

Public Policy and Asset Building: Promising Account-Based Systems and the Rationale for Inclusion

By Reid Cramer

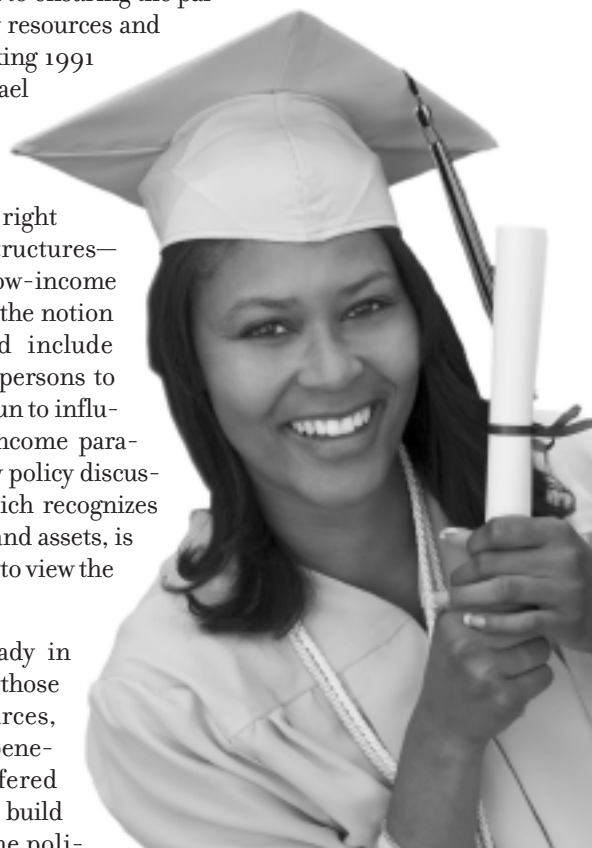
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Through an array of policies and programs, the federal government has played a significant role in both the expansion of wealth and its distribution. Initiatives such as the Homestead Act of 1862, creation of the Federal Housing Administration in 1934, and the GI Bill of 1944 expanded ownership of capital through access to important elements of wealth building, such as land, homeownership, and higher education. These historic efforts assumed that ownership created stakeholders, and expanding opportunities for people to accumulate assets had wide social and economic benefits. The value of assets is based not only on the economic security they provide but also on how they enable people to invest in their future and exert a stake in the broader society. For many people, finding the path out of poverty has depended on being able to access asset-building opportunities offered by public policies.

Public policy to encourage asset building continues to this day; it is a hallmark of the prevailing policy framework that identifies wealth creation as a central objective. Yet policymakers have given little attention to ensuring the participation of households with few resources and low incomes. In his groundbreaking 1991 book, *Assets and the Poor*, Michael Sherraden first outlined a rationale for asset-based policy and explored how individual accounts—if supported by the right incentives and institutional structures—could serve to build assets for low-income people. In the intervening years, the notion that antipoverty efforts should include opportunities for lower-income persons to build up their asset levels has begun to influence policy. Today, while the “income paradigm” still dominates antipoverty policy discussions, the “assets paradigm,” which recognizes the interactive effects of income and assets, is an alternative lens through which to view the enduring dilemma of poverty.

The asset-building system already in place disproportionately benefits those households with greater resources, higher incomes, and better job benefits. Families with less are offered fewer and less attractive ways to build wealth. This is because many of the poli-



cy levers currently used to save and build wealth are embedded in the tax code. Tax deductions, credits, and deferrals collectively subsidize a range of activities, including mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the value of these asset-building tax expenditures exceeds \$365 billion annually, but they are generally not accessible to a large number of citizens who would benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs. Not surprisingly, 90 percent of the benefits in the two largest tax expenditure categories (homeownership and retirement) reach households with incomes above \$50,000 a year.¹

Federal policy historically has discouraged asset building among households with fewer resources. Not only has the structure of tax expenditure programs denied benefits to poorer households, but also antipoverty policy efforts have been, and remain, focused on facilitating income maintenance and short-term consumption. In this spirit many federal programs impose asset limits as an element of means-tested program eligibility. The unintended consequence of this approach is that it creates a disincentive to engage in the types of activities that can help a family move up and out of poverty.

More inclusive asset-building policies are needed. Among the characteristics of an inclusive system are universality, progressivity, and flexibility. This means that everyone is eligible to participate, those that need more assistance get it, and the platform is available throughout the life cycle. Such an inclusive asset-based system can be built in a number of

ways, but it is likely to have at its core an account-based structure.

The Value of Assets

In a review of the literature on the effect of asset holding, Edward Scanlon and Deborah Page-Adams found that financial and property assets appeared to have positive effects on economic security, household stability, physical health, educational attainment, and civic involvement.² This conclusion is supported in the United Kingdom by work which examined the effect of assets on life chances and found a persistent effect: “the assets effect was sustained, with employment, psychological health, belief in the political system and values, all appearing to be enhanced by assets.”³ Recent findings from a national demonstration project of matched savings accounts for low-income individuals found that program participants responded positively to savings incentives, overcoming doubts among policymakers as to whether the poor could save.⁴ The research results do not justify a rejection of income-maintenance programs, but they support building on approaches that combine income and asset perspectives.

Asset-Building Accounts

Over the last three decades a shift in assets policy has elevated the role of individual accounts and account systems. The profusion of accounts, including the advent of 401(k)s, Individual Retirement Accounts (IRAs), and Section 529 College Savings Plans, has carried a big price tag but more fundamentally is indicative of the trend to deliver public benefits through an account structure. Yet the distribution of benefits from these accounts, as delivered through the tax code, has been considerably more regressive than the pre-

¹U.S. CONGRESS JOINT COMMITTEE ON TAXATION, ESTIMATE OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2004–2008 (2003).

²Edward Scanlon & Deborah Page-Adams, *Effects of Asset Holding on Neighborhoods, Families, and Children: A Review of Research*, in BUILDING ASSETS (Ray Boshara ed. 2001).

³JOHN BYNNER & SOFIA DESPOTIDOU, INSTITUTE OF EDUCATION, CENTRE FOR LONGITUDINAL STUDIES, EFFECT OF ASSETS ON LIFE CHANCES 1 (2001).

⁴MARK SHREINER ET AL. CENTER FOR SOCIAL DEVELOPMENT, WASHINGTON UNIVERSITY, SAVINGS AND PERFORMANCE IN THE AMERICAN DREAM DEMONSTRATION: A NATIONAL DEMONSTRATION OF INDIVIDUAL DEVELOPMENT ACCOUNTS (2001). Key findings include the observation that a majority of people in the demonstration were able to save while participating in the program and that program characteristics, such as match rate, financial education, and use of direct deposit, are linked to savings performance.

ceding social insurance and means-tested transfer programs developed after the New Deal.

Domestic policy goals are increasingly achieved through individual asset accounts instead of large entitlements or discretionary spending programs. The challenge is to identify ways to make an account-based system work for those currently without tax liabilities, bank accounts, or asset holdings. An account-based system that is simple, widely available, and portable, with incentives that are accessible to households with fewer resources, could be at the center of such an inclusive asset building agenda.

Individual Development Accounts

The experience of Individual Development Accounts (IDAs) has been instructive in this regard. IDAs are matched savings accounts typically restricted to buying a first home, pursuing postsecondary education and training, and starting a small business. Recent experimental research demonstrated that low-income persons could save in IDAs and that IDAs were effective in building assets.⁵ Privately funded IDA demonstration projects helped paved the way for federally funded IDAs, but the effort remains small.

The Bush administration has proposed expanding the number of IDAs available for low-income, working persons by 900,000 accounts.⁶ This would be funded by creating an IDA tax credit that would match dollar-for-dollar contributions of up to \$500 a year targeted to lower-income individuals through a 100 percent credit to sponsoring financial institutions. The Senate previously endorsed such an approach but authorized only 300,000 accounts.⁷ This discrepancy highlights the challenges in scaling up an account-based system but does not obscure the potential of creating an account vehicle with savings

incentives accessible to households with fewer resources.

Children's Savings Accounts

One of the most promising ways to achieve a universal, progressive asset-building system over time would be to provide each generation of children a restricted, start-in-life asset account at birth.⁸ An "accounts-at-birth" approach makes a social investment in every child at the same time as it gives the child a stake in the broader society. Each child will grow up knowing that she will have a modest pool of resources at her disposal to help her succeed. These accounts would establish a universal platform and infrastructure to facilitate future savings and lifelong asset accumulation. Beyond the individual benefits, investing in children could have large multiplier effects, increasing social engagement and expanding opportunity. In the long run, building wealth through children's savings accounts and other means has the potential to help break the vicious cycle of intergenerational poverty.

Children's accounts can also ensure retirement security; they would offer a means to build assets that could be strategically employed in times of need or productively invested to generate future returns. The nature of assets is that assets work as building blocks over a lifetime, serving as bridges connecting different stages of the life cycle—just as investing in one's human capital by going to college generates opportunities to increase income, or buying a home serves as a forced savings plan that can be tapped at retirement. While every child would have an account, the account would especially benefit the 26 percent of white children, 52 percent of black children, and 54 percent of Hispanic children who start life in households without any resources whatsoever for investment.

⁵RAY BOSHARA, BROOKINGS INSTITUTION, *INDIVIDUAL DEVELOPMENT ACCOUNTS: POLICIES TO BUILD SAVINGS AND ASSETS FOR THE POOR* (2005).

⁶OFFICE OF MANAGEMENT AND BUDGET, *BUDGET OF THE U.S. GOVERNMENT, FISCAL YEAR 2007* (2006).

⁷S. 476, 108th Cong. (2003).

⁸For details, see REID CRAMER, *NEW AMERICA FOUNDATION, NET WORTH AT BIRTH* (2004).

Members of Congress have proposed different versions of children's savings accounts; most, however, are not progressive in that they do not target more benefits to lower-income households, and they are focused on building only retirement assets (most notable among them former Senator Bob Kerrey's "KidSave" proposal, which recently received renewed attention).⁹ A model for the United States is the newly established Child Trust Fund in the United Kingdom. Also, the recently launched, privately funded SEED (Saving for Education, Entrepreneurship, and Downpayment) Initiative, funded by the Ford Foundation and the Charles Stewart Mott Foundation, among others, has valuable insights on policy design.

The introduction of the America Saving for Personal Investment, Retirement, and Education (Aspire) Act by a strong bipartisan coalition of legislators in both the House and the Senate offers a blueprint of what a universal accounts-at-birth system might look like.¹⁰ Sponsored in the Senate by Senators Rick Santorum (R-PA), Jon Corzine (D-NJ), Charles Schumer (D-NY), and Jim DeMint (R-SC) and in the House by Representatives Harold Ford Jr. (D-TN), Patrick Kennedy (D-RI), and Phil English (R-PA), the Aspire Act would give every child an account at birth—called a KIDS (Kids Investment and Development) Account—that would be endowed with \$500. The account would be supported with progressive, targeted savings incentives until age 18, when accountholders may use it for going to college, buying a home, or building up a nest egg for retirement.

One of KIDS' novel features is that accountholders in eligible families would have the opportunity to earn additional matching funds for amounts saved in the account. The Senate bill provides a dollar-for-dollar match of the first \$500 contributed, and the House bill provides a dollar-for-dollar match for the first \$1,000 contributed. Access to account funds would be restricted until the

accountholder reached the age of 18, and parents or legal guardians would control investment decisions until that time. The bill would establish a national fund within the U.S. Treasury, similar in structure to the Thrift Savings Plan, which would provide a lifelong savings platform and would administer the accounts, hold all deposits, and manage investments.

Governed by a uniform set of rules and administrative structures that would serve as the "plumbing" to support a national system of accounts, and universally accessible to every child, these children's savings accounts would offer an opportunity to construct an integrated system for managing account-based asset building on a large scale. The importance of this achievement may be profound since it could unify the asset-building policies currently spread throughout the tax code.

Focusing an asset-building policy on children makes most sense for several reasons. The very nature of asset building is long term. Investing when children are born provides the most time for assets to grow, and the dynamics of accumulation will teach their own lessons. The experience of asset holding may be transformative, changing attitudes for the better. Stakeholder accounts could serve as a means of imparting financial education, a skill set that must be augmented if we are to democratize ownership of equities and investments.

The effects of asset-building policies on the economy are magnified if the policies focus on kids. Modest investments in children can grow and, with responsible stewardship, can ensure opportunities for every citizen to succeed. These accounts can help achieve diverse national policy objectives, such as promoting child welfare, increasing the personal savings rate, enhancing financial education, incorporating the unbanked into the financial mainstream, and supporting educational attainment. These are worthy objectives;

⁹Social Security KidSave Accounts Act, S. 3200, 106th Cong. (2000).

¹⁰S. 868, 109th Cong. (2005); H.R. 1767, 109th Cong. (2005).

fulfilling any of them would be a major societal achievement.

Creating a universal system of accounts for children is a powerful approach to social policy because it potentially contributes to both economic growth and social development. While investment returns are not guaranteed, a universal system of accounts for children is likely to offer participants access to a modest stock of financial assets when they begin their adult lives. Some can use this asset pool to seed productive investments; others may rely on it for a sense of security that many now lack. The public investment signals that society has an interest in the success of every child; and the children each, in turn, will be responsible to make appropriate choices throughout their lives.

Inclusion Required for Meaningful Asset Building

The central problem with the current array of asset policies is that they are regressive and, for the most part, exclude the poor. A universal system is able to reach those currently excluded while giving every participant the opportunity to benefit. Asset building and savings are sound objectives for every citizen, and universal access to an account merely offers all citizens the opportunity

to participate, regardless of the income of their family.

Constructing a system of accounts that is workable and effective is achievable. The greater challenge is gaining political support, sufficient to shepherd such a system of accounts through the legislative process. This may ultimately depend on policymakers accepting the premise that inclusive asset-building policies promote social and economic development. These policy goals should be distinguished from other antipoverty objectives because, at the core, asset-based policy is intended to enable individuals to exert greater control over their lives and expand their capacity to take advantage of the diverse opportunities offered by American society.

Contemporary approaches to social policy have moved away from guaranteed entitlements and toward more account-based support mechanisms. The level of investments in these accounts is no substitute for social protection such as traditional income supports. Rather they are intended to foster social and economic development at the household level at the same time as they advance fiscal stability, savings, and investment at the macroeconomic level. Any large-scale asset-based policy effort should complement, rather than replace, existing policies of social insurance.

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