Policy Recommendations

Forging a New Vision for California Working Families

Asset Building and Asset Protection

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California prides itself on being the land of opportunity. It is a place where people from across the nation and around the world have joined together, generation after generation, to achieve their dreams and create the promise of continued opportunity for future generations. This legacy was built on hard work, ownership, entrepreneurship, and a great deal of sacrifice.

Today, this legacy faces major challenges. Jobs are less secure, family incomes are more volatile, college costs are rising sharply, and job-based systems of health insurance and retirement are disappearing. Currently, over 30 percent of California households are asset poor, meaning they do not have adequate personal savings to subsist for three months at the poverty level if their income were to stop unexpectedly.[i] They have no cushion against a financial emergency caused by the loss of a job, a disabling accident, or unexpected medical bills. But in crisis comes opportunity: the opportunity to renew thrift as a central value and virtue in California and create new paths for saving and financial security.

Financial security and mobility depend not just on one's job and income, but increasingly on one's ability to accumulate a wide range of assets. Broad asset ownership has the potential to connect opportunity with economic security and ensure that every member of society has a real stake in the commonwealth.

Families accumulate assets in different forms and proportions: a savings account, a college degree, a skilled trade, a stake in a small business, a college savings plan, a retirement pension or nest egg. But assets of all kinds provide common benefits. They provide a buffer against family financial emergencies, they offer an opportunity to produce income and accumulate wealth, and they promote psychological well-being and civic engagement.

The New America Foundation advances innovative, market-oriented public policies to enable working families to accumulate savings, access wealth-building financial services and financial education, and build and protect lifelong, productive assets. Asset building is about new ways of broadening the middle class and giving all Californians the tools and incentives to save and build wealth, thereby providing all Californians both with the means to get ahead and with a direct stake in the economy.

Policy Goal #1

Help Californians Save for College

Rationale

California is an economy built on ideas, technology, and a well-educated workforce. California stands at the front ranks of the global economy today because Californians in past decades put aside some of their wealth in past decades to give an ever-rising number of their children a higher education. California is now in danger of losing that higher education edge. Because of budget cuts and rising fees, "California's historically strong performance in enrolling students in college-level education and providing affordable educational opportunities may be at risk," the National Center for Public Policy and Higher Education reports.[ii] The state is now on a path to have a less educated workforce in the future, a workforce that receives lower wages and does not meet the economy's need for college-educated workers. California is caught in a double bind: Californians cannot afford to pay for college, and the state cannot afford to be without educated Californians.

To meet these challenges, California must invest in the next generation and seed lifelong savings accounts for each child born in the state. Children Savings Accounts will enable families to save for postsecondary education and will embody expectations. They are hope and expectations in concrete form. These accounts will launch all kids on the path of savings and investing from the day they are born and will yield a new generation of financially savvy and highly skilled Californians—regardless of their income level.

Policy Goal #2

Expand Retirement Savings Opportunities

Rationale

Nationally and globally, the labor of working Californians has long made the Golden State a leading economic power. Yet despite their hard work, 43 percent of Californians are employed in jobs that offer neither a pension nor a retirement savings plan to supplement Social Security.[iii] More than 75 million Americans and 10 million California workers do not participate in an employer-sponsored retirement plan.[iv] As a result, approximately 40 percent of today's baby boomers rely on Social Security benefits for more than 90 percent of their retirement income. However, Social Security payments alone, which average to $1,081 per month in California, will not be enough to sustain Californians in their retirement. This lack of retirement savings may result in higher costs for government services, as seniors without savings are more likely to require government assistance with housing, medical care and other necessities.

One of the best ways to get Californians saving their hard-earned money is through payroll deduction. California workers need a seamless, lifelong retirement savings system that will provide them with the opportunity to build their assets and attain financial stability through a secure, portable savings account. Such accounts would give 6 million California workers without employer-provided retirement benefits an opportunity to have their own workplace retirement savings plans to supplement Social Security. It would also give hundreds of thousands of California's small businesses a relatively easy, low-cost, voluntary way to offer a retirement savings plan to their employees.

Policy Goal #3

Increase Access to Sound Financial Services and Financial Education

Rationale

California has a stake in ensuring that all families have access to adequate financial products and services, including banking, savings, and wealth-building opportunities. For low- to middle-income families who have fewer financial resources to begin with, a solid grounding in personal finance and a clear understanding of the options and implications of financial decisions are critically important. While there are a wide range of financial education curricula available, there is a dearth of financial advisors and educators to help working families understand the complexities of the financial sector, assist them when they face difficulties, or help them establish savings and investment goals.

To help working families make sound financial decisions, California should establish a Financial Services Corps. This corps would consist of a dedicated group of volunteer

financial planners and advisors who are committed to helping low- and middle-income families make safe financial choices. In addition, financial literacy should be integrated in California's K-12 primary and secondary education curricula. These initiatives will bring financial tools, education, and resources to people who need it the most.

Policy Goal #4

Create a State Earned Income Tax Credit (EITC)

Rationale

For many working families the annual April 15 deadline for filing personal income tax forms is a time to pay up, but for many more it is a time when refund money comes into hand. For these families the tax system can be a gateway to building savings and planning for the future. The Earned Income Tax Credit (EITC), a federal refundable tax credit designed to reward work, is a powerful antipoverty tool.[v] It is estimated that in 2008 over two million California working families claimed $5.2 billion in EITC dollars with an average credit of $2,039.[vi] During this tax season, a two-parent household with three or more children, and an annual combined income of $48,279, is eligible for the full credit totaling $5,657.[vii] For these families, the EITC provides a great opportunity to get out of debt and start saving. Building on the success of the federal EITC, California should create a state EITC. Currently, twenty-four states and the District of Columbia, have enacted a state-level EITC. A state EITC will help tackle California's high asset poverty rate while providing working families with the additional income necessary to climb up the economic ladder.

Policy Goal #5

Eliminate the CalWORKs Asset Limit

Rationale

For families making the transition from welfare to work, developing assets is critical to achieving economic security. The stated goal of the California Work Opportunity and Responsibility to Kids (CalWORKs) program is to assist families in achieving economic self-sufficiency through work, thus creating social and fiscal responsibility. Currently, families on CalWORKs are stymied by an asset limit that restricts families to not more than $2,000 in savings (including some retirement and higher education savings) and one car (with a value of no more than $4,650). The asset limit forces individuals working their way off of public assistance not to save—or worse, to hide their savings. In addition, the asset limit penalizes those who do save with a loss of benefits. By inhibiting low-income families from accumulating and maintaining assets, California is preventing families from achieving self-sufficiency. California must eliminate the CalWORKs asset test to allow low-income families to develop their own safety net through personal savings and permanently exit welfare.

Policy Goal #6

Regulate Predatory Payday Lending

Rationale

As a result of predatory payday lending, working families are caught in a debt trap, stripped of their hard earned money and their ability to build personal savings. California payday loans are small, short-term loans of no more than $300 dollars secured by a borrower's personal check with annual interest rates (APR) of up to 459%.[viii] It is estimated that in 2006, over 1 million Californians took out payday loans at an average of 10 loans per borrower.[ix] Payday lenders are disproportionately concentrated in black and Latino communities, with more than $247 million stripped from these communities every year.[x] Currently, sixteen states have either banned payday lending or enforced interest rate caps of 36% APR or less.[xi] In 2009, the City of San Francisco, in partnership with several credit unions, launched SF Payday Plus, a program that offers a safer and more affordable small-dollar loan at 18% APR and encourages low- and moderate-income families to save and build credit. To promote safer alternative short-term loans and prevent California families from falling into the debt trap, lawmakers should place a 36% interest rate cap on loans from payday lenders.

Notes

[i] CFED, "2009-2010 Assets & Opportunity Scorecard," September 2009.
[ii] National Center for Public Policy and Higher Education. http://highereducation.org/
[iii] U.S. Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States,* March 2007.
[iv] "State by State: Workers Without Access to Employer-Sponsored Retirement Plan," Retirement Security Project.
[v] Antonio Avalos, *The Economic Impact of the Earned Income Tax Credit in the City of Fresno,* Fresno Works for Better Health Advocacy, 2007.
[vi] Internal Revenue Services, *EITC Statistics at a Glances*, Fiscal Year, 2008.
[vii] Internal Revenue Services, *EITC Threshhold and Tax Law Updates*, Fiscal Year 2009.
[viii] "Report on the Status of Payday Lending in California," Silicon Valley Community Foundation, October 2009.
[ix] California Budget Project, "Payday Loans: Taking the Pay out of Payday," September 2008.
[x] "Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California," Center for Responsible Lending, March 2009.
[xi] CFED, "2009-2010 Assets & Opportunity Scorecard," September 2009.

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