrollment into a 401(k) plan) undermine the financial capability goal embedded in the principle of asset building—that is, if a choice is made for you, how does that increase your financial capability? These tensions will have to be managed well. Nonetheless, these principles should be helpful in crafting policy recommendations for various stages in the life course.

Principles for the Design of Asset Policies Over the Life Course

Universal: Is everyone included?

Life-long: Does this account remain open through the life course?

Progressive: Is there more for the poor and disadvantaged persons?

Asset Building: Does it lead to productive assets, financial capability, and better social outcomes?

Automatic: Are there "opt-out" defaults for account creation, investments, and contributions?

Simple: Is it simple for both accountholders and administrators?

Cost-effective: Is it cost-effective for accountholders, plan administrators, and taxpayers?

A lifetime savings account model, like the one created through the ASPIRE Act, would also have the advantage of eventually getting all Americans in to one simplified savings system. Singapore's Central Provident Fund has such a system in place (Loke and Cramer 2009). A similar system was being put into place by the U.K. through its Child Trust Fund, Savings Gateway, and pension reforms until the former two were eliminated in the budget cuts made by the new conservative government (Cramer and Newville, 2009).

Many, including Sherraden (1991), Batchelder, Goldberg and Orszag (2006), Cramer and Newville (2009), and Conley (2009), have written about the inherent simplicity of one life-long savings system. In fact, as Sherraden (1997) has observed, social policy systems worldwide are moving toward greater use of assets accounts in a broad range of social policies, especially pension systems, and one can imagine a future in which LSAs could be used to streamline the delivery of more public benefits, including unemployment, child care, and health care. However, policymakers would need to take great care to ensure a proper balance between pooling risks through social insurance and individualizing risks through dedicated savings accounts.

Behavioral Economics and Institutional Determinants of Saving

A few of these principles listed above—especially "automatic" and "simple"—are embodied in the larger framework of behavioral economics, which has revolutionized the savings and financial education fields (along with many other fields). President Obama has hired an army of such economists, who are busy "nudging" us and installing "choice architectures" to improve our "health, wealth, and happiness" since individuals inconsistently make the "rational" choice in favor of our self-interest—even when we *want* to make that choice. Cass Sunstein—co-author with Richard Thaler of *Nudge* and now the Administration's regulatory "czar"—was recently quoted in the *New York Times* as saying, "The elaboration of behavioral economics, which seeks to uncover the ways in which people are predictably irrational, 'is the most exciting intellectual development of my lifetime.'"

It is important to review some of the basic ideas and lessons thus far from behavioral economics to better understand how it has influenced the savings and asset building landscape, and how it is poised to shape the field in the years ahead. Marianne Bertrand, Sendhil Mullainathan, and Eldar Shafir (2006), Amy Brown (2009) and others have described the key principles of behavioral economics, especially as it applies to financial assets and capabilities. These include the power of defaults (the choice made for us when we do not choose); loss aversion (we hate losing more than we feel happy about winning); minimizing choices (we are less likely to make any choice if there are too many); minimizing hassles, even seemingly minor ones like walking an extra block; channels, such as reducing hassles by partially completing a form; and mental accounting (putting money into separate mental "boxes," which then determines how people save or spend it).

Prior to the more popular emergence of behavioral economics, Sherraden and Barr (2005) articulated an institutional view of saving, similarly critical of the neo-classical model of saving and explanatory of saving behavior among people of all income levels. In their model, the presence or lack of various institutional factors—incentives, information, expectations, access, facilitation, restrictions, security, and simplicity—are better predictors of savings behavior than income, preferences (for current or future consumption), and demographic factors. Sherraden and Barr state, "In the framework presented here, each of these constructs is expected to shape saving and investment action and, as a result, to affect asset accumulation. In the 'real world,' these institutional constructs tend to exist in bundles rather than in isolation. These bundles, supported through public policy, tend to be delivered through employment settings and through the tax system."

Naturally, there is a lot of convergence between these two models, both of which have added significantly to our understanding of what makes saving and asset accumulation likely. Indeed, Sherraden and Barr remark that the vast majority of wealth accumulated in the U.S. can be best explained by who has access to these powerful institutional structures—especially employer-sponsored retirement plans and the approximately $400 billion a year in tax subsidies for pensions, homeownership, small business development, investments, and education (Cramer, Huelsman et al. 2010).

The results of experiments based on behavioral or institutional models are compelling. In IDA experiments, individual characteristics–age, gender, race, employment status, and even income– did not predict savings. In fact, the lowest income participants—those at 50 percent of the poverty line or below—saved a greater percentage of their income than those at twice the poverty line, suggesting institutional and behavioral factors are at play (Schreiner et al. 2002).

In another experiment, participation in 401(k) plans grew from 35 to 85 percent for women, 19 to 75 percent for Hispanics, and 13 to 80 percent for low-income workers when the default setting was switched to being automatically in the 401(k) plan (you have to opt-out) instead of being automatically out of the plan (you have to opt-in) (Madrian and Shea 2002). Thaler and Benartzi (2004) summarize their results from the Save More Tomorrow (SMT) plan, which allows workers to commit a portion of a future pay raise to retirement savings, as follows: "Most people (78 percent) who were offered the SMT plan elected to use it; (2) virtually everyone (98 percent) who joined the plan remained in it through two pay raises, and the vast majority (80 percent) remained in it through the third pay raise; and (3) The average saving rates for SMT plan participants increased from 3.5 percent to 11.6 percent over the course of 28 months. The results suggest that behavioral economics can be used to design effective prescriptive programs for important economic decisions."

Interestingly and encouragingly—especially in this era of tight budgets and eroding public finances—these behavioral and institutional models offer a potentially powerful tool with which to leverage relatively small and inexpensive program and policy changes to achieve asset building objectives. For example, no funding was required when Congress clarified various 401(k) laws in the Pension Protection Act of 1996 that enabled more companies to offer opt-out policies. Nor did most employers have to incur significant new costs to implement it. Yet this change is estimated to generate $44 billion in new savings every year (Iwry, Gale and Orszag 2006).

Brown (2009) supports the potential of the behavioral and institutional models as well: "This is an extremely powerful idea: that by making relatively small (and inexpensive) programmatic changes, we can create a context more conducive to success." Recently, Sherraden (2008) has remarked that while matching deposits may play an important role in encouraging savings, it may be that other factors—such as automatic enrollment in savings plans, or raising savings expectations (by, for example, increasing the amount of money that will be matched) can have a more important role.

Behavioral economics is not without its faults or critics—Wolfe (2009), for example, believes that the "soft paternalism" and "choice architecture" (reference) it requires comes at too high of a cost to personal freedom and individual responsibility. But this powerful idea should, and is likely to, have a significant impact on policymakers for the foreseeable future. Accordingly, behavioral economics and the institutional models of saving should heavily inform our policy recommendations for asset development for persons in the U.S.

Moments to Accumulate Assets over the Life Course

There are several key moments over the course of our entire lives when there is a greater potential to accumulate, purchase, redeem and bequeath assets. These include such moments as birth, entering the workforce, buying a home, filing taxes, and even death. If increased savings and asset building is recognized as a policy goal, public policies should be designed to take maximum advantage of these moments.

Some of these moments can be tailored to specific families. For example, lower income families may qualify for the Earned Income Tax Credit and higher income families can access certain tax breaks if they have a mortgage or make contributions to specially-designated accounts. There are also moments when one asset building transaction presents an opportunity to put another one in place, reflecting some of the insights from behavioral economics: When buying a home, for example, one can try to obtain a mortgage that automatically escrows savings for home-related repairs and improvements, or to secure a consumer loan that includes an automatic savings feature as well.

Another set of moments can be found at various places *throughout* a lifetime. Building financial knowledge and capability, having access to quality financial services, and protecting the assets you own should occur throughout a lifetime, including, but not limited to, major asset transactions.

These moments are described more fully below. Note, however, that space does not permit the full range of possible policy options recommended for each stage of life—the full list can be found in *The Assets Agenda 2011* (Cramer, Lopez-Fernandini et al. 2010). It also does not reflect key asset-impacting moments, such as marriage and divorce, which are better leveraged through effective and timely financial education than through the public policy opportunities discussed in this paper.

Birth Through Age 18

As stated earlier, there is growing evidence that saving and accumulating assets should begin as early in life as possible, and that the more assets in the home (whether the child's or parent's), the better the child will do later in life on a range of economic and social indicators (Shanks, 2005; Sherraden 2005). In addition, by automatically setting up accounts at birth for each of the four million children born in the U.S. every year, we begin to phase-in a universal, life-long system of savings accounts that enables adults to meet their asset needs throughout life. This platform then becomes an excellent basis for teaching financial basics in schools, especially during early school years when research suggests that financial education is particularly effective (Mandell 2009). Moreover, with everyone eventually using the same system of accounts, other policy goals can be achieved, including streamlining savings accounts, tax simplification, and supplementing Social Security. Another possibility is implementing the "conditional cash transfer" concept pioneered by behavioral economists through this infrastructure by rewarding students with deposits for good grades, community service, and certain positive behaviors. Many of these objectives could be achieved through the bi-partisan ASPIRE Act (New

America Foundation, 2010). While a federal system of accounts would be ideal, state-based 529 college savings plans could, with some modifications, also serve as a universal platform for life-long savings (Clancy, Orszag, and Sherraden 2004).

Entering the Workforce

The workplace has always been and remains a fulcrum for building savings and assets. Indeed, as previously stated, the vast majority of pension wealth in the U.S. is structured (albeit regressively) through employers. The Auto401(k), Save More Tomorrow and other efforts already discussed hold great potential to expand retirement savings for less advantaged employees. Meanwhile, the "AutoIRA" legislative proposal—which builds on behavioral models by setting up automatic payroll deductions into IRAs held in the private sector—holds potential to build retirement savings for a significant percentage of the 70 million workers not currently covered by 401(k)s. But, especially recently, efforts to build pre-retirement savings are emerging as well. For example, Congress is considering offering employers a tax credit to support employee savings in state-based 529 college savings plans, which typically are used to build up savings for a child's college education but also serve as an excellent, legally permissible tool for skills upgrading and life-long learning for workers and adults (Cramer, Lopez-Fernandini et al. 2010). And the "AutoSave" experiment now underway is testing automatic payroll deductions geared toward generating unrestricted savings (Cramer 2006; Lopez-Fernandini and Schultz 2010)—a type of savings that families increasingly need to reduce financial risk, pay-down debts, and accumulate productive assets (Lopez-Fernandini, 2010).

Filing Taxes

There are several unique aspects of tax time that can be leveraged to encourage savings by all households, including lower-income households. One is that lower-income workers receive relatively large tax refunds—for tax year 2008, the average refund was $2,700, and approximately 24 million EITC recipients received refunds as large as $4,824 (Newville 2009). Data show that many low-income Americans are "lumpy" savers—they save more when they have windfalls than otherwise (Schreiner at al. 2002). Another unique aspect of tax time is the infrastructure and broad reach of the tax system, since the vast majority of working Americans must file their federal income tax forms every year with the IRS. In fact, that infrastructure has recently expanded in ways that are conducive for accumulating savings and assets: through the 2008 "split refunds" initiative by the IRS (which allows taxpayers through Form 8888 to allocate their tax refunds to three separate accounts); and last year through an administrative ruling allowing taxpayers (also through form 8888) to purchase Savings Bonds directly at tax time (Tufano and Schneider 2005). These behaviorally-informed changes cost the government little but (as with Auto401(k)) are poised to generate billions of dollars in new savings every year, including for low-income Americans. And there are now proposals to expand that infrastructure even further by enabling those without bank accounts to open one directly on a tax form, which will have the dual effect of banking the un-banked and then allowing them to take advantage of Form 8888 to save a portion (or all) of their tax refunds. Another proposal (Koide 2009) would deliver a stored-value card at tax time called SAFE-T, which could receive tax refunds and payroll deposits, used for point-of-sale transactions, and hold savings. Finally, much stands to be learned from Treasury's recently announced 2011 pilot—modeled on SAFE-T—to help deliver safe, low-cost financial products at tax-time.

Intergenerational Transfers

While not traditionally discussed as an asset building opportunity by the assets field, intergenerational transfers could become more prominent if our efforts to promote asset accumulation through the life course succeed, as more families will have assets to bequeath to future generations. These transfers constitute an enormous source of wealth for millions of Americans. According to research by Rank (2008) and Gale and Scholz (1994) intended family transfers and bequests account for 51 percent of current wealth in the U.S., while an additional 12 percent of wealth is acquired through payment of college expenses by parents. Consequently, nearly two-thirds of the net worth that individuals acquire comes through family transfers. An even higher estimate came from Kotlikoff and Summers (1981) who argued that, as of 1974, more than 80 percent of the net worth in this country was the result of intergenerational transfers. While it is unlikely that low-income Americans would be affected by even higher and higher levels of wealth removed from taxation under proposed estate tax revisions, one can question whether the billions in revenue losses associated with the lapsed estate tax could be deployed to broaden the ownership of wealth, rather than further concentrate it.

Receiving Public Assistance

The Great Recession has increased the number of Americans struggling to support themselves and their families and led record numbers of Americans to public assistance programs to meet their basic needs. The vast majority of those who do find themselves needing TANF, food stamps (now "SNAP"), Medicaid or other "safety-net" programs will confront limits on the amount of savings and assets they can own while receiving public benefits or having to spend down those assets in order to qualify. Policymakers have recently recognized this incongruity between the objective of stabilizing individuals and families during times of financial insecurity and the practice of penalizing public assistance recipients who try to save. Now, for example, food stamp recipients will no longer have college and retirement savings counted against them, and the Obama Administration proposes raising all limits for non-disabled, non SSI-recipients to $10,000. However, asset limits still deter saving as long as any limits exist or, whether raised or eliminated, as long as the *perception* among potential participants remains that the limits exist.

Not only should public assistance not act as a deterrent from saving, from an asset building perspective, these programs can serve as an opportunity to accumulate savings and assets. IDAs, for example, were permitted for TANF recipients under the 1996 welfare reform overhaul, and TANF recipients are automatically qualified for the Assets for Independence IDA program (assuming a local program received a demonstration grant). Cash benefits, too, though meager, can be a source of deposits into savings accounts. It is worth recalling that, in the ADD experiment (Schreiner et al. 2002), the lowest income participants saved a greater percentage of their income than those closer to 200 percent of the poverty line. Finally, as public assistance benefits are increasingly delivered through electronic means (direct deposits, EBT cards, stored-value cards, etc.), this presents an opportunity to link those benefit deposits to savings products and other financial services.

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Building Financial Education and Capability

Building financial knowledge and capability to apply that knowledge should occur throughout one's life in addition to teachable moments presented when purchasing an asset. Research tells us that financial education should come through a variety of channels, including the classroom, workplace, community centers, tax centers, mortgage providers, small business development centers, and elsewhere. What is taught, and when it is best taught, however, are difficult questions to which researchers continue to pursue answers. This is especially true as the financial system becomes more complex and individual consumers are asked to make more and more choices. Not surprisingly, many individuals, and especially lower-income individuals, make costly financial mistakes (Lusarsdi 2009). Overcoming these challenges, however, could be partially achieved through the recently enacted Dodd-Frank financial services overhaul law as well as through the field of behavioral economics discussed above, which could result in safer, more "default," and standardized products in the marketplace.

Accessing Quality Financial Services

Access to quality financial services should be available to all individuals throughout life. As many moments as possible should be used to connect people to key financial services. These basic services are often an essential first step in building productive assets. Check-cashers, payday lenders, and other similar entities are unlikely to offer wealth building services. Given the large number of un- and under-banked consumers and how many of them are financially disadvantaged, this effort will be challenging. While estimates of un-banked or under-banked consumers vary, one nationally representative survey, FINRA (2009), reports that some 12 percent of the population, over 25 million adults, is un-banked, meaning they lack any type of transaction account at a mainstream financial institution. Among households making less than $25,000, nearly 20 percent are un-banked. According to a study performed by the Federal Deposit Insurance Corporation, workers with incomes under $30,000 make up 70 percent of the un-banked population in this country. As with financial education efforts, it is hoped and expected that the forthcoming Consumer Financial Protection Bureau will help meet the challenge of banking more Americans by setting standards for financial products and services among both mainstream and alternative financial service providers. There are many channels through which these services can and should be delivered, often in combination with financial education efforts.

Protecting Assets

Protecting the assets one has accumulated is clearly, in light of the Great Recession, an objective over the course of one's life, not just a one-time event. As was witnessed over the last several years, millions of investors and homeowners, including many low-income Americans, lost billions of dollars of wealth as the meltdown in the housing and financial markets propelled the economy south. Predatory mortgage lending, for example, is responsible for stripping an estimated $9.1 billion in assets from low-income families and communities each year (Stein 2001). Meanwhile, alternative financial service providers strip low-income Americans of their wealth through refund anticipation loans, payday loans, and the like. Payday loans, for example, cost low-income families an estimated $4.3 billion a year (King, Parrish, and Tanik 2006). Also, some 529 college savings plans defaulted participants into flawed or too risky life-cycle or target funds, draining the already meager savings for college by parents. (This experience also raises a challenge to behavioral economics advocates who would like to see more defaults in consumer financial services: what are the appropriate defaults, and who decides?) Naturally, achieving life-long savings objectives requires both offensive efforts to increase access to, and the number of, more traditional, transparent, wealth-building products and services that build financial capability as well as defensive efforts to reduce the number of wealth-stripping products and transactions. Expectations are high that the CFPB created in the Dodd-Frank financial reform legislation will facilitate both.

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Economic Context for Advancing Assets Over the Life Course

At the root of the current economic slump—now known as the Great Recession— is a consumer-driven economy, largely financed through debt, which eventually exhausted its ability to borrow. The pace of recovery will be determined, in part, by the rate of "de-leveraging" households undergo following the bursting of the asset bubble a few years ago marked, in particular, by the collapse of the credit and housing markets and a rebuilding of household assets.

Prior to the recession, American consumption made up about 71 percent of the U.S. economy and 24 percent of the overall global economy. The necessary de-leveraging or debt reduction from this level of debt-fueled consumption poses a set of challenges, as a quick look at some measures of household assets reveal. Federal Reserve data analyzed by the Economic Policy Institute (2008) shows that while all but the lowest income quintiles saw a rise in median net worth between 2004-2007, the United States ended 2007 with about one-third of households with net worth less than $10,000 and about one in six having zero or negative net worth. And while equity markets have largely rebounded in the last couple of years, housing prices have not—and in fact may decline yet another 10 percent. According to the Federal Reserve Bank of St. Louis (Emmons 2010), some $6 trillion in home equity was lost between 2006 and 2009. Not surprisingly, this housing crash has hit low- and middle-income homeowners the hardest, for their home is their primary financial asset. Since the recession took hold, personal saving rates have increased, but the de-leveraging process appears to be ongoing and the pace of economic growth remains sluggish.

Consequently, most Americans cannot count on broad-based or steady economic growth in the years ahead to protect or grow their financial holdings. Given the grim fiscal picture of the United States, Americans are not likely to count on expanded safety nets either (with expanded health care coverage for many a notable exception) now or later in life.

This means that Americans will increasingly need to rely on their own savings and investments to advance economically, achieve a secure retirement, invest in their children's education, and pass on wealth and opportunities to the next generation. This is a "balance sheet-led" recession and Americans must reduce their debts and rebuild their savings to bolster the larger economy as well. Similarly, targeting asset building interventions to low-income households becomes a pragmatic investment in sustainable economic growth and counterweight against future volatility, both at the household level and in the broader economy.

These imperatives for increasing household savings and for creating public policy to support those efforts are met with a set of formidable challenges. The Economic Policy Institute (2008) and others report that for over a quarter of American households, income from Social Security, pensions, and personal savings are expected to replace less than half of the pre-retirement income. A McKinsey Global Institute (2005) report on the coming "global wealth shortfall," for example, pointed out that within the next 20 years high-saving, aging societies in Asia and elsewhere will begin to reduce their saving to support their own consumption and retirements, forcing the U.S. to generate its own saving (as early as possible, the report recommends). These challenges make savings and financial education efforts more urgent in the years and perhaps decades ahead.

And yet, because of the recession, there is concern with taking policy action that could depress consumer spending. In response to economic uncertainty and changing conditions, many households are in the process of deleveraging their debts and rebuilding their balance sheets. This will limit aggregate demand, but over the long run, increased asset holding at the household level can serve as a critical plank for building a sustainable economy. For this reason, policymakers are likely to consider the potential of implementing new savings incentives. When this occurs, there will be several policy debates which create targeted opportunities to promote savings and asset building across the life course.

Opportunities to Promote Assets Through the Life Course

As detailed in the *Assets Report 2011* (New America Foundation), during the first year of the Obama administration, the largest and most consequential legislation enacted was the American Recovery and Reinvestment Act (ARRA), referred to widely as "The Recovery Act." This was a far reaching bill designed to respond to the recession and intended to stabilize household balance sheets. In terms of asset building, this involved protecting families from the erosion of savings, the loss of wealth, and the disappearance of wealth building opportunities. A wide range of policy tools were deployed, including increased outlays, new tax credits, and new tax deductions and exclusions. The increased use of refundable tax credits is particularly significant because they benefit more families with lower incomes, fewer resources, and lower tax liabilities than traditional tax credits. A second important piece of legislation with asset building ramifications was The Worker, Homeownership and Business Assistance Act of 2009, which modified and extended a refundable tax credit for eligible home buyers.

The coming years will likely present new opportunities to advance proposals that support savings and asset building over the life course. Specifically, policy debates can be expected to focus on issues related to savings policy, financial education, asset protection, Social Security, and tax reform.

Savings

Several proposals supported by the Obama Administration are under consideration by Congress to help Americans save more, especially for retirement. First is an expansion of the Saver's Credit. The current Saver's Credit is a non-refundable tax credit intended to encourage retirement savings for low-income households. Contributions to IRAs, 401(k)s, and the like qualify for the credit. The expanded credit would make it refundable and extend its benefits to include moderate-income taxpayers (AGI up to $65,000 per year for married households). Second would be the creation of "Auto IRAs" which—building on behavioral economics and the success of opt-out 401(k) plans—would set up opt-out automatic payroll contributions into IRAs for workers not currently participating in employer-sponsored retirement plans such as 401(k)s. And third, although the legislative vehicle remains unclear, are the reforms to asset limits mentioned above, raising the limit to $10,000 for non-elderly, non-disabled families receiving public assistance. These three proposals, if enacted, are estimated to cost $50 billion over ten years (constituting just 7 percent of proposed spending on asset activities with the remainder largely serving middle and upper income households) yet would represent a significant expansion of asset subsidies for working, lower-income Americans who are saving for retirement and other purposes.

To really enhance savings over the life course, however, proposals to begin saving early in life must be considered by Congress as well. One promising proposal is the bi-partisan ASPIRE Act—which creates savings accounts automatically at birth for all newborns with funds earmarked for post-secondary education, home purchase and retirement. This policy could be included in the expansion of the Saver's Credit (Cramer, Lopez-Fernandini et al. 2010). More specifically, Lifetime Savings Accounts, or LSAs, would be created (through a Thrift Savings Plan-type of structure housed in Treasury, with an option to roll-out to the private sector at any time) alongside the expansion of the credit, such that contributions to LSAs—essentially, a modified IRA—would also qualify for the Saver's Credit. Initial deposits of $500 per account, along with supplemental deposits for lower-income families, would be provided as well, as outlined in the ASPIRE Act. Contributions from all sources would be encouraged. While matching deposits under the ASPIRE Act would be delivered directly to the accounts, in the version attached to the Saver's Credit expansion the matching deposits would be delivered in the same way Saver's Credit incentives are delivered, which is through federal tax returns. It is worth noting here that Singapore's successful savings system was initially designed to promote retirement savings, but it has since been enhanced to facilitate savings for pre-retirement purposes including healthcare, post-secondary education, and home ownership (Loke and Cramer 2009).

> The priority at this point should be to establish the "plumbing," or ensure that every child has an account into which their deposits and any federal subsidies can be made; subsidies can later be added or dialed up as resources become available.

To move LSAs forward as part of the Saver's Credit expansion, two important thoughts must be kept in mind. First, policymakers must be convinced that saving for retirement must begin at birth—that the magic of compound interest will result in greater personal account balances and thus fewer federal subsidies (whether savings incentives or greater Social Security payments) later on; that there are important financial literacy and asset effects by starting savings early in life; that to develop a real savings culture in the U.S., every child must have the opportunity to begin saving early in life; and that establishing LSAs at birth for every person allows us to eventually consolidate the myriad of savings accounts and incentives into one simpler system. Second, current political and fiscal realities suggest that an incremental approach to a universal system of LSAs is an acceptable goal, which may include smaller amounts of public money used to seed the accounts. The priority at this point should be to establish the "plumbing," or ensure that every child has an account into which their deposits and any federal subsidies can be made; subsidies can later be added or dialed up as resources become available.

Financial Education and Asset Protection

The recently signed Dodd-Frank act is poised to bring greater consumer protections, asset protections, and enhanced financial education efforts in the years ahead through overall reforms to the financial system and through the creation of a new consumer protection agency.

The broad purpose of the legislation—to reform and strengthen the financial system—is designed to lead to less financial risk for average consumers. Provisions in the legislation addressing systemic risks, credit rating agencies, derivatives, capital requirements, mortgage and foreclosure reforms, monetary policy, investor protections, the structure of the banking regulators (Federal Reserve, OCC, and FDIC), and other elements of our financial sector are poised to enable consumers to conduct financial transactions in a more stable environment. These reforms are intended to enable consumers and financial educators to evaluate specific financial products without having to assess the broader stability of the financial system providing those products.

Consumers and financial educators are also poised to benefit from the new legislation through the consumer protections envisioned in the stand-alone Consumer Financial Protection Bureau (CFPB) and from the specific provisions within the CFPB addressing financial education. According to the Senate Banking Committee, "The new independent Consumer Financial Protection Bureau will have the sole job of protecting American consumers from unfair, deceptive and abusive financial products and practices and will ensure people get the clear information they need on loans and other financial products from credit card companies, mortgage brokers, banks and others."

Turning to the specific financial education provisions, the legislation states that the Office of Financial Literacy's research responsibilities would include identifying the range of financial service needs for consumers, including the issues of debt, credit, savings and financial planning. It would also assess the various market conditions for consumers for financial products, including underserved consumers, what types of products are being offered to them and what ways consumers are aware of the potential costs/risks associated with these products. It would attempt to evaluate the safety and effectiveness of different approaches that are currently being employed by financial literacy programs and how the use of technology could be used in this process to better analyze, understand and disseminate information to consumers. (Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010).

How and whether this is actually achieved remains to be seen—a significant number of key issues will be decided by regulators, not by Congress—but should the CFPB succeed at realizing its ambitious vision, it could be a huge win for consumers. For example, some proponents of this effort believe that while Congress declined to mandate "plain vanilla" or "default" financial products in the financial services overhaul bills, the net result will be more incentives for companies to offer fewer exotic, complex products and more "traditional" and transparent products. The hope is that by curbing a broad range of abusive financial practices, financial institutions are more likely to engage in more conservative lending and other, safer financial practices.

The key challenge, then, for advocates of asset building over the life course is to actively participate in the development of regulations over the next few years to ensure that the legislation's vision is achieved in practice.

Social Security and Tax Reform

Long a source of fodder for discussion of federal spending, Social Security is once again in the eye of policy makers. The National Commission on Fiscal Responsibility, directed by President Obama to propose recommendations for improving the mid-and long-term fiscal outlook and to decrease entitlement spending, formulates its policy options and is scheduled to report by December 1st of this year. Even if the Commission fails to reach the support of 14 members of the 18 member panel required for a formal endorsement, Congress will likely see proposals that garner a smaller consensus as a mandate for legislative action. Benefit size, retirement age, and the level of income on which to tax benefits have emerged as places to reduce the cost of the program over time. Social Security provides retirement security to 37 million Americans and keeps 13 million retirees above the poverty line. Even small changes to the program could translate into a large impact on the wellbeing of its recipients. Increased attention on the Social Security program will be an opportunity to highlight the essential role savings plays in allowing retirees to meet their lifestyle expectations, which in turn will elevate the importance of public policies to support the savings process.

The expiration of major tax legislation at the end of 2010 presents an opportunity to consider existing programs and have a broader conversation about what our tax policy should accomplish and for whom. In President Obama's 2011 budget proposal, $549.1 billion of the spending identified for asset building purposes, or 78 percent, is administered through the tax code, most of which benefits middle and upper income households (Cramer, Huelsman, et al. 2010). Just as with the debate over Social Security, the Obama Administration has been ambivalent over specific reforms and Congress has hedged action until the Fiscal Commission reports out its recommendations. In August, the President's Economic Recovery Advisory Board issued a report on options for tax reform, which delivered just that, options but no recommendations or other indication of priority (The President's Economic Recovery Advisory Board, 2010).

This coming policy debate represents an opportunity to consider both tax reform and strengthening the Social Security system in tandem. If this occurs, the policy objective of increased savings across the life course should shape the policy deliberations.

Whether defined by a moment in the life-course, the economic cycle, or current legislative debate, there are a diverse range of specific opportunities to promote asset building. Behavioral economics presents an innovative approach to achieving asset building objectives that can require only minor, inexpensive policy changes, which meets the moment of fiscal austerity Congress is operating within. For instance, the ASPIRE Act would meet each child at the moment of birth with an account bearing his or her name, which could produce asset effects powerful enough to put that child on the path to college and provide the resources to finish. An ongoing challenge for the field and policymakers is to seize on these opportunities in order to promote long-term economic security for all.

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