ACKNOWLEDGEMENTS


CFED’s work makes it possible for millions of people to achieve financial security and contribute to an opportunity economy. We scale innovative practical solutions that empower low- and moderate-income people to build wealth. We drive responsive policy change at all levels of government. We support the efforts of community leaders across the country to advance economic opportunity for all.
FEDERAL POLICY BLUEPRINT

PROBLEMS

WEALTH INEQUALITY
INCOME/BUDGET VOLATILITY
RACIAL WEALTH DIVIDE

STRATEGIES

INCLUSION
PROTECTION
INVESTMENT

FEDERAL POLICY REFORMS

RAINY DAY SAVINGS
Remove barriers & add support for low-income workers to build savings
SOLUTIONS
• Stop penalizing and start empowering low-income families who save
• Reengineer the Assets for Independence Program

COLLEGE SAVINGS
Support the vibrant children’s savings field
SOLUTIONS
• Open a CSA for newborns & reform unfair tax programs
• Establish a simple myCSA account structure & invest in local innovations

HOMEOWNERSHIP
Fix homeownership tax subsidies and expand support for affordable homeownership
SOLUTIONS
• Replace unfair tax-programs & support new models for affordable homeownership
• Enact housing finance reform that benefits all Americans

RETIREMENT SAVINGS
Increase take-up of retirement accounts and provide better support to lower-income workers
SOLUTIONS
• Support myRA & create universal, automatic retirement savings
• Strengthen the Saver’s Credit for low-income savers

FINANCIAL INCLUSIVE & CONSUMER PROTECTION
Reform social programs and protect consumers
SOLUTIONS
• Boost credit scores and financial capability through social service programs
• Protect the CFPB & establish standards for tax preparers
Families can’t get by without income to pay the bills. But while income allows families to get by, it’s wealth that empowers them to get ahead. Wealth is about opportunity. It’s about being able to afford the downpayment on your first home, tuition to send your kids to college or startup capital to launch and grow your small business. And it’s about having enough savings to cover the unexpected emergencies and have a secure retirement. If we are to ensure that a child’s ZIP code doesn’t determine her destiny, we must ensure that all families can walk the pathway to wealth building.

Unfortunately, this isn’t the world we live in today. Wealth inequality has soared in recent decades, and a near-majority of Americans are financially insecure. The top 0.1% now own about as much wealth as the bottom 99% combined. Average Black and Latino household wealth won’t match today’s level of white household wealth for centuries. Most Americans don’t have $500 to cover a surprise expense or loss of income. Millions of people in this country lack a credit score or access to a bank account, making them and millions more vulnerable to predatory financial products and practices like payday loans and debt collection.

Quite simply, we have widespread financial volatility and insecurity for low- and moderate-income households, an enormous wealth divide between those at the top and everybody else, and an ever-growing wealth gap between white household and households of color.

In opposition to these stark realities, CFED envisions an opportunity economy—one in which we are all empowered to build more prosperous futures for our families, our communities and our country. This document outlines the blueprint for the federal policies needed to build a sustainable opportunity economy. Although we know federal policy isn’t the only requirement for the opportunity economy, we also know that meaningful social change will require Congress and the next Administration to play a pivotal role. Therefore, this guide invites legislators and administrative policy lawmakers who share our vision to join us in creating a more inclusive and more prosperous economy.
Federal Policies Concentrate Wealth, Grow the Racial Wealth Divide

Stagnating opportunity and growing inequality are not naturally occurring phenomena. These trends are the result of public policies that have been intentionally or thoughtlessly designed to expand inequalities.

Social programs administered through the tax code are the single largest source of federal investment in wealth building. In 2015, the federal government spent $660 billion on deductions, credits and other tax breaks designed to subsidize homeownership, retirement savings, higher education and liquid savings, but little of this spending ends up helping working families. That year, a typical multimillionaire received nearly $150,000 from these tax subsidies, while a typical working family received barely more than $150. In other words, instead of helping more families become homeowners, secure their retirement or save for a rainy day, Congress invested billions in 2015 to grow the coffers of the highest-income and wealthiest Americans. Of course, 2015 wasn’t an anomaly.¹

Federal policies past and present also drive the ever-growing racial wealth gap. In our past, policies like redlining, the early Social Security Act and the GI Bill contributed significantly to the wealth of white households. Today, wealth-building policies like the Mortgage Interest Deduction concentrate support in affluent white communities, asset limits in public benefits programs disproportionately penalize households of color for saving, and unregulated tax preparers drain the well-deserved tax refunds from working families of color who worked hard to earn those credits.

A Blueprint for Building the Opportunity Economy

While the misguided federal wealth-building policies described above are the rule, there are exceptions to this rule. The Earned Income Tax Credit (EITC) allows millions of low-income workers to build up their savings every year. The Volunteer Income Tax Assistance program ensures that low-income taxpayers can file their taxes and access credits like the EITC. The Assets for Independence program helps workers turn savings into assets that help them build wealth over time. The Consumer Financial Protection Bureau (CFPB) protects consumers from predatory financial products and services that strip away wealth. And federal agencies connect social service program participants with financial capability services that help them get ahead.

Congress and the next Administration should build on these wealth-building, inequality-reducing, opportunity-expanding policies. This document describes five categories of wealth-building policies that are ripe for reform: Rainy Day savings, college savings, homeownership, retirement savings, and financial inclusion and consumer protection.

¹ For more information about how tax spending benefits the wealthiest while leaving everyone else behind or to join our fight against inequality, visit the "Turn It Right-Side Up" campaign website at http://turnitrightsideup.org.
Policy Opportunity #1: Rainy Day and Flexible Savings

**The Problem:** Millions of Americans have little or no emergency savings to weather life’s unexpected financial storms. This persistent threat of short-term financial insecurity has long-term implications for workers and their children. You can’t save for the future if rainy days constantly throw you off financial course.

**Federal Reforms:** Congress and the next Administration should remove barriers to saving and provide additional support for lower-income households to build flexible savings. Currently, asset limits in public benefits programs penalize low-income people who save, and there is little proactive support to help lower-income households build flexible savings. Congress and the next Administration can change this by:

- Eliminating asset limit provisions from all federally funded programs.
- Leveraging tax time to empower low- and moderate-income workers to build emergency savings.
- Reengineering the Assets for Independence program based on local innovations that encourage higher education attainment, homeownership, entrepreneurship and more.

Policy Opportunity #2: College Savings

**The Problem:** Lower-income children with up to $500 saved for college are three times more likely to go to college and four times more likely to graduate. However, existing federal subsidies mainly support high-income students. Upper-income households own 98.9% of all savings in subsidized college savings accounts.

**Federal Reforms:** Congress and the next Administration should support the successes and innovations of the vibrant and growing Children’s Savings Account (CSA) movement by:

- Opening a seeded, progressive CSA for every newborn.
- Reforming the American Opportunity Tax Credit to empower families to save for college.
- Spurring local investments by establishing a children’s savings counterpart to the myRA retirement savings initiative.

Policy Opportunity #3: Homeownership

**The Problem:** Homeownership is still the surest path to wealth building, but low-income households and households of color are largely excluded from the opportunity to own their homes. Upside-down homeownership tax subsidies direct resources primarily to the highest-income, mostly white communities, while affordable options like manufactured housing get short shrift in federal programs.

**Federal Reforms:** Congress and the next Administration should reform existing homeownership tax subsidies to boost homeownership and expand support for affordable homeownership programs by:

- Replacing inequitable, upside-down tax deductions—namely the Mortgage Interest and Property Tax Deductions—with a first-time homebuyer’s credit and a flat, refundable homeownership credit.
Supporting alternative models for affordable homeownership in federal housing programs, including the Government-Sponsored Enterprises.

Enacting housing finance reform that benefits low-income households and households of color.

### Policy Opportunity #4: Retirement Savings

**The Problem:** Nearly half of all working-age adults have no retirement savings, and those who do have far too little to maintain an acceptable standard of living in retirement. While most Americans face this uncertain future, the support that does exist in the form of federal spending is going to the highest-income Americans, rather than those who need support the most.

**Federal Reforms:** Congress and the next Administration should increase access to and uptake of simple retirement account platforms and provide better support to lower-income workers who save for retirement. The next Administration and Congress can do this by:

- Supporting and strengthening the myRA program to ensure all workers have access to a simple, safe and affordable retirement account, especially entrepreneurs and those who work in small businesses.
- Creating automatic retirement savings for every worker.
- Strengthening the Saver’s Credit to ensure it adequately supports low-income workers who save.

### Policy Opportunity #5: Financial Inclusion & Consumer Protection

**The Problem:** Predatory financial products and services and exclusion from the financial mainstream prevent people from building wealth. Tens of millions of Americans have low or no credit, lack access to a bank account and/or are vulnerable to the unscrupulous practices of unregulated tax preparers and lenders. Meanwhile, the Consumer Financial Protection Bureau (CFPB) remains under attack for protecting consumers.

**Federal Reforms:** Congress and the next Administration should expand financial inclusion by reforming federal social service programs, helping more Americans develop credit and ensuring strong protections for all consumers, especially low-income consumers, entrepreneurs, and consumers and entrepreneurs of color. The next Administration and Congress can do this by:

- Encouraging the integration of financial capability into federal social service programs.
- Helping lower-income consumers build credit by supporting alternative credit data reporting.
- Protecting the CFPB from unfounded attacks.
- Establishing minimum competency standard for paid tax preparers.

The remainder of this Blueprint outlines each of these federal policy opportunities, including details about why reforms are of critical importance and which policies can have the most significant impact on the ability of low-income households and households of color to get by, get ahead and build lasting wealth for themselves and future generations.
Short-term financial insecurity is widespread and directly linked to depressed long-term economic opportunity. Millions of Americans have little or no emergency savings to weather life’s unexpected financial storms. Nearly half of all Americans are “liquid asset poor,” meaning they lack even a small nest egg to deal with a broken-down car, lost job or other emergency. Households of color are even more likely to face this financially insecurity, and this situation is getting worse, not better: financial volatility and instability are actually growing.

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insecurity has long-term implications for workers and their children. You can’t save for the future if life’s unexpected hiccups constantly throw you off financial course—you need emergency savings. Saving for a rainy day allows families to fix the car when it breaks down or make ends meet when hours get cut at work. In short, rainy-day savings increases financial security today, making economic mobility possible tomorrow.

Research shows that asset limits discourage rainy-day savings and increase government costs. Asset limit provisions in benefits programs targeted toward low-income Americans cut off support for families who save as little as $1,000. These provisions apply to Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Low-Income Home Energy Assistance Program (LIHEAP) and Supplemental Security Income (SSI).

New research finds that asset limits fail to significantly reduce caseloads and actually increase administrative costs to states. By instituting limits on emergency savings, these provisions lead to greater “churn,” meaning families cycle in and out of programs like SNAP and TANF. This process is destabilizing for families and costly for government administrators who are forced to certify and recertify applications for benefits.

Two Solutions to Support Flexible Savings for Vulnerable Households

Current federal policies discourage savings or simply fail to help lower-income Americans. Tax breaks and subsidies to the tune of $227 billion in 2015 helped taxpayers build rainy-day savings, but most of this support found its way to the pocketbooks of the wealthiest households. While these programs help the already-wealthy build wealth, taxpayers at the other end of the income spectrum are actually penalized for saving for emergencies. If we want to expand economic opportunity, we must reform policies that discourage rainy-day savings and enact policies that actively boost short-term financial security and flexible savings.

- **Policy Solution #1:** Stop penalizing low-income households that save for a rainy day by eliminating asset limits from all federal public benefits programs. For years, federal policymakers have taken steps to reduce the impact of asset limits. In 1991, President George H.W. Bush proposed raising asset limits for welfare recipients to $10,000. In 2008, Congress eliminated from SNAP asset limits savings in college and retirement accounts. In 2010, President Obama proposed setting an asset limit floor of $10,000 for several public benefit programs. Also that year, Congress acted to eliminate asset limits for most Medicaid recipients. And in 2014, Congress passed the ABLE Account Act to limit the impact of asset limits on SSI recipients.

These are positive steps in the right direction, but we need to send a simple, clear message to low-income Americans that they should be saving for the future. Rather than requiring families on public benefits remain perilously close to economic catastrophe,

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we should encourage work, savings, and financial security. To do this, Congress should eliminate public benefit asset limits for all federally-funded public benefit programs.

Policy Solution #2: Leverage tax time to expand financial security year-round. Every year, the vast majority of workers get a tax refund, making tax time the perfect time for families to build rainy-day savings. The authors of a 2015 book, It’s Not Like I’m Poor, propose allowing low-income workers to defer a portion of their tax refund to build up emergency savings for use later in the year. This proposal morphed into the “Rainy Day EITC,” which CFED initially proposed in 2015. The policy would allow low-income workers to defer a small portion of their tax refund, receive a 50% match for doing so, and receive their original savings plus an equivalent match six months after filing their taxes.

Congress should enact a bipartisan version of the Rainy Day EITC, which was introduced in 2016 by Senators Cory Booker (D-NJ) and Jerry Moran (R-KS) as the “Refund to Rainy Day Savings Act.” The legislation would accomplish two goals. First, it would empower lower-income tax filers to build emergency savings at tax time by piloting a program to test tax-time savings matches. The pilot program would take advantage of the tax moment by giving households a tool to plan for future unexpected expenses and income fluctuations. Their rainy-day savings would function as an emergency fund that could be used to help make ends meet while avoiding costly predatory loans.

Second, the legislation would spur local investments in matching the savings of low-income households by reauthorizing the Assets for Independence Act. The newly created matched savings “innovation fund” would invest in the development and innovation of savings programs designed to help vulnerable households save for everything from short-term emergencies to long-term entrepreneurship.

Consider a family who is eligible for a $2500 tax refund...

**At Tax Time**

- The family will receive $2000

**...Six Months Later**

- They will receive a Rainy Day payment of more than $750
  - $500 deferred tax refund + $250 savings match + accrued interest

- They may not have money for an EMERGENCY


College is increasingly out of reach for low-income students and young adults of color. Fewer than one in 10 young adults from low-income households have a Bachelor’s degree by their mid-twenties. Among young adults ages 25-29, Black and Hispanic households are less than half as likely as white households to have a Bachelor’s degree or higher.

Two intertwined reasons for these gaps are depressed college aspirations and growing college costs. Research shows that children from low-income households have lower college expectations. Long before their senior year of high school, many low-income students come to the conclusion that college is not for them. These depressed aspirations are compounded by skyrocketing costs. Even for students from low-income families who do enroll in college, 97% of them have unmet financial needs, even after receiving financial

aid. Too often, these financial aid gaps cause students to drop out of college, leaving them with debt but no degree.

College savings can create a pathway to postsecondary educational success, but federal support is inequitable. Children from low- and moderate-income households with college savings are three times more likely to go to college and four times more likely to graduate. These savings help build children’s expectations for their future at a young age and encourage them to work toward that future.

Despite the potential impact of college savings, federal programs fail to support low-income savers. Savings in federal tax-advantaged education accounts (i.e., 529s and Coverdells) grow tax-free and earnings are not taxable if they are used for qualified educational expenses. In addition, many states offer tax deductions for deposits into 529 accounts. These college savings tax benefits are structured to disproportionately benefit upper-income households. Despite good intentions of expanding educational opportunity, very few low-income families open 529s. In fact, the top half of earners own nearly 99% of the savings in these accounts.

Three Solutions to Empower Families to Save for Higher Education

Federal policy changes can turn lopsided support for college savings right-side up by supporting Children’s Savings Accounts (CSAs). CSAs are long-term savings or investment accounts that help children build savings for their future. CSA programs are typically run by state or local governments and nonprofit organizations, which open accounts with an initial deposit and often provide incentives to save. Family, friends and the children themselves then make contributions which cannot be withdrawn until children reach adulthood, when savings are used to pay for postsecondary education. CSAs can complement debt-free

How Children’s Savings Accounts Work

12 Emily Rauscher and William Elliott, Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education (Lawrence, KS: Center on Assets, Education and Inclusion, University of Kansas, 2013).
college reforms by increasing college aspirations early and boosting college completion rates.

Nearly 230,000 children across 29 states currently save through CSA programs that range in size from small community programs with a few hundred children to universal, statewide programs. While these programs are successfully providing support for low-income families to build college savings, millions of other children do not have this valuable opportunity. Infrastructure and funding issues can also limit the sustainability of local and state programs in the long-term. The federal government can help expand this opportunity by overcoming these issues.

- **Policy Solution #1: Establish a universal CSA program to give all children a jumpstart on their future.** Federal legislation should create a national program in which every child born in the US receives an account seeded with an initial deposit. Children from lower-income households could receive a higher initial deposit and additional opportunities to earn matches on contributions made by their families to help encourage regular savings and build their account balances more quickly. Several bipartisan bills to create a universal CSA program have been proposed. Most recently, Representative Joseph Crowley (D-NY) proposed the “USAccounts Act,” which would automatically provide every newborn with an account seeded with $500. Annual deposits of up to $500 would be matched, and lower-income families would be eligible for additional matches. The next Congress and Administration should make enacting this gold-standard policy a priority.

- **Policy Solution #2: Reform existing college savings incentives to support low-income savers.** The partially refundable American Opportunity Tax Credit (AOTC) is a step in the right direction, but it is poorly timed for lower-income students because it provides support only after college expenses are incurred. Congress should reform the AOTC to support low-income families while they are saving for their children’s college education, as proposed in Representative Ben Ray Lujan’s (D-NM) “Save for Success Act.” Under this proposal, families would receive a dollar-for-dollar tax credit for saving into their children’s 529 account, which would be issued as an advance payment of the AOTC. The savings would not run afoul of public benefit asset limits, as other reforms have proposed, and the AOTC reform would neither expand the credit nor raise the $10,000 lifetime per-student cap. The reformed credit would support college savings instead of only providing support months after education costs are incurred.

- **Policy Solution #3: Create a safe, simple and affordable “myCSA” account to empower more communities to establish CSAs.** Currently, the financial services market lacks an account platform that is both user-friendly for low-income families and meets the needs of cities and states that want to start a CSA program. While CSA programs have been able to adapt existing platforms, such as savings accounts and 529s, the process of working with financial institutions or 529 administrators to set up and maintain such accounts is time- and resource-intensive. For many would-be programs, these hurdles are too big to overcome. To position CSAs for expansion to more cities and states, the U.S. Department of the Treasury should create a myCSA account platform (modeled on myRA) that local programs could use to open CSAs and encourage savings for postsecondary education. This platform could also be built upon to create a more universal federal program, similar to what the USAccounts Act would establish.
Despite post-Recession dialogue challenging this notion, homeownership remains the surest pathway to wealth building. While homeownership is not without risk, real home prices tend to remain fairly stable over time, and even modest rates of appreciation compounded over several decades can create significant wealth gains. However, lack of access to credit and inadequate savings keep many low- and moderate-income households in rental homes; safe mortgage loan products require strong credit, while downpayments require the ability to save. Unfortunately, tens of millions of Americans are credit invisible, and only half of those with credit have high enough scores to unlock the best borrowing rates. Meanwhile, less than half of Americans have enough saved to subsist.


Existing homeownership programs leave low-income households and households of color behind. The largest federal homeownership programs come in the form of tax subsidies, but these programs concentrate support on the wealthiest Americans. These year-end lump-sum tax benefits work out to about eight cents per month for a typical family in the bottom income quintile, while the typical multimillionaire in the top 0.1% rakes in more than $1,200 per month.\footnote{Ezra Levin & David Meni, “The Biggest Beneficiaries of Housing Subsidies? The Wealthy,” TalkPoverty, June 30, 2016.}

These tax programs also actively exacerbate the racial wealth divide. Research shows that one the largest of these programs—the Mortgage Interest Deduction—serves predominantly white neighborhoods while doing little for communities of color.\footnote{Dedrick Asante-Muhammed, Chuck Collins, Josh Hoxie and Emanuel Nieves, The Ever-Growing Gap: Without Change, African-American and Latino Families Won’t Match White Wealth for Centuries (Washington, DC: CFED, 2016).} These tax programs add to the homeownership barriers for people of color who continue to face housing market discrimination, receive less monetary assistance from family and friends for downpayments and other related expenses, and earn lower returns on investment for their homes.\footnote{Merrit Gillard, Homeownership is Still Out of Reach for Millions of Households (Washington, DC: CFED, 2016).}

Three Solutions for Helping More Families Own Their Homes

Current federal policies fail to help lower-income households and households of color achieve and sustain homeownership. To help more households build wealth through homeownership, federal reforms should turn existing homeownership tax subsidies right-side up, expand the supply of affordable homeownership options and enact housing finance reform that works for all Americans.

\textbf{Policy Solution #1: Turn upside-down homeownership tax subsidies right-side up.} Existing federal homeownership tax subsidies focus support on high-income homeowners who buy enormous and often multiple homes by taking on large amounts of debt. In other words, these subsidies expand wealth inequality, rather than homeownership. To boost homeownership rates, especially among vulnerable households, Congress should replace upside-down tax deductions—like the Mortgage Interest and Property Tax Deductions—with programs to help aspiring homebuyers afford their first downpayment and ensure that existing homeowners can afford the ongoing costs of homeownership. Congress can replace these inequitable tax subsidies with a simple, flat, equitable and refundable homeownership credit, a refundable first-time homebuyer’s credit, and savings support to help new homebuyers afford closing costs of a first home.

\textbf{Policy Solution #2: Shore up and expand affordable housing options.} Federal housing policy must recognize and promote alternative models of homeownership. Shared-equity cooperatives, manufactured housing, inclusionary zoning and land trusts are all models that can lower the entry costs of homeownership, facilitate appreciation and,
depending on design, retain affordability for future buyers. To accomplish these goals, Congress and the next Administration should:

- Better integrate each of these models into the agencies’ programs, including Consolidated Planning, the enforcement of the Fair Housing Act and the programs of the Federal Housing Administration. Requiring that communities identify and recognize the value and potential of these models as part of the grant application process will help to “mainstream” these models.

- Expand representation of low-cost alternative models, like manufactured housing, in federal home loan programs and in the Government-Sponsored Enterprises (i.e., Fannie Mae, Freddie Mac and the Federal Home Loan Banks).

- Support the conversion of manufactured home titling from personal property to real estate. Federal programs should revise guidelines to ensure that safe loans for manufactured homes, in land trusts, on Native lands, in inclusionary zoning developments and in shared-equity arrangements are not excluded.

Policy Solution #3: Reform housing finance to work for all Americans. The fundamental goals of housing finance reform must be inclusivity, sustainability, safety and soundness. Any system that replaces or reforms Fannie Mae and Freddie Mac must continue to advance the most important achievements of those entities. Notably, Congress should ensure that a new system continues to establish affordable housing goals; maintains a duty to serve underserved credit markets, such as communities of color and buyers of manufactured homes; and funds a national housing trust fund. This reformed system should also support creditworthy first-time homebuyers and should work to prevent and mitigate foreclosures.

When reforming housing finance, Congress should ensure that the Government-Sponsored Enterprises or their successors in the housing finance system do not take any unnecessary risks. Furthermore, in the interest of protecting the most vulnerable borrowers and to ensure the system meets its obligations to serve the credit needs of all qualified borrowers, housing finance reform should include common-sense steps such as the establishment of capital requirements to protect taxpayers from risks in market downturns or other threats to the housing finance system. Such requirements must not disincentivize lending to credit-worthy borrowers in underserved communities—communities of color in particular—given the long history of inequities in housing programs. Congress must also ensure that any new housing finance system provide access to the nation’s full range of creditors, including local banks, credit unions, Community Development Financial Institutions and housing finance agencies.
The country is in the midst of a retirement crisis. Nearly half of all working-age adults have nothing saved up for retirement, and those who do lack enough savings to maintain an acceptable standard of living when their working days are over. Only one household in five has saved up more than one year’s worth of income, and the picture is even bleaker for households headed by women and people of color.

The retirement landscape is shifting, and low- to moderate-income households are missing out. Traditional pensions are increasingly becoming a thing of the past, and only about half of workers are offered defined contribution plans—such as a 401(k)—by their employer. Upper-income households are ten times more likely than low-income households to have retirement accounts.

21 Ibid., 3.
22 Ibid.
This retirement savings inequity is exacerbated by tax policies that disproportionately favor the rich. In 2015, the federal government spent $172 billion on tax subsidies for retirement savings, but most Americans receive little benefit. A typical multimillionaire in the top 0.1% received nearly $10,000 in 2015 from these tax subsidies, whereas a typical working family received less than $100. Even lower-income workers who save the same amount for retirement get less support than their higher-income counterparts. In short, these upside-down tax subsidies are driving wealth inequality by boosting retirement savings for those with plenty of wealth already and doing little or nothing for everyone else.

**Three Solutions for Helping All Americans Secure Their Retirement**

If we want low- and moderate-income households to save for retirement, we must ensure they have the same access, incentives and supports that wealthy Americans currently enjoy. This means providing affordable, simple retirement products, along with automatic enrollment and incentives to save.

- **Policy Solution #1:** Support and expand the simple, safe and affordable *myRA* retirement savings initiative. Complexity, high fees and fear of risk are common barriers that keep far too many working families from opening retirement accounts. The next Congress and Administration should increase uptake of the U.S. Department of the Treasury’s *myRA* initiative through measures such as public marketing and outreach campaigns. This initiative has created a retirement vehicle designed to remove savings obstacles and get more households saving for their future. Simplicity, safety and affordability are the cornerstones of *myRA*. To increase program takeup, efforts should target additional outreach toward entrepreneurs and small business employees who are less likely to have access to retirement accounts. Steps should also be taken so the program can add new features like automatic enrollment and facilitate employer matches when available.

- **Policy Solution #2:** Make every worker’s retirement savings automatic. Research shows that automatically enrolling workers into retirement savings plans boosts...
participation rates above 90%—an astonishingly high rate.27 By comparison, fewer than half of low-income workers with access to non-automatic retirement accounts participate.28

In light of the research on the effectiveness of auto-enrollment, the bipartisan Retirement Security Project proposed automatically enrolling workers into an IRA—“Auto-IRA”—and giving workers the ability to opt out if they choose. The Obama Administration and members of the House and Senate have all proposed versions of an Auto-IRA program.

In the absence of federal action, states have started introducing their own Auto-IRA programs, but an Auto-IRA program in Illinois or California simply does not reduce retirement insecurity in Nevada or Texas. Rather, our retirement security crisis is a national crisis. The next Congress and Administration should make enactment of an Auto-IRA program a priority to address this national issue to the benefit of all workers.

- Policy Solution #3: Support retirement savings for everyone, not just the wealthy.

Unlike the vast majority of tax incentives, the Saver’s Credit is explicitly aimed at increasing retirement savings for low- and moderate-income families. It reduces tax liability by up to $1,000 ($2,000 for married couples), and depending on income, the value of the credit ranges from 10-50% of retirement savings. However, because of the credit’s structure, many low-income workers are ineligible and very few savers receive the maximum value from the credit. In other words, the Saver’s Credit is a step in the right direction for working families, but it needs to be strengthened.29

The next Congress and Administration should make improving the Saver’s Credit for low-income workers a priority. The Saver’s Credit needs to be made fully refundable so that all workers can receive support for retirement savings. The credit should also be restructured to more effectively incentivize low- and moderate-income families to save for retirement by simplifying and clarifying the benefit levels and eligibility criteria, and by providing the credit as a savings match directly into the filer’s retirement savings account.

Predatory financial actors and exclusion from the financial mainstream are significant barriers to wealth building. Savings and investments help families build wealth and get ahead, but families can’t do this without access to financial capability-boosting products and services, or without protection from predatory practices. Tens of millions of U.S. households are unbanked or underbanked, meaning they don’t have a bank account or have an account but still rely on alternative financial services. Many more have subprime credit or are “credit invisible,” meaning their credit records are unscorable. These households are most likely to rely on financial services that, although accessible, strip away their hard-earned money.

While access to financial capability services is crucial for inclusion, strong consumer protections are also essential for achieving financial well-being. The establishment of the Consumer Financial Protection Bureau (CFPB) was an immensely important step towards protecting consumers, especially low-income consumers looking to build credit, develop savings and grow long-term investments.

The CFPB does not have the authority to protect all consumers, such as tax filers preyed upon by unscrupulous tax preparers unconstrained by basic minimum competency standards.

Tax time is a key moment for low-income households to pay down debt, improve their financial capability and build savings, but only if these households don’t fall victim to unqualified tax preparers that threaten their financial well-being.

Four Solutions for Boosting Financial Capability and Protecting Consumers’ Finances

To take part in the mainstream economy, low-income households need financial knowledge, opportunities to build financial skills, and access to safe and affordable financial products and services. They need to be empowered to build credit, and they need to be protected from the products and services that chip away at their hard-earned money.

- **Policy Solution #1: Require financial capability services in all federal social service programs.** Financial capability enables people to achieve a better state of financial well-being. Financial capability has three main components: knowledge, skills and access to services. Financial education helps individuals gain the knowledge needed to understand how best to save and navigate financial situations. Skill-building services such as financial coaching and incentivized savings programs enable people to put their knowledge into practice, making them more comfortable and confident when it comes to making financial decisions. Finally, access to safe and affordable financial products and services ensures low-income households can put their knowledge to use, develop their skills, and avoid expensive or predatory alternative products such as payday loans. The next Administration and Congress should encourage federal agencies to integrate financial capability services into federal programs by clarifying program administration guidelines and providing funding to programs to integrate these services. Doing so would allow low-income households to achieve lasting financial well-being.

- **Policy Solution #2: Help more Americans build a credit score.** Creditworthy consumers should not be excluded from building credit. In order to more effectively build assets, consumers must have a foundation of good credit, because without good credit, they are susceptible to predatory products like payday and auto-title loans. Each year, twelve

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million Americans spend a total of $9 billion in fees to use payday loans.\textsuperscript{33} Good credit is also essential in other important aspects of life as well, such as getting job or renting an apartment.

Many low-income individuals make regular, on-time payments toward rent, utility and cell phone bills. These types of payments typically do not get reported to the credit bureaus, leading to thin or no credit files for many low-income people. But while positive payment histories often go unreported, poor payment histories on these accounts are almost always reported, adversely impacting a family’s financial well-being. Research shows that millions of consumers would see increases in their credit scores if their utility and rental payment data were reported.\textsuperscript{34}

The next Congress and Administration should enact reforms to ensure that alternative data is reported to credit bureaus in order to help low-income households establish or raise their credit scores. A bipartisan version of this reform—known as the “Credit Access and Inclusion Act”—has been proposed in the House and Senate by Representative Keith Ellison (D-MN) and Senator Mark Kirk (R-IL).

\textbf{Policy Solution #3: Ensure strong protections for consumers by allowing the Consumer Financial Protection Bureau to continue the work it has started.} This would require that Congress and the next Administration maintain the Bureau as an independent and robust consumer watchdog and advocate. Since its establishment, there have been numerous attempts to limit the Bureau’s oversight and prevent it from doing its job to protect American consumers, despite the strong results the agency has delivered. To date, the Bureau has taken many important steps to protect consumers, but there is still much more work to do that should not be derailed.

\textbf{Policy Solution #4: Create minimum competency standards for paid tax preparers.} Many tax filers need assistance with filing their taxes due to an increasingly complex tax code. While many low-income filers take advantage of Volunteer Income Tax Assistance sites, others go to unlicensed paid preparers who may prey on low-income filers. Fifty-five percent of all paid tax preparers are unregulated by the Internal Revenue Service, and only a handful of states have instituted minimum competency standards for paid preparers.\textsuperscript{35} The next Administration and Congress should enact these basic standards to protect consumers and their tax refunds from predatory practices that strip consumers of their hard-earned money.

\textsuperscript{34} “Give Credit Where Credit is Due,” \textit{Political and Economic Research Council}, August 25, 2016.
Building the Opportunity Economy: A Call to Action

The world of soaring wealth inequality that we find ourselves in today didn’t happen overnight and we certainly won’t be able to fix it that quickly either. However, despite the stark numbers and disparities in wealth in America right now, the opportunity economy for all is still within reach if we act quickly and carefully.

Our path forward starts with the reform of the federal policies that got us here in the first place by leaving low- and moderate-income households and households of color way further behind than they should be. By implementing the reforms outlined in this report for flexible savings, college savings, homeownership, retirement savings, and financial inclusion and protection, federal policymakers can take a huge step toward bridging the divide created and exacerbated by current policies.

The best news is that much of this can be done without spending an additional dime in federal money. Simply by spending the $660 billion dollars already deployed through the tax code each year more equitably to truly benefit all Americans—with an emphasis on those most in need—the federal government can bring us much closer to bridging the divide before us. Moreover, many of these ideas are simple. The Consumer Financial Protection Bureau, for example, simply needs to be able to continue doing its job without interference. Refraining from meddling with the Bureau’s funding and structure is also a free and easy way for policymakers to help consumers keep what they earn.

Despite their simplicity, these reforms will still require the thoughtful attention of policymakers and advocates. Rather, they will require the efforts of existing partnerships and the development of new ones. Through the Tax Alliance for Economic Mobility, CFED is working with PolicyLink and three dozen other advocacy, research and civil rights organizations to build support for equitable improvements to wealth-building tax subsidies. Through the Turn it Right-Side Up Campaign, we’re educating advocates nationwide about the inequities of existing tax subsidies and opportunities for reform. Through our Racial Wealth Divide Initiative, we’re producing groundbreaking research, programs and policy proposals to close the ever-growing racial wealth divide. And, through the Assets and Opportunity Network, we’re building and mobilizing state and local advocates and service providers to put pressure on the system to enact these reforms.

In the coming months, as a new Congress convenes and a new Administration takes hold of the Executive Branch, CFED will focus on the goals of reducing financial insecurity, bridging the racial wealth divide, and fighting income and wealth inequality. In short, we will work with our partners and federal policymakers to build momentum towards an opportunity economy—one that unleashes the productive capacity of all people in this country, including those currently consigned to the margins of the society. We see this Blueprint as an invitation to join us in the important work of boosting financial well-being, and we look forward to working together with you as we transform our shared vision into a reality.