

Recovery and Resiliency

Designing Federal Savings Policy for All Families

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Rebuilding the Path of Opportunity: 11/9/11

Presentation

- How households are meeting key savings needs
- “Groupon” approach to savings policy design
- State of current federal savings policy
- Policy proposals following “Groupon” model
 - *Local examples of these policies in action*

The Need

Precautionary Saving

- *When work is interrupted, 40% of liquid-asset poor families report hardship compared to 20% of families with liquid assets.*

College Savings

- *College graduates have lower rates of unemployment and poverty, higher incomes.*
- *Unlike other forms of aid, savings uniquely build both the resources and expectations for college.*

The Need

Savings fall short across both savings needs.

Savings Need	Savings Deficit
Precautionary	68% of families in the bottom income quintile, and 47% in the next, are “liquid-asset poor.”
College	47% of parents earning below \$50,000 are saving for their child’s college education.

“Groupon” Policy Design Model

- Widely accessible platform
- Multiple options
- Incentive to participate
- Easy to participate

Current Federal Policy

Federal spending misses low-income families.

Spending FY2012	Direct Spending	Tax Spending	TOTAL
Savings	0.065	106.0	106.065
Retirement	0.0	146.8	146.800
College	0.0	1.778	1.778
TOTAL (\$billion)	0.065	254.578	254.643

Source: Cramer and Black (2011). The Assets Report 2011. New America Foundation.

Policy Proposal: The Saver's Bonus

Savings Feature	Design
Platform	Tax filing process
Multiple Options	Precautionary, Retirement, College
Incentive	1:1 match on first \$500; Deposited directly into the account
Easy to Participate	Open account on tax form

Local Examples: \$aveNYC

Savings Feature	Design
Platform	Tax Refund
Single Option	Precautionary; 1-year CD
Incentive	50% match on initial contribution; Received at end of 1-year savings period
Easy to Participate	Open account on-site

Local Examples: \$aveNYC

The circumstances of \$aveNYC participants reflect the range of savings barriers.

- \$17,900 average income
- 50% had no savings account
- 26% had no bank account
- 87% said all of their money goes to necessities
- 80% said unexpected expenses made it hard to save

Local Examples: \$aveNYC

\$aveNYC outcomes:

- 2,165 accounts opened
- \$561 average savings (before the match)
- Over 50% of participants contributed more than the maximum amount eligible for the match
- 79% saved for the full year term
- 70% continued saving after the required savings period concluded

Local Examples: Ramp-Up

Savings Feature	Design
Platform	Tax Refund
Single Option	Precautionary; Savings Account
Incentive	Up to 21% APY based on initial contribution and monthly deposit; \$250 max
Easy to Participate	Open account on-site

Local Examples: Ramp-Up

Ramp-Up outcomes:

- 439 savings accounts
- 74% of participants made regular monthly deposits
- Average monthly deposit made per account of \$40.15
- 92% of funded accounts remain active
- 75% of accounts show a monthly deposit

Policy Proposal: The ASPIRE Act

Savings Feature	Design
Platform	Universal savings infrastructure
Multiple Options	Retirement, College, Homeownership,
Incentive	1:1 match on first \$500; Deposited directly into the account
Easy to Participate	Account established automatically at birth

Local Examples: Kindergarten to College

Savings Feature	Design
Platform	Public education system
Single Option	College
Incentive	1:1 match on first \$100; \$100 for signing up for automatic contributions
Easy to Participate	Accounts opened automatically

From “Groupon” to “SaveOn”

- Design elements that can be applied to overcome a major obstacle to financial stability- lack of savings.
- Bring new savers into the market.

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