



NEW AMERICA
FOUNDATION

RECOMMENDATIONS ON ASSET BUILDING IN CALIFORNIA

CALIFORNIA WORKING FAMILIES POLICY SUMMIT
JANUARY 13, 2009

INTRODUCTION

In today's economy, financial security and mobility depend not just on one's job and income, which can come and go in a minute, but increasingly on one's ability to accumulate assets, both personal and financial. Unfortunately, half of all Americans currently have few or no assets, in part due to policies that discourage savings and wealth accumulation by lower-income households and that provide most of their benefit to higher-income households. The purpose of New America's Asset Building Program is to significantly broaden savings and assets ownership in America, thereby providing all Americans both with the means to get ahead and a direct stake in the overall success of our economy.

The current economic downturn, triggered in part by excessive household debt and deflating housing prices, underscores the central role asset ownership plays in the economic security of American families and the broader economy. Broad asset ownership, whether through savings or investment, has the potential to connect opportunity with economic security and ensure that every member of society is afforded a real stake in the commonwealth.

The New America Foundation has developed a range of asset-building policy proposals that aim to give all Californians—especially low-income people—access to the financial tools and incentives that have helped middle- and upper-income people build savings and wealth. Asset-building policies aim to broaden the middle class and to help people permanently exit poverty.

Families accumulate assets in different forms and proportions: a savings account, a college degree, a skilled trade, a stake in a small business, a college savings plan, a retirement pension or nest egg. But assets of all kinds provide common benefits. They provide a buffer against family financial emergencies, they offer an opportunity to produce income and accumulate wealth, and they promote psychological well-being and civic engagement.

Asset-building policy provides a rare political opportunity for a bipartisan coalition to address stubborn poverty issues with initiatives that emphasize personal responsibility. Providing tools and incentives such as the Children Savings Accounts, Asset Limit Reform, and Access to Retirement Savings are essential in helping Californians build assets, protect themselves against financial trauma, and work towards achieving the California Dream.

To turn the tide on our current economic downturn, policymakers need to create incentives and opportunities to get Californians off the path of out-of-control personal debt and onto the path to saving and investing in order to build their own personal safety net and obtain their life goals.

POLICY OBJECTIVE #1

Create Children's Savings Accounts.

Background

One of the most promising ways to achieve a universal, progressive asset-building system over time is to provide every child with a restricted “start in life” asset account at birth. Children Savings Accounts (CSAs) would be designed to facilitate future saving and lifelong asset accumulation. The introduction of such accounts would also serve as a tool for teaching personal finance basics to children and their parents. According to the U.S. Department of Commerce, one in four Californians are asset poor.¹ CSAs would especially benefit the 26 percent of white children, 52 percent of black children, and 54 percent of Hispanic children who start life in households without any significant assets holdings.²

Current research and successful demonstration projects suggest that CSAs would increase financial inclusion; promote financial literacy and fiscal prudence; protect against economic shocks; improve access to education; improve health and education outcomes; contribute to the development of “future orientation;” and, over the long term, improve livelihoods. In addition to expanding economic opportunity and improving health and educational outcomes, the holding of assets has other positive spillover psychological effects, such as increasing personal efficacy, social influence, and civic participation.

California is an economy built on ideas, technology, and a well-educated workforce. California stands at the front ranks of the global economy today because Californians put aside some of their wealth in past decades to give an ever-rising number of their children a higher education

California is now in danger of losing that higher education edge. Because of budget cuts and rising fees, “California’s historically strong performance in enrolling students in college-level education and providing affordable educational opportunities may be at risk,” the National Center for Public Policy and Higher Education reports.³ The state is now on a path to have a less educated workforce in the future, a workforce that does not meet the economy's need for college-educated workers and that has lower wages.

To meet these challenges, the New America Foundation proposes that California create lifelong savings accounts for each child born in the state. The savings could be later used to help the child’s post-secondary education. Furthermore, CSAs can be used as a financial skills-building tool—teaching children lifelong money management, investment and savings skills. CSAs allow people to invest in their future aspirations.

Recommended Action

A. Launch California Children Savings Accounts.

The California legislature should create a child savings account (CSA) for every child born in the state. The CSA should be seeded with a contribution by the state when the child reaches kindergarten. This would allow the state time to recover from the recession, put its fiscal house in order, and identify a funding source for the contribution. At age 18, account holders could use accumulated funds to pay for college or other post-secondary training and education. The account should be administered by California’s ScholarShare program, which offers a tax-advantaged 529 college savings vehicle designed to help children and their families save for postsecondary education.

POLICY OBJECTIVE #2

Create Golden Dream Accounts to expand access to retirement savings.

Background

Far too many Californians do not have the option to save for retirement through payroll deductions. Currently, approximately six million Californians, roughly 43 percent of the state's workforce, go to work at a job that does not offer them a pension or a retirement savings plan to supplement Social Security.⁴ Nationally, more than 75 million Americans and 10 million California workers do not participate in an employer-sponsored retirement plan.⁵ As a result, approximately 40 percent of today's baby boomers rely on Social Security benefits for more than 90 percent of their retirement income. However, Social Security payments alone, which average to \$1,081 per month in California, will not be enough to sustain Californians in their retirement. This lack of retirement savings may result in higher costs for government services, as seniors without savings are more likely to require government assistance with housing, medical care and other necessities.

California workers need a seamless, lifelong retirement savings system, providing them with the opportunity to build their assets and help attain financial stability through a secure, portable savings account. People save best through payroll deductions. The Golden Dream Account would give six million California workers and their families an opportunity to have their own workplace retirement savings plans to supplement their basic Social Security benefits. The accounts would also give hundreds of thousands California small businesses an easy, low-cost, voluntary way to offer a retirement savings plan to their employees.

Many states, including Maryland, Michigan, New Hampshire, Pennsylvania, and Vermont, have proposed or are considering legislation to create various forms of voluntary retirement accounts. In 2007, the Washington State Department of Retirement Systems was tasked by the legislature to design the "Washington State Voluntary Retirement Accounts." If enacted, California would be the first state to establish voluntary, universal, and portable retirement accounts.

Recommended Action

A. Create a universal, voluntary, and portable retirement savings account.

To meet the needs of workers and small businesses, the California State Legislature should create the Golden Dream Account—voluntary, universal, and portable retirement accounts that workers could take job to job. The account would augment the current employer-based system and Social Security. Any worker who wanted to participate could elect to have tax-deferred contributions deducted directly from each paycheck. Employers could choose to contribute to employee accounts independently or match employee contributions.

POLICY OBJECTIVE #3

Eliminate the CalWORKs asset limit.

Background

For families making the difficult transition from welfare to work, developing assets is critical to achieving true economic independence. In order to prevent a complete backslide to public assistance, low-income working families must begin to develop their own safety net through personal savings for use in the event of an unexpected income shock due to illness or temporary unemployment.

The stated goal of the California Work Opportunity and Responsibility to Kids (CalWORKs) program is to assist families in achieving economic self-sufficiency through work, thus creating social and fiscal responsibility. At present, families on CalWORKs find their progress restricted by an asset limit which confines families to not more than \$2,000 in savings (including some retirement and higher education savings) and one car (with a value of no more than \$4,650). The asset limit forces individuals who are working their way off of public assistance to not save—or worse, to hide their savings. In addition, the asset limit penalizes those who *do* save with a loss of benefits. By inhibiting low-income families from accumulating and maintaining assets, California is preventing families from achieving self-sufficiency.

California is currently tied with Texas and Idaho in having the most restrictive asset test for vehicles of any state in the country. Twelve states exclude all vehicles owned by the household; another 15 exclude at least one vehicle per household. California, however, continues to employ an overly restrictive vehicle asset test—one that undermines a worker's ability to gain and maintain employment, thereby encouraging continued reliance on public assistance. A recent report by the County of Los Angeles on the transportation barriers faced by low-income families concludes that “car ownership is strongly correlated with employment status, because it increases the likelihood of employment.” Sixty percent of welfare-to-work job seekers relying on transit indicated they had transportation difficulties in seeking work compared with only 29 percent of welfare-to-work job seekers who owned a vehicle. The study also found that an impressive 64 percent of welfare-to-work participants who had unlimited access to a car were gainfully employed, compared with only 44 percent who relied on public transit or sharing rides.

Recommended Action

A. Eliminate the asset limit from CalWORKs eligibility criteria.

In order to ensure that CalWORKs recipients can accumulate savings and build their way out of government subsidy programs, the asset limit test needs to be eliminated. The purpose of CalWORKs is to help families transition from welfare to work. This however cannot be achieved if we do not allow these families to build sufficient funds to make the transition. Eliminating the asset limit test will furnish CalWORKs recipients with the capacity to become financially independent, thus eliminating reliance on CalWORKs.

The states of Ohio and Virginia have successfully moved in this direction without experiencing any increase in public costs.

For more information about these recommendations, contact:

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¹ U.S. Department of Commerce, Bureau of the Census. Survey of Income and Program Participation [Electronic data tape]. (2004). Washington, D.C.: Author. Calculations by Jon Haveman.

² Thomas Shapiro, *The Hidden Cost of Being African American* (New York: Oxford University Press, 2004), 40.

³ National Center for Public Policy and Higher Education. <http://highereducation.org/>

⁴ “National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007,” U.S. Department of Labor, U.S. Bureau of Labor Statistics.

⁵ “State by State: Workers Without Access to Employer-Sponsored Retirement Plan,” Retirement Security Project.