Statement
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Chairman
Hearing of the Subcommittee on Social Security and Family Policy of the
Senate Finance Committee
"Building Assets for Low-Income Families"
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I would like to thank my colleague Senator Conrad, the Ranking Member of the Subcommittee on Social Security and Family Policy, for joining me and these distinguished panels of witnesses to take a closer look at the critical question of what policies best encourage the building of assets for low-income families.

In an environment where there is much debate about whether defending the status quo provides an adequate solution to the savings and asset challenges facing many Pennsylvanians and families throughout America, this is an appropriate time to examine existing proposals, bipartisan contributions, and additional ideas to improve and facilitate low-income savings. Michelle Simmons' story from Norristown, PA provides just one dramatic example of how faith, hard work, the charitable community, and strategic use of government incentives through Individual Development Accounts (IDAs) or Family Savings Accounts (FSAs), as they are called in Pennsylvania, can make a significant difference in people's lives.

Real life experience with the miracle of compounding interest and the resulting benefits of better access to capital and opportunity needs to become a reality for more Americans– shorter term savings for asset building purposes such as education and homeownership are essential components- as well as longer-term savings for retirement security– and the choice to pass on resources to the next generation or to charity.

Clearly, an ownership society includes at least several key elements such as an emphasis on financial education and skills, incentives for savings with special emphasis on low-income families, and empowerment through expanded choice. Along with Senator Conrad, I recently started a Congressional Savings and Ownership Caucus which is bipartisan and bicameral. Many Americans face an ongoing savings and assets crisis. One third of all Americans have no assets available for investment, and another fifth have only negligible assets. The United States household savings rate lags far behind that of other industrial nations, constraining national economic growth and keeping many Americans from entering the economic mainstream by buying a house, obtaining an adequate education, or starting a business.

I am pleased that some of the witnesses will touch on IDAs and KIDS Accounts in particular. IDAs, as previously mentioned, are a bipartisan proposal with years of demonstration experience of approximately 20,000 accounts nationwide demonstrating that low-income families can save. Just yesterday, I introduced along with Senator Lieberman the Savings and Working Families Act of 2005, S. 922.

Low-income Americans face a significant hurdle when trying to save. Individual Development Accounts (IDAs) provide them with a way to work toward building assets while instilling the practice of savings into their everyday lives. IDAs are one of the most promising tools that enable low-income and low-wealth American families to save, build assets, and enter the financial mainstream. An IDA provision providing for 300,000 accounts was included in the CARE Act which passed the Senate last Congress 95-5.

Based on the idea that all Americans should have access, through the tax code or through direct expenditures, to the structures that subsidize homeownership and retirement savings of wealthier families, IDAs encourage savings efforts among the poor by offering them a one-to-one match for their own deposits up to $500 a year. IDAs reward the monthly savings of working-poor families who are trying to buy their first home, pay for post-secondary education, or start a small business. These matched savings accounts are similar to 401(k) plans and other matched savings accounts, but can serve a broad range of purposes.

The Savings and Working Families Act of 2005 builds on existing IDA programs by creating tax credit incentives for an additional 900,000 accounts. Individuals between 18 and 60 who are not dependents or students and meet the income requirements would be eligible to establish and contribute to an IDA. For single filers, the income limit would be $20,000 in modified Adjusted Gross Income (AGI). The corresponding thresholds for head-of-household and joint filers would be $30,000 and $40,000, respectively. Participants could generally withdraw their contributions and matching funds for qualified purposes, which include certain higher education expenses, first-time home purchase expenditures, and small business capitalization. President George W. Bush has supported IDAs and included this proposal for a national demonstration in his budget, which is estimated to cost $1.7 billion dollars over 10 years.

It has been demonstrated that IDAs work to spur savings by low-income individuals. The American Dream Demonstration, a 14-site IDA program, has proven that low-income families, with proper incentives and support, can and do save for longer-term goals. Average monthly net deposits per participant were $19.07, with the average participant saving 50% of the monthly savings target and making deposits in 6 of 12 months. Participants accumulated an average of $700 per year including matching contributions. Importantly, deposits increased as the monthly target increased, indicating that low-income families' saving behavior, like that of wealthier individuals, is influenced by the incentives they receive.

Additionally, key to the success of IDAs is the economic education that participants receive. Information about repairing credit, reducing expenditures, applying for the Earned Income Tax Credit, avoiding predatory lenders, and accessing financial services helps IDA participants to reach savings goals and to integrate themselves into the mainstream economic system. The encouragement and connection to supportive services helps low-income individuals to keep early withdrawals to a minimum and overcome obstacles to saving. Banks and credit unions benefit from these new customer relations, and states benefit from decreased presence of check-cashing, pawnshop, and other predatory outlets. But more than income enhancement, asset accumulation affects individuals' confidence about the future, willingness to defer gratification, avoidance of risky behavior, and investment in community.

Another recent bipartisan proposal are KIDS Accounts. I recently introduced “The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act of 2005", S. 868, along with Senator Corzine, Senator Schumer and Senator DeMint. The bill creates a Kids Investment and Development Savings (KIDS) Account for every child at birth and creates a new opportunity for the children of low-income Americans to build assets and wealth.

This country has seen a growing number of Americans investing in the stock market and has witnessed an historic boom in homeownership, which has reached record high levels. However, this growth in assets has not reached every American. While many middle- and upper-income families have increased their assets in the past decade, many low-income families have not had the same financial success. A recent study conducted by the Federal Reserve found that the median net worth of families in the bottom 20 percent of the nation's income level was a mere $7,900 -- an amount that is far too low to ensure a comfortable economic future for their family. This challenge needs to be addressed to ensure that lower income families have a significant opportunity to accrue wealth and expand opportunities for their families.

Under this legislation, KIDS Accounts would be created after a child is born and a Social Security number issued. A one-time $500 deposit would automatically be placed into a KIDS account. Children from households below the national median income would receive an additional deposit of $500 at birth and would be eligible to receive dollar-for-dollar matching funds up to $500 per year for voluntary contributions to the account, which cannot exceed $1,000 per year. All funds grow tax-free. Access to the account prior to age 18 would not be permitted, but kids--in conjunction with their parents--would participate in investment decisions and watch their money grow. When the young person turns 18, he or she can use the accrued money for asset building purposes such as education, homeownership, and retirement planning. Accrued funds could also be rolled over into a Roth IRA or 529 post-secondary education account to expand investment options.

I would like to highlight what I view as the two major benefits of this legislation. The first, and most apparent, is that this bill will help give younger individuals, especially low-income Americans, a sound financial start to begin their adult life. For example, a typical low-income family making modest but steady contributions can create a KIDS Account worth over $20,000 in 18 years. Second, and perhaps more important, is that KIDS Accounts create opportunities for all Americans to become more financially literate. The account holders and their guardians will choose from a list of possible investment funds and will be able to watch their investment grow over time. All Americans will have the opportunity to see firsthand that a smart investment now can grow over time into considerable wealth.

I believe that this bill could be a significant and strategic step forward in the effort to expand asset opportunities to all Americans, and lower-income Americans in particular.

Some proposals are modest yet would have a significant impact on the low-income savings rate. One such example is the effort of myself and others in both chambers to spur the Internal Revenue Service (IRS) to allow for split refunds. In other words, to allow taxpayers to send a portion of their refund to two or more accounts to encourage upfront savings while resources are available. It is estimated that this simple administrative change could result in a large increase in low-income savings– as some will divert money to medium term savings objectives and some to a Roth IRA for long-term retirement savings. For example, last year the IRS sent refund checks averaging $2,300 to 130 million tax filers. For many, this represents the best chance to save money during the year.

There is common ground to be had on building assets-- but we need to follow where the evidence leads. In families where assets are owned, children do better in school, voting participation increases, and family stability improves. Reliance on public assistance decreases as families use their assets to access higher education and better jobs, reduce their housing costs through ownership, and create their own job opportunities through entrepreneurship. As many in the media and elsewhere like to point out about asset building proposals– it's also hard to avoid the lessons and implications for Social Security reform of individuals and families improving their lives through the expanded opportunity that assets bring. Our goal today is not to avoid- but to examine what works for low-income families in particular. I look forward to the testimony of the witnesses. Thank you for your willingness to appear before the Subcommittee.