

# 2008 Policy Agenda to Promote Asset Building

CFED, a nonprofit organization that expands economic opportunity, has been a pioneer in creating savings incentives for low-income people. Established in 1979, CFED expands economic opportunity by helping Americans start and grow businesses, go to college, own a home and save for their children's and their own economic futures. The following legislative solutions will enable working families to achieve financial self-reliance by connecting to the economic mainstream, beginning to save, and investing in asset-accumulation. Key proposals include:

## I. BUILD THE INFRASTRUCTURE

In recent years, Congress and the Administration enacted policies to strengthen the savings infrastructure, most notably clarifying Automatic 401(k) Enrollment, enabling split tax refunds, and exempting IRAs and tax-preferred college savings accounts from asset limits in the Supplemental Nutrition Assistance program (formerly the Food Stamp program).

- **Automatic 401(k)** clarifies federal regulations enabling employers to automatically enroll workers into employer-sponsored retirement accounts. Employers who adopt Auto Enrollment mechanisms enroll all new (and sometimes existing) employees into a 401(k) at a set participation percentage. Employees who do not wish to participate can either change the terms of the plan or opt-out entirely. Automatic Enrollment boosts savings participation and wealth building, especially amongst populations which have historically recorded low savings and participation rates.
- **Split Refunds** enable taxpayers to automatically deposit a portion of their tax refund into a savings account, providing tax filers an additional opportunity to save at tax time. Since its adoption in 2007, more than 100,000 filers have filed IRS Form 8888 to split their refund.
- **Exempting tax-preferred savings accounts** in asset limits for Food Stamps. Commonly referred to as the '2008 Farm Bill', the *Food, Conservation and Energy Act of 2008* (P.L. 110-234) exempted Individual Retirement Accounts, Coverdells, and 529 College Savings Accounts from asset limits which reformed what had been a strong savings disincentive for working families.

### LEGISLATIVE PROPOSALS:

**Promote Automatic IRAs.** The bipartisan *Automatic IRA Act of 2007* (S. 1141/H.R. 2167) would extend payroll-based retirement saving opportunities to a majority of the 75 million

employees currently without access to a retirement plan. Employers who do not sponsor a retirement plan would enable direct-deposit payroll deductions to an IRA and receive temporary tax credits to offset administrative costs. The law affects all employers in business for more than two years and with more than ten employees. In addition to retirement, IRAs, which can benefit from the Saver's Credit, can be accessed without penalty for higher education and homeownership expenses.

**Enact the *New Saver's Act* (S. 1967).** This bipartisan bill increases savings opportunities by increasing awareness of financial products, promoting savings at tax time, encouraging the use of U.S. Savings Bonds and establishing Young Savers Accounts.

**Expand HUD's Family Self Sufficiency Program.** The *Section 8 Voucher Reform Act of 2008* (SEVRA), passed by the House in 2007 (H.R. 1851) and introduced in the Senate in March of 2008 (S. 2684), presents a critical opportunity to increase the number of families being served by the HUD Family Self-Sufficiency (FSS) program. FSS is a small, yet powerful program that assists nearly 70,000 low-income families who participate in the Housing Choice Voucher (Section 8) program or who reside in public housing. Families receive case management to gain employment coupled with asset accumulation to achieve independence. However, funding instability continues to threaten expansion of the program. *SEVRA* addresses this problem by making an important change in the way fees for FSS program coordinators are distributed, thereby stabilizing the program's funding stream.

**Align intermediate uses within retirement accounts.** Congress should align rules for withdrawals from retirement accounts for education and homeownership. Individual Retirement Accounts – and to a lesser extent 401(k)s – have

uses extending beyond retirement: IRA funds can be used to support college education and up to \$10,000 in an IRA account can be used for first-time home-ownership; such uses are only available as loans from 401(k)s. The law should align homeownership and education uses with retirement regulations so that IRA rules apply to 401(k)s and other employer provided accounts, thus encouraging more aggressive savings by participants. The \$10,000 lifetime limit for IRA homeownership withdrawals should be raised.

**Permit full payment reporting of utility bills to credit bureaus to raise credit scores.** Full reporting (positive and negative payment data) of utility and telecom payments to consumer reporting agencies could raise the credit score of millions of Americans. Higher credit scores based on the reporting of timely payments, instead of the current practice of only reporting late payments, can move many African American, Latino, and young people into a prime rate credit score. Many utility firms' counsels argue that full payment reporting is prohibited by *The Telecom Act of 1996* (P.L. 104-104) which should be revised.

## II. PROVIDE SAVINGS INCENTIVES

Fully fund existing Individual Development Account programs including:

- **\$25 Million for the Assets for Independence Program** which has helped more than 53,000 IDA participants save for an asset-building purchase. Congress must reauthorize and improve the *Assets for Independence Act* (P.L. 105-285), the federal government's primary program support for matched savings accounts.
- **\$10 Million for the Office of Refugee Resettlement's** discretionary grant program to provide IDAs to nearly 20,000 refugee families in order to integrate them within America's financial system.
- **\$5 million for the Beginning Farmer and Rancher IDA program** which was authorized in *The Food Conservation and Energy Act of 2008* (H.R. 6124) to provide savings incentives and financial education to 4,000 agricultural entrepreneurs. Funding is yet to be enacted.

### Legislative Proposals:

**Enact an Individual Development Account Tax Credit.** *The Savings for Working Families Act* (S. 871 & H.R. 1514) is a \$1.35 billion bill which matches the savings of 900,000 low-income families for education (for adult or child), homeownership, or education through a tax credit to financial institutions that match up to \$2,000 in savings dollar-for-dollar. With 120 members of the House and Senate supporting the bill, *The Savings for Working Families Act* has more cosponsors than any other savings or asset building legislation.

**Expand the Saver's Credit.** The bipartisan *The Retirement Savings for Working Americans Act* (H.R. 2724) would provide a 50% match to households earning less than \$30,000 for a single or \$60,000 for joint filers who save up to \$2,000 in a retirement or 529 College Savings Account or Coverdell.

**Provide Children's Savings Accounts.** Congress should enact a universal, progressive children's savings account program providing an initial deposit for all newborns and matching deposits for low and moderate income children for education, home-ownership, or retirement. Congress should also permit adults to use a portion of their Roth IRA allocation to open accounts for youth.

**Enact the *New Homestead Act* (S. 1093).** This bill provides wealth building incentives for business development, education, and homeownership for rural residents.

**Promote a National New Entrepreneur Tax Credit.** Since nearly all enterprises start out as un-incorporated entities and initially report business income using standard individual Form 1040 Schedule C, entry items from these forms can be used to craft precise tax credit or deductions which would assist new businesses' with start-up costs while also stabilizing the business tax experience for first-time filers. These reforms are likely to encourage higher rates of tax compliance in earlier phases of the business development process, resulting in more timely collection of both income tax revenues and Social Security and Medicare payments.

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