Administrative Actions to Close the Ever-Growing Wealth Gap

CFED Corporation for Enterprise Development

THE EVER-GROWING GAP
CFED’s (www.cfed.org) 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.
Introduction

The Problem
President Obama inherited the worst economic conditions of any president since the Great Depression. Through a series of legislative and administrative accomplishments, he put the economy back on the right course, established consumer protections, expanded economic opportunity and ensured that the wealthiest Americans contribute more of their fair share.

Despite the enormity of these successes, our work is not done. Nearly half of Americans cannot come up with $400 to cover a surprise expense or loss of income—surprises that are becoming all too common. At the same time, wealth inequality has soared to historic heights, and Black and Latino households now own pennies for every dollar owned by white households. In short, America faces widespread financial insecurity, an enormous wealth divide between those at the top and everybody else, and an ever-growing wealth gap between white households and households of color.

Administrative Policy Solutions
In response to these conditions, President-Elect Donald Trump and House Speaker Paul Ryan (R-WI) have proposed a troubling policy agenda. The problems facing financially fragile households are not problems that will be solved by giving tax cuts to the wealthiest Americans, gutting consumer protections or eliminating the first rungs on the ladder of opportunity. In contrast to these proposals, CFED released A Federal Policy Blueprint to Close the Ever-Growing Wealth Gap in September 2016, which proposed wealth-building, inequality-reducing, opportunity-expanding legislation and ambitious budget requests.

This document maintains a similarly ambitious scope but with a narrower focus: on administrative actions that President-Elect Trump can take as early as January 20. For a president truly interested in building an opportunity economy, this document describes seven administrative policy proposals that would help solve the problems of financial insecurity, wealth inequality and the growing racial wealth divide:

1. Rainy Day Savings
   - Create a rainy day savings component of the Obama Administration’s myRA program
   - Encourage states and the private sector to develop sidecar programs

2. College Savings
   - Establish “myCSA” to spur innovation in local and state college savings programs

3. Affordable Homeownership
   - End zoning discrimination against manufactured housing
   - Expand the USDA loan pilot program for manufactured homes

4. Retirement Savings
   - Build on the success of myRA by expanding outreach and increasing uptake
   - Develop financial capability tools for state Auto-IRA programs

5. Financial Capability Services & Tax Preparation
   - Expand the Obama Administration’s ASSET Initiative Partnership
   - Empower Volunteer Income Tax Assistance sites to be more responsive to local needs

6. The Racial Wealth Divide
   - Initiate a racial wealth divide audit of federal policies and programs

7. Persistent Poverty and Community Development
   - Expand USDA’s Uplift America initiative to other federal agencies
   - Establish a White House Office of Persistent Poverty

The Problem
The Problem

Millions of Americans have no emergency savings to weather life's unexpected financial storms. Nearly half of Americans are “liquid asset poor,” lacking even the most basic savings to deal with a rainy day emergency like a broken-down car or unexpected layoff. Households of color are even more likely to face this type of financial insecurity. The persistent threat of short-term financial insecurity has long-term implications for workers and their children. In response, rainy day savings increases financial security today, making economic mobility possible tomorrow.

Administrative Policy Solutions

In his final FY 2017 budget, President Obama proposed $100 million to spur the creation of financial products aimed at helping low-income families build rainy day savings. This budget request mirrors the bipartisan Refund to Rainy Day Savings Act introduced in the same year, which would help working families develop rainy day savings at tax time. Earlier in his administration, President Obama also launched the myRA retirement savings program, targeting workers without access to an employer-sponsored savings account. The next administration should build on these initiatives to help boost emergency savings.

Policy Solution: Establish a sidecar rainy day savings feature for myRA. myRA is a step forward in boosting retirement savings, particularly for lower-income workers, but it can do even more. myRA is built on a Roth-style account structure, with post-tax contributions that grow tax-free. This structure allows withdrawals of deposits (but not accrued interest) for any reason, including emergencies.

The next administration should take advantage of this flexible structure to establish an automatic “sidecar” rainy day savings account product for myRA participants. The sidecar account would function as an attached secondary account or subaccount of the myRA participant’s existing myRA account. This would allow the participant to save for both retirement and emergencies in separate accounts using the same interface. Such a feature would have two distinct benefits. First, it would increase rainy day savings, thereby increasing worker financial stability. Second, it would increase overall uptake of myRA by addressing a fundamental need of the target population: emergency savings.

Policy Solution: Encourage state savings programs and the private sector to develop sidecar accounts. The next administration should also promote sidecar-based rainy day savings through private employers and through new state-based auto-enrollment accounts. Across the country, states are developing “Auto-IRA” programs to ensure all workers are automatically enrolled into retirement savings plans. The U.S. Department of the Treasury should issue guidance encouraging and describing how the state Auto-IRA programs can add sidecar emergency savings to their account products.

Similarly, the next administration should take advantage of the millions of retirement accounts managed by private-sector employers. As it does for state Auto-IRA programs, Treasury should issue guidance encouraging and describing how these private employers can attach sidecar accounts to their existing workplace 401(k), 403(b) and IRA accounts.
College Savings

The Problem

Building savings for college can boost college access and success, but federal support is inequitable. Savings help foster children’s expectations for their future at a young age, and children from lower-income households with college savings are three times more likely to enroll in college and four times more likely to graduate. Despite these potential impacts, federal subsidies for college savings through tax-advantaged 529 and Coverdell accounts fail to support low-income savers. Above-median income households own 98.9% of savings in these accounts.

Local Children’s Savings Account (CSA) programs target support to low-income households, but face startup challenges. CSAs, which are long-term, incentivized savings accounts that help children build savings for their future, can provide more equitable support for college savings. Tens of thousands of lower-income children participate in universal, automatic CSA programs established by states and localities from Maine and Nevada to San Francisco and St. Louis. However, starting a new CSA program can be time consuming and resource intensive, since the financial services market lacks a turn-key account platform that meets the needs of cities and states designing programs. For many would-be programs, the challenge of finding a financial services provider willing to work with them to create an appropriate savings vehicle is too big to overcome.

Administrative Policy Solution

President Obama’s myRA program should be a model for fostering local expansion of the CSA field. In 2014, President Obama announced the myRA program, a starter retirement savings account particularly targeted to lower-income workers without access to employer-sponsored retirement accounts. The myRA was established by the U.S. Department of the Treasury using existing statutory authority to solve a thorny problem for lower-income savers: lack of access to a simple, safe, accessible account platform. The next administration should use myRA as a model for solving the account problem confronting would-be local CSA programs across the country.

Policy Solution: Establish a “myCSA” account platform to boost college savings at the local level. myCSA would create a ready-to-use, accessible savings platform for cities and states that want to start a CSA program, thereby sparking a new round of local and state innovation in the children’s savings field. Like myRA, myCSA could be established using existing statutory authority. Also like myRA, myCSA would be a Treasury-managed savings platform, but rather than retirement savings, myCSA would boost savings for college.

While myCSA builds on the myRA concept, myCSA would also need to accommodate the typical components of CSA programs and the needs of low-income savers via the following features:

- **User-friendly deposit options** that facilitate small-dollar saving by low-income families
- **Account tracking**, which allows the CSA program to monitor when deposits are made
- **No fees** that would eat away at families’ savings and **no minimum deposit or minimum balance** requirements that prevent small-dollar deposits and erode the principal in the account
- **A safe investment product** that allows for savings growth while minimizing risk
- **Lifelong savings potential**, which allows myCSA accounts to be rolled into myRA accounts at a certain age
Affordable Homeownership

**The Problem**

The country is in the midst of an affordable housing crisis. In 2013, there were only 34 affordable housing units for every 100 extremely low-income households. This shortfall of nearly four million units has doubled in the past decade. Households are severely cost-burdened as well; more than 80% of households making $15,000 or less annually spend more than 30% of their income on rent.

Manufactured housing is one of the largest sources of unsubsidized affordable housing, but current laws prevent owners of manufactured homes from reaping the same benefits that owners of site-built homes enjoy. Manufactured housing is affordable for 63% of lower-income households, compared to only 26% for all other housing types. Yet manufactured housing must deal with outdated and untrue stereotypes about quality and safety. Moreover, manufactured housing is saddled with lending and land tenure issues that don’t plague site-built homes, and these issues work against the interests of owners and potential owners of manufactured homes.

**Administrative Policy Solutions**

Support low-income homeownership by supporting manufactured homebuyers. There are key opportunities the federal government can take advantage of to increase access to affordable manufactured homes for low- and moderate-income homebuyers.

Policy Solution: Lift local zoning restrictions on manufactured housing. In at least 15 states, local zoning policies and ordinances exclude manufactured homes from single-family residential areas. These policies are a relic of outdated prejudices against mobile homes. These policies prevent households from following an affordable path to homeownership simply because of the way their home is constructed. Several states prohibit such exclusionary zoning, but the U.S. Department of Housing and Urban Development (HUD) should take action to eliminate these restrictive policies nationwide.

- Direct HUD to use its preemption authority to address zoning discrimination against manufactured housing. The Manufactured Housing Improvement Act of 2000 expanded HUD’s preemption authority on manufactured housing, stating that it “shall be broadly and liberally construed” to protect the standards for manufactured housing laid out in the law. HUD should state that local laws excluding manufactured housing from residential zones are in conflict with HUD’s national standards. Removing zoning restrictions against manufactured housing would also be in line with the Obama Administration’s recently released Housing Development Toolkit.

Policy Solution: Expand U.S. Department of Agriculture’s (USDA) loan pilot programs for both new and existing manufactured homes. In 2015, the USDA Office of Rural Development announced a pilot to enable buyers of manufactured housing to use a fixed, low-interest, 33-year home loan to purchase new energy-efficient manufactured homes and place them in manufactured housing communities. The 502 Direct and Guaranteed loan pilots for manufactured housing are currently in place in Vermont and New Hampshire, and USDA plans to extend the pilot, allowing for the purchase of new and existing manufactured homes in nine states. USDA should expand it to other states, especially where there is significant opportunity to serve more potential homeowners. An expansion of the 502 program would also improve manufactured home communities, enhancing the value of neighboring homes and helping address the stigma the sector faces.
The Problem

The country is facing a retirement crisis. Nearly half of all working-age adults are without even a penny saved for retirement. Social Security is simply not enough on its own to ensure a livable future, and only about half of employers offer employees retirement savings accounts. The issue is even more serious for lower-income households, who are one-tenth as likely to have a retirement account compared to higher earners.

Administrative Policy Solutions

Encouraging savings starts with accessible accounts and simple savings. If we want to narrow the retirement savings gap, we need to make it easier for families to access and contribute to savings products that overcome the challenges that discourage far too many from saving for retirement, particularly lower-income households. This means offering affordable products without costly fees that are easy to use, and lowering entry barriers through automatic enrollment and other incentives.

Policy Solution: Support and expand myRA. The Obama Administration launched myRA in 2014 as a simple, affordable and safe account with significant potential. The next administration should build on the success of the myRA program.

Policy Solution: Help states establish automatic-enrollment retirement programs with myRA. Several states are taking advantage of recent U.S. Department of Labor policies that make it possible to roll out state-wide automatic enrollment retirement accounts for employees without plans. For some states, myRA might be the perfect default savings vehicle for these automatic programs. As a proven and safe product, states can enact myRA quickly and easily without any of the larger financial or administrative burdens that can come from establishing their own programs from scratch. California, for example, will be temporarily utilizing myRA to get its recently enacted Secure Choice program up and running quickly. The U.S. Department of the Treasury should actively reach out to states and offer assistance to those who are interested in setting up automatic programs like these using myRA.

Policy Solution: Help state Auto-IRA programs boost financial knowledge and skills among new savers. States are enacting Auto-IRA programs for workers not currently covered by employer-sponsored plans, significantly expanding the pool of retirement savers, many of whom have not previously participated in investment-based savings. Several states that have already begun implementation of these programs acknowledge the significant need for boosting the financial capability of this pool of new savers to ensure maximum returns and optimal savings levels.

Treasury should work with states to develop adaptable financial capability tools for new retirement savers. These materials should pay special attention to the need of lower-income savers by explaining the inherent risks involved in retirement savings, means for accessing savings in times of financial emergencies and how to take advantage of tax credits for retirement savings. Further, the Department should promote innovative solutions to boosting the financial capability of new retirement savers, such as through smartphone apps, gamification and simulations, and incentives.
Financial Capability Services and Tax Preparation

The Problem

Existing social service programs reach low-income Americans at key points in their financial lives, but often miss opportunities to help this population build financial capability. Key moments, such as enrolling children in Head Start programs, visiting community health centers and accessing free tax-preparation services, can be leveraged to help families strengthen their financial well-being.

Administrative Policy Solutions

To make the most of key moments in the lives of our most vulnerable neighbors, we need to meet them where they are. As a first step to accomplishing this, the next administration should build on the accomplishments of successful programs that increase financial security and then expand those approaches to other federal agencies.

Policy Solution: Build on and replicate the Obama Administration’s ASSET Initiative Partnership (AIP). The U.S. Department of Health and Human Services (HHS) launched AIP in 2009, working with states and local communities to boost financial capability by integrating asset-building services into other platforms already serving individuals and families. AIP helped integrate financial capability services into social service programs, such as community health centers, Head Start programs, and others that serve low-income people. To build on the success of AIP, the next administration should:

- **Further promote the integration of financial capability services within HHS programs.** For example, the Health Resource and Service Administration (HRSA) should clarify that community health centers can and should include financial capability services in their offerings. HHS can also issue further guidance on the integration of financial capability services for the Office of Head Start.

- **Expand AIP to increase financial capability integration at other federal agencies.** For example, using AIP as a model, the U.S. Department of Labor could better leverage financial capability services through the Workforce Innovation and Opportunity Act (WIOA) for youth and adult programs. And, by replicating the AIP model, the U.S. Department of Housing and Urban Development’s Family Self-Sufficiency program could increase participants’ financial well-being by issuing guidance that advances best practices related to financial capability service delivery.

Policy Solution: Strengthen the IRS’s Volunteer Income Tax Assistance (VITA) program. Tax time is a crucial moment that can be leveraged to improve financial well-being. In 2015, 90,000 volunteers processed over 3.7 million returns totaling more than $2 billion in refunds. To strengthen VITA, the next administration should give VITA sites the flexibility to expand their scope in response to local needs. Currently, the IRS sets one national scope of work that VITA sites can do and does not allow sites to expand beyond that scope. The IRS should allow sites to build out their scopes of work to respond to specific financial challenges facing their communities. This could include expanded Schedule C preparation, Schedule E preparation or cancellation of debt.
The Problem

The racial wealth divide is growing, exacerbated by past and current federal policies. Today, households of color own nearly $100,000 less in wealth than white households. For Black and Latino households, that translates to just owning six and seven cents, respectively, for every dollar owned by a White household.

This reality is no accident, but in large part the byproduct of past and present policies that have been intentionally or thoughtlessly designed to expand racial wealth disparities. Despite a half-century of progress since the Civil Rights Movement, many of our policies and programs continue to drive a wedge between households of color and white households.

Administrative Policy Solution

We cannot address the racial wealth divide without first understanding the policies exacerbating it. Even progressive policymakers regularly fail to consider the impact that seemingly positive policy proposals will have on these racial wealth divisions. In order to start closing the divide, we need to systematically assess how existing federal policies and programs contribute to, or also might help diminish, the ever-growing racial wealth gap.

Policy Solution: Launch a racial wealth divide audit of federal policies and programs. In order to understand how those policies are affecting the racial wealth and social divide today, the next President should take executive action to authorize a government-wide audit to rigorously assess all major economic policies and programs, across all federal agencies. This audit would not only allow the broader public to understand the role public policies play in the social and economic realities of communities of color, but it would also provide the information needed to deliberately craft policy solutions to remedy the situation. This executive action should:

- Appoint a racial wealth divide audit ombudsperson or special advisor. The next administration should appoint an ombudsperson who reports directly to the President and is responsible for coordinating the audit and identifying actionable steps to reduce the racial wealth divide.

- Conduct a thorough, evidence-based review. Under the direction of the ombudsperson, all agencies will be directed to use empirical tools and frameworks such as the Racial Wealth Audit developed by the Institute for Assets and Social Policy at Brandies University and Demos to quantify the economic impact that federal policies and programs have on the racial wealth divide.

- Issue a public report with actionable administrative reforms. The ombudsperson will develop a public report detailing the results of federal agency policy reviews and recommendations the administration can take to reduce its role in growing the racial wealth divide.

- Demonstrate legislative leadership. In consultation with the ombudsperson or special advisor, the next administration should create a legislative agenda which outlines key reforms that require Congressional authorization.
Persistent Poverty and Community Development

The Problem

Many communities are wracked with persistent poverty and strained for resources. The U.S. Department of Agriculture (USDA) has classified 353 counties as being “persistently poor,” which is defined as having a poverty rate above 20% for 30 or more years. Without investment, the destinies of children born in these communities will continue to be determined by their ZIP codes.

Administrative Policy Solutions

Launched in 2016, Uplift America is a new partnership between USDA and private-sector partners, charged with directing hundreds of millions of dollars to high-poverty rural communities and supporting community-based lenders, particularly community development financial institutions (CDFIs), serving these communities. Uplift America is an exciting initiative in its own right, having already leveraged private resources from the Mary Reynolds Babcock Foundation, Ford Foundation, JP Morgan Chase Foundation, Northwest Area Foundation, and Bank of America; and could serve as a model for leveraging government, philanthropic and corporate resources to address persistent poverty beyond the USDA.

Policy Solution: Expand Uplift America to ensure every federal agency invests in fighting persistent poverty. While USDA has taken the first step with Uplift America, addressing a problem the size and scale of persistent poverty will take a multi-agency effort. To tackle persistent poverty, the next administration should replicate Uplift America beyond USDA, expanding to federal workforce, education, housing, health and human services programs. Representative Jim Clyburn (D-SC) and House Speaker Paul Ryan (R-WI) have supported a “10/20/30” plan, which would direct 10% of federal resources to communities that have experienced 20% or higher poverty rates for 30 years or more. The next administration’s challenge will be in taking this slogan and turning it into law. Only an interagency effort can accomplish this task—by bringing the scale of resources necessary to end persistent poverty once and for all.

Such an interagency task force should learn from the lessons of the Obama Administration by prioritizing efforts to build the capacity of community-based institutions. Low capacity is a consistent challenge in persistent poverty counties across the country. This pervasive lack of capacity also afflicts the community-based institutions that serve these communities. To have a lasting and meaningful impact on persistent poverty, the federal government must invest in the community-based institutions that serve those communities, such as CDFIs. CDFIs provide financial services, such as affordable credit, long-term capital and banking services, to communities and households that mainstream financial institutions view as too risky to serve.

Policy Solution: Establish an “Office of Persistent Poverty” within the White House. Throughout the Obama Administration, the White House convened an interagency process to improve how the federal government can better engage with and support communities. To build on the best practices developed over the last eight years, the next administration should establish an office dedicated to combating persistent poverty. The Office of Persistent Poverty would improve the government’s ability to implement poverty alleviation, coordinate agency efforts and encourage the development of innovative solutions involving multiple agency partners.
Endnotes


3 CFED, Policy Blueprint, September 2016.


7 For more information on sidecar accounts, see Reid Cramer et al., Flexible Savings: The Missing Foundation for Financial Security and Economic Mobility, 2015.

8 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).


10 CFED and Aspen Institute, MyCSA: A Proposal to Catalyze the Expansion of Children’s Savings Programs (forthcoming)


12 Ibid.

13 Housing is considered “affordable” if total housing costs account for 30% or less of household income for households earning incomes below 50% of area median income.


18 Ibid.


23 Enabling services are services provided by community health centers that address barriers that come between patients and the care they need. These services can include translation services, transportation, public health education, general case management, and youth and family services. Please see: Rachel Talley, Susan Baade and Hui Song, Highlighting the Role of Enabling Services at Community Health Centers: Collecting Data to Support Service Expansion & Enhanced Funding (San Leandro, CA: Association of Asian Pacific Community Health Organizations and National Association of Community Health Centers, 2010), 3-4, http://nachc.org/wp-content/uploads/2015/06/EnablingServicesReport.pdf.


29 For more information about the Uplift America Fund see http://www.upliftamerica.org.