



Recommendations to Promote Asset Building

**California Working Families Policy Summit
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INTRODUCTION

Working families are facing major financial challenges. Family incomes are uncertain, college costs are rising sharply, and work-based systems of health insurance and retirement savings are disappearing. These challenges are compounded by the fact that thirty percent of Californians are living in asset poverty, meaning they don't have enough savings to get by for three months if there were to lose their job or have already lost it. Our sluggish economy makes clear that financial security and mobility depend not just one's income, but increasingly on one's ability to accumulate a wide range of assets—especially building up personal savings, pursuing higher education, starting a business, and securing a nest egg for retirement. For low-income families with limited resources, expanding savings opportunities is especially consequential. This is because savings serve as a safety net and as a springboard to move up the economic ladder. Without savings, long-term financial planning can be difficult and household stability can be compromised. A lack of savings contributes to asset poverty, higher consumer debt levels and higher bankruptcy rates.

For this reason, the New America Foundation's Asset Building Program develops innovative policies that connect individuals to the financial tools and incentives they need to build savings and wealth over a lifetime. Asset building policy is about new ways to broaden the middle class and to help people permanently exit poverty. It provides a rare political opportunity for bipartisan cooperation to address stubborn poverty issues with initiatives that emphasize personal responsibility. To get families on the way to economic security, policymakers need to create incentives and opportunities to get Californians off the path of out-of-control personal debt and onto the path to savings and investing in order to build their own personal safety net and obtain their life goals.

POLICY OBJECTIVE #1

The Auto-IRA: Expand access to retirement savings.

Background

Far too many Californians do not have the option to save for retirement through payroll deduction. Currently, approximately six million Californians go to work at a job that does not offer them a pension or a retirement savings plan to supplement Social Security. Nationally, more than 70 million American workers do not participate in an employer-sponsored retirement plan. As a result, approximately 40% of today's baby boomers rely on Social Security benefits for more than 90% of their income. However, Social Security payments alone will not be enough to sustain Californians in their retirement. This lack of retirement savings may equate to a higher cost for government services, as seniors without savings are more likely to require government assistance with housing, medical care and other necessities.

Recommended Action

To meet the needs of workers and small businesses, the California State Legislature should create an Auto-IRA – automatic retirement savings account for all workers – to be administered by State Treasurer. Employees who lack a work-based retirement savings plan would automatically be enrolled in an IRA with the option to opt-out. Contributions into the account would be deducted directly from employees' paycheck. Employers could also choose to contribute to employee accounts independently, or match employee contributions. The account would give six million California workers and their families an opportunity save through payroll deduction and have their own workplace

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retirement savings plan to supplement their basic Social Security benefits. The accounts would also give hundreds of thousands California small businesses an easy, low-cost way to offer a retirement savings plan to their employees.

POLICY OBJECTIVE #2

Banking Development Districts: Increase access to safe and affordable financial services.

Background

Too many people live outside the financial mainstream. National estimates show that 10 percent of households, including nearly one-quarter of the minority population, are “unbanked,” meaning they lack a basic checking or savings account. In California, 1.5 million adults don’t have a checking or savings account. The unbanked poor pay more to conduct their financial lives. Check cashing outlets can charge between 2-3 percent of the face value of a check. Families without accounts don’t have a safe place to keep their money. A bank account is also the first step to financial security for many families. A bank account helps people take the first step onto this path. Without an account, it’s much more difficult to get well-priced car loans, credit cards, or mortgages—the exact financial tools needed to climb up the economic ladder.

Recommended Action

The California Legislature should create Banking Development Districts to spur greater financial inclusion among unbanked Californians by providing state and local incentives to banks and credit unions that establish new branches in low-income communities throughout California and develop products and services tailored to the needs of low-income consumers.

POLICY OBJECTIVE #3

CalWORKs Asset Limit Reform: Eliminate the barriers to saving.

Background

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. At present, families on CalWORKs find their progress restricted by an asset limit which restricts them to no 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. By inhibiting low-income families from accumulating and maintaining assets, California is preventing families from achieving self-sufficiency. The asset limit forces individuals who are working their way off of public assistance to hide their savings, or to not save at all. In addition, the asset limit penalizes those who *do* save with a loss of benefits. Without savings, these families are unable to establish their own personal safety net, and are therefore vulnerable to income shocks that will lead them to backslide to government assistance.

Recommended Action

Eliminate the Asset Limit from CalWORKs eligibility criteria

The California Legislature should eliminate the asset test from CalWORKs eligibility requirements to ensure that CalWORKs recipients can accumulate savings and build their way out of government subsidy programs. Eliminating the asset limit test will furnish recipients with the capacity to become financially independent, thus enabling them to end their reliance on CalWORKs.