Promise Accounts: Matched Savings to Help Families Get Ahead

The Problem: Working Families Have Few Supports to Help Them Save for the Future

Working families—especially those of color—need more support in order to save for the future. More specifically, families need more flexible savings options for the medium term to support critical assets like higher education and homeownership.

Although the federal government provides billions in fiscal resources to help families build savings and wealth through the tax code each year, most of these resources go to those who are already wealthy. In fact, the wealthiest 20% of Americans received 71% of the benefits coming out of the Tax Cuts and Jobs Act. Almost 80% of the $218 billion in tax cuts went to White households (an average of $2,020 in tax cuts), while Latino and Black households received an average of $970 and $840 respectively.¹

This is particularly unfortunate as these families could greatly benefit from supports that help them build savings and wealth. Today, Black and Latino households have just a fraction of the wealth owned by White households. When durable goods such as a family car are subtracted, the median Black and Latino household owns just $3,400 and $6,300 in wealth, respectively, compared to $140,500 in wealth owned by their White peers.²

The Solution: Promise Accounts

Decreasing economic inequality and closing the racial wealth divide means creating saving pathways for low-income households to build wealth. Promise Accounts use insights from decades of research and experience to create a new matched savings program that incentivizes working families to boost their savings and get on a wealth-building path through opportunities for higher education, work and homeownership.³

Promise Accounts make some key changes to traditional matched savings programs. Specifically, these accounts would have features including:
**Standardized accounts created through one platform:** Under the Promise Accounts program, all accounts would be issued and managed by the U.S. Department of the Treasury. The savings accounts would have reasonable fees, no minimum contribution or balance requirements and virtually no risk of investment losses. This would ensure that all participants would have access to a safe and robust savings product and account management platform.

**A strong role for local organizations:** Local organizations can support participants through all phases of the program to make their experience successful. They can create easy inroads for low- and moderate-income families to access these accounts through critical moments in their lives such as getting a job, starting a family, buying a home and enrolling in higher education. Local organizations could also help participants open and manage accounts. By working through organizations trusted in communities, households will have a higher likelihood of success in building wealth.

**More types of purchases eligible for the program:** Purchases should be oriented around three buckets: higher education, work and housing. This would allow purchases that are most helpful to working families—a truck or tools for a new carpenter, a new roof for an older home or childcare for a young mother starting college. Limitations on asset types restrain households from potentially saving for critical individual needs. Saving for non-traditional financial needs can serve as a catalyst for greater economic security and still relate to higher education, work and housing.

**More families eligible to participate:** To be eligible for the accounts, participants would have to be under 80% of the AMI (area median income) or 300% of the federal poverty line—whichever is the higher of the two. While higher-income households can save modest amounts, incentivizing them with matches could increase their savings to invest in major purchases. Previous programs had much narrower eligibility. By widening the participants who would qualify for matched savings, Promise Accounts could better reach the populations that need the most support to save.

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