Promise Accounts: Matched Savings to Help Families Get Ahead

Introduction
Despite a strong economy, countless American families are living in financial insecurity. They are living from week-to-week, one emergency or missed paycheck away from severe financial distress. One in five U.S. households experience significant income fluctuations from month-to-month, while 13% of households fell behind on bills in the past year. When families are not equipped with savings, they are forced to borrow or forego necessities. Forty percent of families are considered liquid asset poor — meaning they do not have enough savings to survive at the federal poverty level for three months in the event of an emergency that left them without an income. Even more alarming is that almost 57% of families of color are considered to be living in a state of liquid asset poverty.

Wealth inequality has grown to historic proportions with households of color facing an ever-growing racial wealth gap. According to the Federal Reserve’s 2016 Survey of Consumer Finances, families in the top 10% of the income distribution own 20 times more wealth than families in the middle. When compared to families in the bottom 20% of the income distribution, we find that families in the top 10% own nearly 60 times more wealth. When broken out by race, White families at the median own about 10 times more wealth ($171,000) than Black households ($17,000); and about eight times more wealth than Latino households ($21,000). Unfortunately, these racial wealth disparities become even more disturbing when durable goods, such as an automobile, are subtracted — leaving Black and Latino households with just $3,400 and $6,300 in median wealth, respectively, compared to $140,500 for median White households.

Wealth, underpinned by savings and assets, provides families an opportunity to get ahead. Building assets, including savings, helps families improve their lives and the lives of their children. Today, some of the most prominent ways that families can build wealth are through higher education and homeownership. Despite any lingering effects from the housing crash, homeownership remains the leading source of wealth and wealth creation for many families — especially when homes appreciate in value. According to the Federal Housing Finance Agency’s house price index, assuming a modest increase in value, a homeowner can gain about 26% more value in their home over 30 years. However, Black and Latino households do not benefit from that gain as much as White households due to policies that have been in place in the United States for decades that keep
households of color from equal access to homeownership. Similarly, higher education can also lead to greater levels of wealth accumulation through an increase in lifetime earning potential. This provides greater ability to save and build assets. During 2016, this dynamic translated to $292,100 in median net worth for households headed by a college graduate, compared to $67,100 for those headed by someone with a high school diploma. However, while White heads of households with bachelor’s degrees have a median net worth of $375,500, Black heads of households with equal education hold $36,800 of median net worth. Showing a similar trend are Latino heads of households who hold $58,000. Higher education and homeownership are powerful means to build wealth, but households of color must have equal access to these benefits.

Each year, the federal government spends an enormous amount to help families build wealth. During 2018, the federal government spent $634 billion through tax subsidies and tax breaks to help families acquire assets such as homes, while investing in higher education. However, the wealthy received much more support than working families. With the Tax Cuts and Jobs Act that passed in December 2017, the wealthy also received the vast majority of the benefits; the wealthiest 20% of Americans received 71% of the benefits. Almost 80% of the $218 billion in tax cuts went to White households. White households received an average of $2,020 in tax cuts, while Latino and Black households received an average of $970 and $840 respectively. Closing the racial wealth divide means creating saving pathways for low-income households to build wealth – especially households of color.

Promise Accounts, a reimagined matched savings program, can help families successfully save for their futures. Matched savings programs, such as Individual Development Account (IDA) programs, offer special savings accounts for specific wealth-building purposes and match the savings deposited by the account holder. The federal government should build on the lessons learned from over twenty years of IDA programs by creating matched savings accounts, or Promise Accounts, for all low- and moderate-income families in the country. This proposal is informed by Prosperity Now’s expertise as well as the decades of matched savings program administration experience of our partners in the field. These accounts will enable and incentivize working families, particularly households of color, to boost their savings and get on a wealth-building path through opportunities such as higher education, entrepreneurship and homeownership.
Proposal Outline:

- Americans Need Savings in Order to Get Ahead and Build Wealth.
- Matched Savings Programs Support Families Purchasing Important Assets.
- Promise Accounts Can Help Families Save by Building on Lessons Learned.

Americans Need Savings in Order to Get Ahead and Build Wealth.

All savings are not the same. Families need support to save for different purposes:

- **The Now:** Short-term savings can help get households through financial emergencies and income volatility. But, as previously mentioned, 40% of families are liquid asset poor.\(^{17}\)
- **The Soon:** Saving in the medium term is crucial to helping working families build wealth. Saving for higher education, homeownership and entrepreneurship promotes long-term prosperity.
- **The Later:** Saving for retirement can allow people to stop working and have financial security through their later years. Wealth can also be passed on to the next generation, a key component to intergenerational wealth building.\(^{18}\) However, about half of American families have no retirement savings.\(^{19}\)

Working Families Need Savings for Different Purposes

“Soon” savings can be a huge driver to helping a working family become economically mobile. Building savings for the medium term is key to wealth building. Although the government provides hundreds of billions of dollars in support for families to build assets through a variety of tax incentives, those supports are targeted towards higher-income families who need the least help. Low- and moderate-income families, who need the most help, get few or no tax incentives to encourage savings for building assets.\(^{20}\) Some of the biggest wealth drivers, such as homeownership, are often out of reach for working families. If these families had just a little bit of support towards accessing them, however, these wealth drivers could become a reality.
For example, homeownership—a key path to wealth building and the largest source of wealth for most Americans—is greatly dependent on having a downpayment. In 2018, the median purchase price for an existing home in the United States was $247,200. Many working families would struggle to save the traditional downpayment of 20% for a home at this price—which amounts to almost $50,000. Even utilizing a Federal Housing Administration (FHA) loan with a required downpayment of 3.5% would require a family to have saved $8,652 for that median purchase price—not including closing costs. Not surprisingly, more than half of renters say that the reason they are still renting is because they cannot afford a downpayment to purchase a home. Benefits to homeownership include leading to a higher involvement and investment in one’s local community as well as longer-term wealth building.

Through an increase in earning and wealth-building potential, along with intergenerational economic mobility, higher education can also lead to greater, long-term economic mobility. However, the ability to access such an important wealth-building tool can come at a high cost to low- and moderate-income students. According to the College Board, the price for tuition during the 2018-2019 school year at a four-year public college for an in-state student—including room and board—could cost families over $21,000. Even if tuition were reduced or free, students still need to pay for books, cover additional fees, and potentially fund other living costs. These expenses amounted to over $4,500 during the 2018-2019 school year. Beyond the traditional expenses, non-traditional students can face other barriers to attaining a higher education, such as childcare costs.

Ultimately, as a result of these costs, families often turn to debt to finance higher education opportunities. This dynamic has led to more than a fifth of borrowers in the United States holding student loan debt with median student loan balances currently standing at $18,366. Additionally, households of color have 20% more student debt at the median than White households. This debt can get in the way of young people purchasing homes and starting families.

Similarly, entrepreneurship can help households build assets that lead to economic mobility. However, entrepreneurs looking to start a small business usually need capital to start these endeavors. This capital is typically obtained through borrowing from personal savings; or by receiving help from family and friends. As a result, low- and moderate-income households—particularly households of color—can have a more difficult time starting a small business due to low savings and wealth accumulation. When capital and savings are not available, this can often push individuals towards getting credit that can be hard to access, expensive or even predatory—problems made worse by the fact that small business loans, unlike consumer loans, are often unregulated.

In addition to these traditional examples of savings needs and wealth-building opportunities, “soon” savings can also involve a myriad of other non-traditional financial needs that can serve as a catalyst for greater economic security, such as immigrant integration-related services, which can cost thousands of dollars, as well as vehicles, which can be necessary to get to work or school in rural or suburban areas.
But barriers stand in the way of saving towards these goals.

- **Low- and moderate-income households experience a lack of growth in real wages and income.** Starting in the 1970s, income growth slowed drastically for all but those at the highest income level. Despite low unemployment, increased wages have gone primarily to the top earners in the United States. In addition, average real (inflation-adjusted) wages had about the same purchasing power in 2018 that they did in 1978.

- **Many households also lack access to safe and affordable financial products and services.** A 2017 Federal Deposit Insurance Corporation (FDIC) survey suggests that formal banking can lead to a higher likelihood of a household saving. However, a lack of access to formal banking makes it difficult for households to save. Almost seven percent of United States households are unbanked, meaning they have neither a checking nor savings account. In addition, almost 19% are underbanked, meaning they have a mainstream account but use alternative and often costly financial services for basic transaction and credit needs.

- **Savings penalties (sometimes called asset limits) can force families to choose between saving for the future and surviving from day-to-day.** Public benefit programs, such as Temporary Assistance for Needy Families (TANF) or Supplemental Nutrition Assistance Program (SNAP), can require families to spend down their savings to a specified level before they can receive benefits, thereby preventing families from saving.

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**Matched Savings Programs Support Families Purchasing Important Assets.**

Matched savings programs have a history of helping families save. These programs, often referred to as Individual Development Accounts (IDAs), are meant to help low-income families save for important, wealth-building purchases, such as a home, as a means to help them build long-term upward mobility.

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**AMERICAN DREAM DEMONSTRATION**

A year before Congress’ 1998 Assets for Independence Act, Prosperity Now (then known as the Corporation for Enterprise Development or CFED) implemented the American Dream Demonstration. Over four years, 13 community-based organizations in 11 states and Washington, DC supported 2,364 low-income individuals in opening IDAs to save for wealth-building assets. The demonstration found that through this process, individuals changed both their outlook and behavior around saving and reaching life goals. Studies such as the American Dream Demonstration have shown that even low-income families can save, and those savings can help families invest in assets such as homes, small businesses and education.
For almost twenty years, the largest provider of support for IDA programs was the Assets for Independence (AFI) program. Administered by the U.S. Department of Health and Human Services, participants in the AFI program could save for homeownership, higher education and starting a small business. Every dollar that participants deposited into the IDA was matched (ranging from $1 to $8) by the AFI grantee from a combination of federal and non-federal funds (local organizations administering AFI grants programs were responsible for raising a 100% non-federal match). Matching funds were paired with financial education and sometimes other services such as financial coaching and homeownership counseling. Through the federally-funded AFI program, over 100,000 IDAs were opened, and participants saved over $100 million in these accounts. In 2017, cuts in federal funding ended AFI.

**With IDAs, Many Participants Improved Their Lives**

- 41% of participants worked longer hours
- 60% were more likely to make educational plans for their children
- 85% felt more in control of their lives
- 93% were more confident about the future

*Source: Individual Development Accounts, Center for Social Development, 2002*

IDAs showed that, given the right supports, structures and incentives, low-income households can **successfully save**. Research has found that features such as direct deposit, financial education and matching funds within IDAs can help working families increase their savings, in addition to increasing participation in these programs. In fact, one study found that, on average, IDA participants were saving 2.2% of their monthly household income. After year one, an evaluation of IDA programs through the Urban Institute found a nine percent increase in the share of participants with savings. This study also found an average increase of about $800 (from $2,271 to $3,070) in savings among AFI participants.

IDAs lead to a **higher rate of homeownership and the ability to own homes over a longer period of time**. An evaluation of IDA programs revealed that the homeownership rate of renters who participated in IDAs was 8.9 percentage points higher after four years than renters who did not participate. A separate study by Prosperity Now and the Urban Institute outlined that in the immediate aftermath of the housing crisis (April 2009), 93% of IDA homebuyers kept their homes without evidence of problems with paying their mortgage. Also, this research showed that IDA homebuyers had a far lower rate of foreclosure, by one-half to one-third, than other low-income homeowners in the same communities.

**IDAs can increase financial stability.** People do not need to sacrifice immediate needs in order to set money aside in savings. Rather, saving in IDAs has been shown to help, not hurt, with immediate needs. The Urban Institute evaluation found a 34% reduction in hardships related to utilities, housing or health while people were participating in the IDA program. In other words, IDA participants were
less likely to have their utilities shut off and more likely to pay their rent or afford a doctor’s visit.\textsuperscript{49} It also increased confidence in participants’ ability to pay for their monthly living expenses by 10%.\textsuperscript{50}

**IDAs can also help participants improve their lives overall.** Matched savings programs can provide awareness and long-term planning strategies. Participants utilizing IDAs have been found to decrease their use of alternative financial services. The Urban Institute evaluation found a 39% decline in the use of alternative check-cashing services.\textsuperscript{51} The American Dream Demonstration showed that 70% of participants said they shopped more carefully for food, 60% said they ate outside of their homes less and 64% said they spent less on leisure activities.\textsuperscript{52} The American Dream Demonstration also found that 41% of participants worked longer hours, 60% were more likely to make educational plans for their children, 93% were more confident about the future, and 85% felt more in control of their lives.\textsuperscript{53}

**Federal Policies Can Help Working Families Build Wealth.**
Legislators are taking steps to better enable working families to save for their now, soon and later needs. These federal policies are just a few possibilities on how government intervention can encourage savings:

**Refund to Rainy Day Savings Act (S. 1018; H.R. 2112)**
In order to save for the longer term, families also need the ability to save for the shorter term. Introduced in the 116\textsuperscript{th} Congress by Sens. Cory Booker (D-NJ), Tom Cotton (R-AR), Doug Jones (D-AL) and Todd Young (R-IN), as well as Reps. Bonnie Watson Coleman (D-NJ-12) and French Hill (R-AR-2), this bill allows working families to defer 20% of their tax refund for six months by opting into the program. The savings would be transferred directly into their account six months later with interest.

How the Refund to Rainy Day Savings Act Can Help a Family Build Emergency Savings at Tax-Time

![Diagram showing the benefits of the Refund to Rainy Day Savings Act](source)

The legislation would also establish a pilot program to gauge the impact of matching funds with lower-income tax filers. In addition, this bill expands the flexibility of AFI by widening the allowable eligible
asset purchases, increasing the maximum participant match and simplifying eligibility requirements for participation.

_Saving for the Future Act (S. 1053; H.R. 2120)_
Expanding access to emergency and retirement savings through the workplace would help working families save for the now and later. Introduced by Sens. Chris Coons (D-DE) and Amy Klobuchar (D-MN), as well as Reps. Scott Peters (D-CA-52), Lucy McBath (D-GA-6) and Lisa Blunt Rochester (D-DE-AL), the Saving for the Future Act encourages both short- and long-term savings by mandating that employers provide workplace-based savings solutions to their employees. The bill calls on employers to contribute at least 50 cents per hour worked by their employees to a retirement savings plan, while also auto-enrolling workers into the program at a contribution of four percent of their own earnings. Employers who do not currently offer a plan can use the federally provided UP Accounts, which also include an emergency savings component by allowing workers to put the first $2,500 they accumulate into a short-term account. In addition, the bill provides flexibility to smaller employers by offering them tax credits for their retirement contributions or allowing them to opt out, depending on the size of the business.

_Save for Success Act (H.R. 2378)_
Working families need help saving for college. Right now, the American Opportunity Tax Credit (AOTC) is structured so that families receive the yearly $2,500 tax credit (with a $10,000 maximum lifetime credit) after they have paid tuition—benefiting those who already have the ability to pay. This bill, introduced in the 115th Congress by Rep. Ben Lujan (D-NM-3), would restructure the AOTC so that families could receive up to a $250 match of the AOTC every year that they save in a 529 college savings account, starting with the birth of their child. The lifetime maximum credit of $10,000 would remain the same, so if a family saved $250 every year until their children reached 18, they would still be eligible for $5,500 in tax credits during the student’s college years.
**Strengthening Financial Security Through Short-Term Savings Plans Act (S. 1019)**

Employers should easily be able to offer their workers emergency savings accounts. The Strengthening Financial Security Through Short-Term Savings Plans Act, proposed by Sens. Booker, Cotton, Jones and Young, would encourage employers to offer emergency savings as a benefit to their workers. This legislation would make it easier for employers to offer rainy day savings accounts to workers completely separate from any retirement accounts that may or may not be offered. These accounts would help workers build short-term savings through automatic opening and contributions, allowing families to prepare for the unexpected.

**Savings for American Families’ Future Act of 2013 (H.R. 837)**

By reforming the Saver’s Credit to be fully refundable, all working families could get support for saving regardless of whether they owe income tax. Led by Rep. Richard Neal (D-MA-1) and introduced in the 113th Congress, this bill would make the credit refundable. It would also expand eligibility to higher-income families (those making $65,000 per year) and match 50% of the first $1,000 of savings for families earning less than $65,000. Lastly, it would index contribution amounts for inflation.

**Automatic IRA Act of 2017 (S. 1861; H.R. 3499)**

Automatic enrollment is a simple, cost effective way to help Americans save for retirement through payroll deductions. This bill was introduced in the 115th Congress by Sen. Sheldon Whitehouse (D-RI) and Rep. Neal. It would require employers without retirement plans to make automatic enrollment IRAs available to their workers.

**Promise Accounts Can Help Families Save by Building on Lessons Learned.**

With access to the right resources, we can do more to make saving possible and more impactful for families. We can use insights from decades of research and experience as an opportunity to create a new matched savings program to incentivize working families to boost their savings to go towards asset purchases. Matched savings programs have helped over 100,000 households save for important purchases. From twenty years of practice, not only do we know what works but also what needs to be improved upon in order to expand the impact and scale the model to more organizations and communities. While the AFI program successfully helped families save for those “soon” wealth-building purchases, the ability of the program to reach its full potential was limited by several program and policy design features within the program.

The following proposal for the Promise Accounts program would expand the full potential of matched savings to millions of working families. It is informed by research as well as the expertise of Prosperity Now’s partners in the field who have spent the past few decades running matched savings programs. Below we describe the key features of Promise Accounts, as well as the reasoning behind these features.

**HOW PROMISE ACCOUNTS WOULD WORK**

*Create standardized accounts through one platform*

Under the Promise Accounts program, all the accounts would be issued and managed by the U.S. Department of the Treasury. This would ease a major barrier to entry for local organizations participating in the program and ease the administrative burden of staff at local organizations in helping participants open and manage accounts. 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 very safe and robust savings product and account management platform.
One of the biggest challenges for local organizations under the AFI program was selecting and brokering relationships with financial institutions to offer the specialized IDA accounts for the program. They were responsible for developing and maintaining partnerships with financial institutions to hold the accounts. It could be difficult to find financial institution partners who could offer the withdrawal-restricted accounts to savers and accept deposits from multiple locations. Quite often financial institutions had to train tellers at participating branches to open IDAs and accept deposits because the accounts had limited access to participants. With accounts that typically had small amounts of savings, the program was not profitable for financial institutions and was dependent on personal relationships formed between representatives of the local organizations and financial institutions.

Local organizations also would track participant details and contributions through a variety of systems to keep track of participants’ progress in the programs. These systems were expensive to purchase and administer. By removing the administrative burden on local staff, local organizations can focus on increasing access to accounts in their communities and helping participants be successful savers.

*Maintain and enhance the crucial role of local organizations*

Local organizations are trusted and on the ground in their communities. They can support participants through all phases of the program to make their experience successful. To start, local organizations can do outreach and marketing to engage potential participants. 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. The organizations can ensure that enrollment locations include access points through local employers, during tax preparation, when registering their children for school and applying for government benefits. Families should also be able to enroll online with the help and support of the local organizations. By working through organizations embedded and trusted in communities, households will have a higher likelihood of success in building wealth.

Organizations can facilitate partnerships and get buy-in from local stakeholders to increase local support for the program. Partnerships with other organizations who have access to additional community resources can increase the effectiveness and efficiency of the Promise Accounts program. Federal grants would be made to local organizations to run the program and provide matching funds to participants, but by working together with other community stakeholders, local organizations can build financial support for the program, potentially increasing funding for program administration as well as for the matching funds for the participants.

Organizations located on the ground can help customize the program to local needs and troubleshoot problems for participants. Providing guidance on the allowable uses of the funds could help participants select the right wealth-building strategy for their family, whether around getting and maintaining a job, building equity in a home or successfully completing a degree in higher education. Organizations can help complement the accounts with assistance to savers in making contributions, emergency withdrawals and making payments for the investments.

Lastly, local organizations can identify the most impactful wraparound financial capability services for their participants and guide their participants through those services. The U.S. Department of the Treasury can distribute guidance to help local organizations coordinate financial capability services alongside the Promise Accounts. Local organizations can then decide which resources are best for their participants. With other partners, they can teach households best practices around saving as well as
helping participants build their financial capability through other services such as credit building and financial counseling and coaching.

**Promise Accounts Will Help Working Families Make Important Purchases**

A local organization recruits Jane in their Promise Accounts program.

Jane enrolls in the program and opens a Promise Account with the help of the local organization.

Jane picks a savings goal and develops a savings plan with the help of the local organization.

Jane saves $1,000 for at least 6 months for a car so that she can get to work. She also meets with a financial coach to create a budget for her household and to get help with her credit card debt.

Jane receives $2,000 in her Promise Account as a 2:1 match for her savings. She puts a downpayment on a car—allowing her to keep her steady job so that she can continue to pay her bills and build wealth.

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**Leverage best practices and insights from research to encourage savings**

Promise Accounts will employ best practices from previous matched savings programs. While some program features will be nationwide, others would be under local control. While AFI had a match cap of $2,000 for each individual and $4,000 for a household, this will be increased to $5,000 for an individual and $10,000 for a household, and indexed to inflation, due to rising costs of big purchases such as homes and higher education. While match rates will start at 2:1, local organizations can increase match rates to ones that work best for the needs of their communities and raise additional funds to supplement if needed. These matches can be available to the participants after a minimum of six months of saving. While eligible purchases will need to be around homeownership, work and higher education, local organizations will be able to make the determinations of what purchases are eligible in those buckets.

Customizing incentive structures to encourage participants to save towards their goals will be open to local control. Incentives, as well as behaviorally-informed design and structures, are needed to ensure that participants are regular savers. These structures can vary depending on the outcomes the local program is trying to achieve and local conditions. Research shows a matched savings component can increase the likelihood of a household’s participation as well as the amount they save.55 Other possible incentive structures include: savings benchmark incentives given to a household once they hit a specific target savings amount; prize-linked savings, giving participants chances to win monthly, quarterly or annual prizes by making deposits into their accounts; and seed deposits as an initial deposit to help families get their accounts started.

Programs can also consider behavioral nudges to encourage households to enroll, save and use savings programs. Local organizations can include behavioral incentives such as a simplified binary choice for enrollment so that the household can say “yes” or “no” to the account; reminders to
complete savings actions (such as sending reminders on year-to-date contribution and deadlines); cues to offer recommendations on increasing contributions and feedback on completed actions or progress towards the savings goal.

**Broaden the types of eligible purchases for the program**

Broadening the eligible uses for Promise Accounts could help working families build wealth more effectively. Purchases should be oriented around three buckets: higher education, work and housing. This would allow organizations to approve 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.

Previous program guidance has been very restrictive, typically only allowing investments in the narrow categories of homeownership, small business and higher education. Limitations on asset types restrain households from potentially saving for critical individual needs. In addition to these traditional examples of savings needs and wealth-building opportunities, we should also consider that “soon” savings can also involve a myriad of other non-traditional financial needs that can serve as a catalyst for greater economic security and still relate to higher education, work and housing. With vehicles, participants could have access to higher-paying jobs in rural areas that may not have mass transit. For youth aging out of foster care, saving for the first month’s rent and a security deposit is necessary to starting a successful future. There is also a wide variance in asset ownership needs across localities and populations. Local organizations are familiar with the needs of their communities and can identify the best uses of account funds to build wealth in their communities.

**Streamline disbursement of investments**

Disbursement of funds should go through prepaid debit cards to steer investments to certain types of merchants or vendors, such as higher education institutions. This practice is often already used in several government safety net programs, such as SNAP. SNAP gives nutritional benefits to low-income households through an Electronic Benefits Transfer (EBT) card. This card can be used like a debit card to purchase food and non-alcoholic beverages in designated stores. The card is convenient, can get benefit transfers quickly and automatically, and can be deactivated and replaced if it is lost.

Traditionally, disbursements would be made directly by local programs to a higher education institution, for example. However, this involved extensive logistics and administration costs. While participants would still have to get a money order or wire transfer for downpayments to purchase homes, prepaid debit cards would be used for other purchases. Using the newer, proven technology of prepaid cards for some purchases would be less burdensome and costly, and more streamlined helping participants bypass some of these hurdles.

**Widen participant eligibility to reach more families in need**

Broader eligibility standards than in past programs would allow greater support for those who may have slightly higher incomes and/or assets but still need additional supports to save. 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. There are enormous disparities between races in the amount of assets households own. Without vehicles, White households under the 300% federal poverty line have median assets of $23,500, but Black households have median assets of $6 and Latino households have median assets of $500. These households, as well as those with slightly higher income, need supports to save. In the Boston area for instance, a family of four under 80% AMI would have a household income less than $78,800 annually while in Detroit, a family of four under 80% AMI would make less than $54,900 a year. Therefore, in Detroit, the
default would be 300% of the federal poverty line limit and a family of four could have an annual income up to $77,250.\textsuperscript{61}

The family would also have to have a household net worth of less than $30,000 (excluding primary residence and vehicle), allowing wider eligibility than previous matched savings programs where a household had to have a net worth of less than $10,000. This broader eligibility standard will help higher-wealth families who are struggling with larger asset purchases, such as homes and higher education.

The AFI program was focused towards a very low-income population. Households had to either be eligible for assistance under their state’s TANF program or meet the following criteria: 1) have adjusted gross income equal to or less than twice the federal poverty line or within federal Earned Income Tax Credit (EITC) limits; and 2) have a household net worth that did not exceed $10,000 at the end of the last calendar year before enrollment determination (minus their primary residence and a vehicle). Eligibility should be widened so that the program can reach a population that still needs supports to save.

\textit{Eliminate savings penalties}
Families should not have to choose between a Promise Account and getting public benefits they use to meet their daily needs. These penalties should be removed so that families can freely save for the short term and longer term without worrying about losing their public benefits such as SNAP, TANF, the Low Income Home Energy Assistance Program (LIHEAP) and Supplemental Security Income (SSI).

Savings penalties in SNAP, TANF, LIHEAP and SSI prevent families from saving due to fear that they would lose these critical benefits. SNAP, TANF and LIHEAP are determined by the participant’s state while SSI savings penalties are administered by the federal government. Currently, depending on what state participants live in, they can be in danger of losing their public benefits if they save even as little as $2,000 in an IDA.\textsuperscript{62} However, AFI legislation prevented states from counting the IDs under AFI against public benefits. Still, general savings penalties could prevent people from applying to the program because they did not know that AFI was exempted. Even the perception of savings penalties may keep families away from the program. Working families were not eligible for AFI if they were not eligible for TANF and had net worth beyond $10,000 (see above). This included retirement funds as well as other savings. Households should not have to choose between saving for their families’ future versus meeting their basic needs. By removing savings penalties from these programs, including Promise Accounts, households would be able to better save for their families’ future without putting their day-to-day needs at risk.

THE COST OF PROMISE ACCOUNTS
Given the long history with the AFI program and other savings programs, it is possible to estimate the costs of a Promise Accounts program. Unlike AFI, which was a demonstration program created to inform future program and policy design, Promise Accounts would be available to all low- and moderate-income households, namely those who fall under 300% of the federal poverty level (63,284,640 households).\textsuperscript{63} Using the AFI program to determine costs, we can estimate that each participant would cost $465 per year, including matches and administrative costs.\textsuperscript{64} Looking at take up rates from previous and similar matched savings programs, such as the SaveUSA Program that provided matched savings at tax time to EITC recipients, take up rates have ranged from six percent to 13%.\textsuperscript{65} Based on these inputs we can calculate cost estimates for low take up (5%), medium take up (10%), and high take up (15%) scenarios. For low take up, the cost would be $1.47 billion and for a high take up, the cost would be $4.41 billion. We should also assume that take up would increase over time as local programs become more established and more eligible households become familiar with the
program. To give a midpoint estimation, assuming a medium take up rate (10%), the total cost per year for the Promise Accounts would be $2.94 billion.

PAYING FOR PROMISE ACCOUNTS BY TURNING THE TAX CODE RIGHT SIDE UP
As mentioned previously, the Tax Cuts and Jobs Act of 2017 gave large tax cuts to the wealthy and corporations while, for the most part, leaving out working families. Seventy-two percent of the cuts will go to the richest 20% of households (those who earn more than $110,000).66 Rather than subsidizing the wealthy, we should use the tax code to help working families who need support to build wealth. Below are some options for reforming changes made by the Tax Cuts and Jobs Act that would raise revenue to support Promise Accounts:

- The federal estate tax exclusion amount was doubled in 2017 to $11.18 million per individual (or $22.8 million per couple) by the Tax Cuts and Jobs Act. This allows all but the wealthiest households to pass on assets to their heirs potentially untaxed and reduces federal revenue. The tax now only applies to fewer than one in a thousand households.67 Restoring the estate tax exclusion amount back to $5.49 million per individual would increase federal revenue by an estimated $8 to $10 billion each year.68

- Another option would be lowering the 401(k) savings limit that mainly benefits high-income Americans.69 According to Vanguard, 13% of participants saved the maximum $18,000 401(k) contribution in 2017.70 This maximum has been increased to $19,000 in 2019.71 Assuming the same percentage, 13%, for the 55 million Americans saving in a 401(k),72 7.15 million save at the maximum rate. This means that if the maximum rate was lowered to $16,000, assuming most of the households taking advantage of the maximum 401(k) contribution were in the highest tax bracket, that could generate revenues of $5.15 billion per year.

- Lastly, another source of funding could be through increasing the capital gains tax. Wealthier households are much more likely to pay capital gains tax than lower-income households. However, capital gains are taxed at a lower rate than income through wages. This favors the wealthy over low- and moderate-income households. The Tax Policy Center states that increasing the capital gains tax from the 15% rate on long-term capital gains to 20% would generate $50 billion over a ten-year period. This would average out to $5 billion per year.73

Conclusion
This proposal highlights the need for low- and moderate-income working families, particularly households of color, to acquire pathways to save for their future, and their ability to do so if given the right supports. Transforming AFI into Promise Accounts will create a flexible, nationwide program that allows more families to save and acquire the financial skills needed to build wealth and the resilience to sustain them over the long term. Through the financial, structural and financial capability supports envisioned for Promise Accounts, families would have the tools needed to get them closer to whatever financial goals are within their sights—whether it be a home for their family to grow in, a car to get back and forth to work, the fees necessary to become an American citizen or the ability to graduate from a university.

Just as important, by building on twenty years of experience, research and results, we have an opportunity to take a proven method for supporting working families nationwide to new heights, creating a one-of-a-kind program that would be complementary to other programs and proposals out there. By redirecting the overwhelming support given to the wealthy in the form of tax incentives, Promise Accounts would represent an innovative way to give working Americans well-deserved supports to save for their future and boost their wealth, each of which will help us address rising wealth inequality and the racial wealth divide.
Endnotes

1 The authors would like to thank our colleagues at Prosperity Now for their contributions to this report and for providing valuable feedback throughout this process: Roberto Arjona, Pamela Chan, Parker Cohen, James Durrah, Sandiel Grant, Jeremie Greer, Kate Griffin, Melissa Grober-Morrow, Myrto Karaflos, Stephanie Landry, Sean Luechtedefeld, Shehryar Nabi, Emanuel Nieves, Lebaron Sims and Kasey Wiedrich. Thank you also to our external reviewers, including Justin King from New American, Caroline Ratcliffe from Urban Institute, as well as members of Prosperity Now Community: Rodolfo Acosta-Pérez from Community Action Agency of Southern New Mexico; Janet Byrd from Neighborhood Partnerships; Bernie Mazycz and Kate Pratt from South Carolina Association of Community Development Corporations; and Martha Wunderli from AAA Fair Credit Foundation. This report also benefited from a discussion on matched savings with participants from the savings field at our Prosperity Summit in September 2018.


8 Ibid.

9 Meaningful changes, such as better access to credit and more equitable and inclusive tax policies, could make these financial gains more attainable for households of color.


16 Ibid, 6.
17 “Liquid Asset Poverty Rate,” Prosperity Now Scorecard.
27 Ibid.


42 Ibid.


This study looked at all liquid assets, including savings, checking, money market and retirement accounts plus stocks and bonds, to make sure that participants were creating new savings rather than shifting savings from one account to another.


48 Ida Rademacher, Kasey Wiedrich, Signe-Mary McKernan, Caroline Ratcliffe and Megan Gallagher, “Weathering the Storm Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?,” CFED and Urban Institute, 12.

49 Gregory Mills, Signe-Mary McKernan, Caroline Ratcliffe, Sara Edelstein, Michael Pergamit, Breno Braga, Heather Hahn and Sam Elkin, “Building Savings for Success: Early Impacts from the Assets for Independence Program Randomized Evaluation,” Urban Institute, xii, xiii.

50 Ibid, viii.

51 Ibid.


53 Ibid, 6.

For AFI, the onus was on the local organizations to find financial institutional partners who were willing to hold funds in custodial accounts. Custodial accounts are not standard accounts for the financial institutions and each institution had to come up with their own internal processes for opening and providing access to the accounts.


This would make sure that the program did not leave out areas that could benefit from the program where the incomes are particularly low, such as some native communities.


This calculation is based on one of AFI’s peak years of $21.4 million from FY2006 divided by the program’s 46,003 participants. (Another peak happened in FY2001 with $21.9 million in funding, but the U.S. Department of Health and Human Services does not have the amount of participants from that year listed.) With this program, administration costs would likely be lower than the administrative fees for the AFI program due to the accounts going through the U.S. Department of the Treasury.

Launched in 2011, the SaveUSA Program used tax time and the Earned Income Tax Credit (EITC) as a platform to provide a matched saving program. The program had pilots in four cities around the United States and take-up rates varied from six percent to 13%. For more information see: Gilda Azurdia, Stephen Freedman, Gayle Hamilton and Caroline Schultz, “Encouraging Low- and Moderate-Income Tax Filers to Save: Implementation and Interim Impact Findings from the SaveUSA Evaluation,” MDRC, April 2014, https://www.mdrc.org/sites/default/files/SaveUSA_report_1.pdf, 26.


Ibid, 37.
