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OKLAHOMA ASSETS
POLICY BRIEF NO. 1

TAKING IT TO THE BANK: PROMOTING SAVINGS IN OKLAHOMA

For families and individuals, savings are a basic cornerstone of financial security and economic opportunity. Having savings to draw upon cushions the impact of temporary financial disruptions like the loss of a job or a medical emergency, serving as a private safety net that can avert a crisis and reduce reliance on public programs.

Savings also provide the basis for the investments – in property, education and training, businesses and securities– that allow families and individuals to grow wealth and move up the economic ladder. In addition, having savings can produce a powerful effect on expectations, habits and time horizons, encouraging and teaching people to make decisions based on long-term goals and interests rather than just immediate needs and desires.[1]

A growing field that brings together researchers, non-profit organizations, government agencies and for-profit businesses has identified savings, along with investment and ownership, as the pathway to help bring people out of poverty as well as strengthen financial security for the middle-class. As Michael Sherraden, a pioneer in the field of assets policies and founder of the Center for Social Development at Washington University in St. Louis, has declared: "Few people have ever spent their way out of poverty. Those who escape do so through saving and investing for long-term goals."[2]

> Low-income households are especially likely to have little or no savings, with nearly 30 percent of low-income working families having zero or negative net worth.

However, meeting the goal of getting more people to save and invest requires a purposeful strategy that addresses obstacles to savings and creates new opportunities and incentives.

In this brief, we look first at the obstacles to savings that a great many individuals and families encounter. We then turn to some emerging programs and policies that are promoting savings, and conclude by considering some policy options that would support savings and strengthen financial security for more of the population.

1. The Savings Shortfall

Most Americans recognize the value of savings, yet over time, American savings have declined sharply. Whereas in the 1970s and 1980s, the personal savings rate (savings as a share of disposable income) regularly exceeded 10 percent, savings fell in the 1990s and 2000s, dipping below 1 percent at several points.[3] The onset of the Great Recession of the late 2000s, however, has led to a return to greater savings as credit has tightened and families attempt to rebuild lost wealth.

While the trend for the American population as a whole in recent decades has been towards less saving, there are enormous disparities in savings across the population. Even before the losses incurred during the most recent economic downturn, a large segment of the population in Oklahoma and across the nation had little or no savings with which to weather a setback or move ahead by investing in the future. Research has found that some one in eight Oklahoma households (12 percent) has zero or negative net worth, which means that its household debt equals or exceeds its households financial assets.[4] Nearly one out of every four households (22.7 percent) lacked sufficient financial assets to subsist at the poverty level for three months.[5]

Low-income households are especially likely to have little or no savings, with nearly 30 percent of low-income working families having zero or negative net worth.[6] Minority households are also disproportionately prone to possess little savings – the asset poverty rate for minority households in Oklahoma exceeds 40 percent and is 2.75 times greater than for White households (see Figure 1).[7]

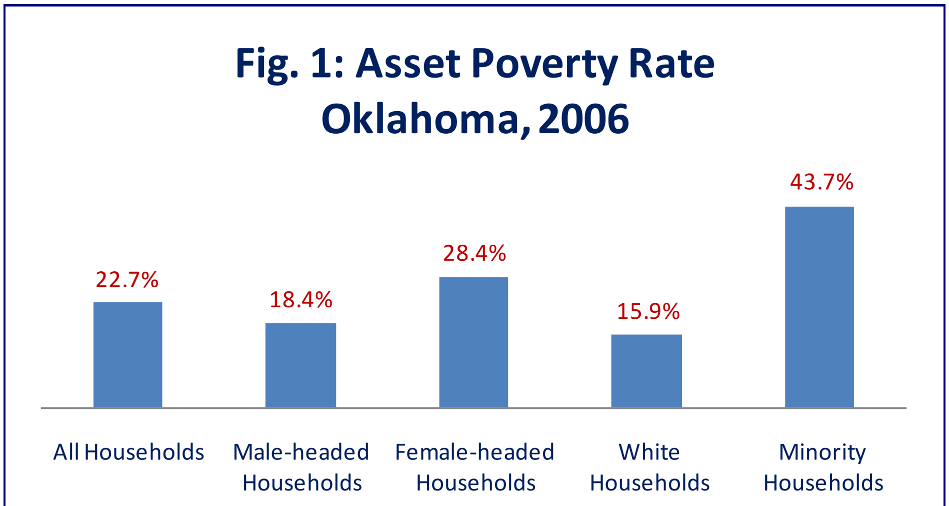
Behind these aggregate numbers, data on specific financial assets reveals the extent to which a considerable segment of the population possesses little or no savings. The 2007 Survey of Consumer Finance found that of all households, just 14.9 percent owned savings bonds, 16.1 percent owned a Certificate of Deposit, 17.9 percent owned stocks and 52.6 percent owned a retirement account.

Among households in the lowest fifth of income, a full 20 percent possessed no financial asset of any kind, not even a bank account. Among this bottom 20 percent, just one in ten owned a retirement account and fewer still owned stocks, savings bonds, or CDs.[8]

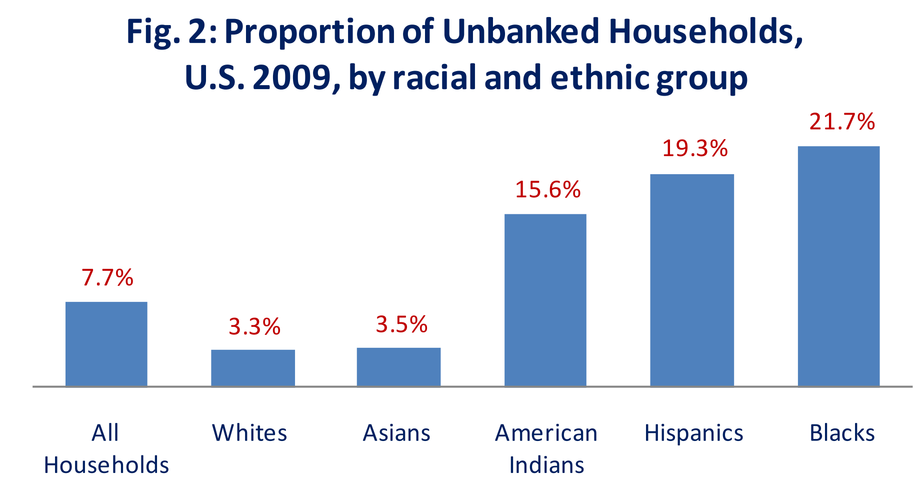
For all populations, the most prevalent, and often the only form of financial asset, is a simple bank account. The FDIC notes that a bank account "provides a household with the opportunity to conduct basic financial transactions, save for emergency and long-term security needs, and access credit on affordable terms."[9]

Yet an estimated 7.7 percent of U.S. households, approximately nine million, are unbanked, meaning that no household member has a checking or savings account. African-American households (21.7 percent), Hispanics (19.3 percent) and American Indians/ Alaska Natives (15.6 percent) are especially likely to be among the unbanked (see Figure 2).[10]

In Oklahoma, the unbanked population exceeds the national average – one in ten of all Oklahoma households (9.8 percent), and one-third of households with annual income un-



Asset poverty is defined as the percentage of households without sufficient net worth to subsist at the poverty level for three months in the absence of income, 2006.



Source: FDIC National Survey of Unbanked and Underbanked Households, Executive Summary, December 2009. Note: Data related to American Indians are typically underreported and may not reflect the actual percentage of unbanked or underbanked Native Americans in the U.S. which is likely to be significantly higher than is reflected in the FDIC study.

der $15,000, do not have a savings or checking account.[11] This situation leaves families especially dependent on the "fringe" financial sector, such as check cashers, payday lenders, and pawn shops, which typically charge high fees and interest rates and can leave borrowers on an ever-accelerating "debt treadmill."

The explanation for the widespread savings shortfalls involves various factors. The following may serve as obstacles to savings:

• *Inadequate Income*

For a great many working families, monthly earnings may fall short of meeting the cost of basic household expenditures, leaving little or no money to put aside towards savings and investments. For example, the Oklahoma Self-Sufficiency Standard calculated that a single parent with two young children living in Oklahoma County would need to earn $16.74 per hour working full-time to make enough to cover basic expenditures without public or private assistance.[12]

In 2009, Oklahoma's median hourly wage was $13.75 for all occupations, which suggests the extent that for many working families, particularly those with limited education and training and occupying entry-level and low-wage positions, saving will be a great challenge.[13]

• *Inadequate Skills*

For most Americans, saving is not a natural instinct, especially in a culture which strongly encourages constant consumption and in which, at least until recently, credit is easily obtained. Learning to save requires developing knowledge and skills related to budgeting, money management, financial products and credit.

• *Lack of Financial Access*

Many people lack access to convenient and affordable financial institutions and financial products that facilitate savings. This can be due either to problems with their credit scores and histories that may disqualify them from opening accounts, or from mainstream financial institutions that by their locations, hours, staff or products, may be ill-equipped to serve particular income groups and communities.

These obstacles lead many to rely on high-cost financial providers such as check cashers and payday lenders that thwart savings and erode wealth. In the workplace, many employees may not be offered the chance to participate in employer-sponsored retirement accounts.

• *Policy Disincentives*

Public policies may fail to encourage or even discourage savings for particular populations. For instance, a recent report from CFED and the Annie E. Casey Foundation found that while the federal government devotes $400 billion annually to policies that promote savings, investment and ownership, most of this takes the form of tax preferences, such as a lower tax rate on capital gains and the home mortgage deduction, that provide little or no benefit to most low- and moderate-income households.[14]

Meanwhile, public benefit programs have traditionally actively discouraged savings by setting strict asset limits that disqualified or penalized households with even minimal savings.

2. New Opportunities for Savings

The recent collapse of stock prices and home values, along with persistently high levels of joblessness, has heightened financial insecurity for many families and led to a renewed emphasis on the importance of individual savings.

Fortunately, a growing body of research and practice is demonstrating that when barriers are removed and replaced with the right structures, opportunities, and incentives, most people, including those with low and modest incomes, are both willing to save and capable of doing so.

A wide range of new policies, programs, and products are being created to promote savings among traditionally excluded populations. Many of these new initiatives involve partnerships that include public agencies, community-based organizations, financial institutions, philanthropies and others. Among the many promising initiatives to promote savings are:

- *Individual Development Accounts*

Individual Development Accounts, known as IDAs, are special savings accounts that provide a match for the deposits of low- and moderate-income savers, provided that they participate in financial education and use the savings for targeted asset-building purposes – most commonly post-secondary education, retirement, homeownership or starting a small business. Studies of a major IDA demonstration project with over 2,500 participants found that an average participant contributed $19 per month to their account and, with matching contributions, accumulated about $700 per year.[15]

Research and practice is demonstrating that when barriers are removed and replaced with the right structures, opportunities, and incentives, most people, including those with low and modest incomes, are both willing to save and capable of doing so.

In Oklahoma, several successful IDA programs have been operated by non-profit organizations and tribal governments. One example, the IDA programs for adult and youth operated by the Citizen Potawatomi Nation, is discussed in the text box on p. 5.

- *Tax-Time Saving*

With saving, as with other endeavors, timing is everything. For many low-income families, tax time offers promising saving opportunities for those eligible for the Earned Income Tax Credit (EITC), which can provide a lump-sum payment worth up to $5,000 to a two-child household.

In New York City, the Office of Financial Empowerment launched the $ave NYC Account Program to allow families to invest part of their EITC refund in savings.[16] $ave NYC is a matched savings program operated at tax time that provides low-income households 50 cents of public match for every $1 of savings up to $1,000. An evaluation of the program found that 61 percent of program participants deposited over $500 to their $ave NYC account, despite having average households earnings of roughly $15,000.

In July 2010, the federal government announced its financial support through the Social Innovation Fund to replicate the $ave NYC program in up to eight other cities, including Tulsa.[17] Federal support from the Fund will be matched by the Tulsa Community Foundation, a local phi-

PROFILE IN SAVINGS

CITIZEN POTAWATOMI ASSET BUILDERS IDA PROGRAMS

The Citizen Pottawatomi nation, based in Shawnee, Oklahoma, has a long-standing commitment to helping its members become more financially secure and independent.

Building on programs that provide loans to native small businesses, small dollar loans to consumers, and financial education, the tribe in 2006 launched an IDA (Individual Development Account) program open to Native Americans adult living in Pottawatomie County and neighboring areas.

The adult IDA program provides a 2:1 match on deposits up to $75 per month over the course of a year. Savings can be used for building and repairing credit, business development, and homeownership. To be eligible for the match, participants must attend monthly financial education trainings. In its first three years, 69 participants completed the program, saving an average of $936 and receiving an average of $1,689 in matching funds.

In 2008, the tribe added a second IDA program for youth aged 15 to 21 who are Citizen Potawatomi Nation tribal members living in Pottawatomie and surrounding counties. The youth IDAs are intended solely to assist with educational expenses. In addition to bi-monthly meetings, youth participants attend cultural training and a week-long financial education camp program to learn about saving and financial matters. Along with the regular 2:1 match on savings, youth participants are eligible for additional matching funds for achieving good grades and other benchmarks. In its first two years, 36 youth have completed the program; they have saved a total of $27,000 and received some $73,000 in matching funds and bonus benchmarks.

According to Cindy Logsdon, Assistant Director of the Citizen Potawatomi Community Development Corporation, the greatest impact of the IDA programs has been to help instill a sense of confidence among the participants. "Most of our participants begin the program feeling embarrassed or insecure about their financial situations," she said. "Participating in the IDA program gives them confidence that they can tackle their finances, develop a plan, and actually save and invest in their financial future."

lanthropy, and the program will be operated by one or more non-profit organizations.

In addition to programs that offer a match for tax returns turned into savings, the IRS recently adopted new rules that allow for a portion of one's refund to be deposited directly in a United States Savings Bond.[18]

- *Automatic 401(k) Enrollment*

For most people, saving for retirement through employer-based retirement accounts is essential to financial security, yet in 2007 barely half of all families – and just one in ten low-income families – owned a retirement account.[19] Until recently, most employer-based retirement plans required workers to sign up for the plan, something that large percentages of employees either postponed or never did at all.

Building on research from the field of behavioral economics that established that people are more likely to contribute to a retirement savings account if they are enrolled automatically with the choice to opt-out, Congress passed the Pension Protection Plan of 2006 that encourages companies to choose a 401(k) automatic enrollment option. A 2010 study found that most large businesses are now automatically enrolling employees in their 401(k) and that 85 percent of these businesses report that fewer than one in ten employees chooses not to participate.[20]

● *Removing Asset Tests*

Traditionally, eligibility for many state and federal public benefit programs, such as cash welfare, SSI, food stamps and Medicaid, was subject to a strict asset limit. Individuals and families with assets exceeding the state's limit must spend down longer-term savings to qualify for what is often short-term public support. As CFED notes, "Personal savings and assets are precisely the kinds of resources that allow people to move off public benefit programs. Yet asset limits can discourage anyone considering or receiving public benefits from saving for the future."[21]

Many states, including Oklahoma, have made real progress in recent years doing away with asset limits. Oklahoma no longer imposes an asset test for applicants and recipients of Medicaid (SoonerCare) and food stamp benefits. In 2008, the Legislature passed a bill that excluded the full value of 529 College Savings Plans from being considered in determining eligibility for any state public benefit program to ensure that families that are working to save for their children's education are not penalized for doing so.

● *Financial Literacy*

One of the great barriers to financial security is a lack of basic financial literacy that can help families and individuals make sound decisions and nurture habits of saving and investing. Lack of financial literacy affects people of all ages but is particularly prevalent among youth and young adults: for example, high school seniors answered only 48.3 percent of questions correctly on the 2008 Jump$tart Coalition survey measuring knowledge of personal finance basics.[22]

> Promising programs and policies have emerged in recent years that are encouraging and supporting savings. Yet much more still needs to be done to ensure that all American families enjoy real opportunities to build up the savings that will allow for financial security and economic opportunity.

In 2007, the Oklahoma Legislature adopted the Passport to Financial Literacy Act as a way to provide students with the basic skills and knowledge to effectively manage their personal finance. Between Grades 7-12, students must receive instruction and pass standards in 14 topics as a requirement of high school graduation. The standards include such subjects as banking and financial services, saving and investing, planning for retirement, and understanding loans, borrowing money, and credit card debt. Instruction in the standards can be taught in a single Personal Financial Literacy course or integrated into other coursework.

3. Policy Options to Promote Savings

We have seen that promising programs and policies have emerged in recent years that are encouraging and supporting savings. Yet much more still needs to be done to ensure that all American families enjoy real opportunities to build up the savings that will allow for financial security and economic opportunity.

Among the many public policies that states can consider to promote savings, here are a few that have been identified by organizations that are active in the asset-building movement as being particularly promising:

● *State support for IDAs*

As we have seen, matched savings accounts, or IDAs, are a successful mechanism for helping lower-income families become savers. Currently funding for IDA programs in Oklahoma comes from grants and contributions from foundations, the private sector, and tribal governments, all of which is or could be matched dollar for dollar by the federal government through the Assets for Independence Act (federal money appropriated for IDAs). Unlike 21 states, Oklahoma does not currently operate a state IDA program that provides state matching funds for IDA accounts.

Generally, state-supported IDA programs involve partnerships between a state agency, non-profit service provider and financial institutions. Other states use a variety of funding sources – including general funds, TANF and welfare-to-work funds, community development block grants and others – to support IDAs.[23]

• *Supporting college savings*

Like all states, Oklahoma has established a 529 College Saving Program that allows families to build savings to help pay college expenses. Interest earnings on the account are not subject to the federal or state income tax and Oklahoma provides up to a $20,000 annual state income tax deduction for contributions. However, only 12 percent of contributors to Oklahoma's 529 Plan have incomes below $50,000, even while 72 percent of Oklahoma taxpayers have income below this level.[24]

Oklahoma could do more to broaden participation in 529 Plans by several means, including lowering the minimum amounts for initial and ongoing account contributions; providing a state match or refundable tax credit for deposits by low and moderate-income contributors; and excluding 529 Plan savings from calculations of eligibility for financial aid.[25]

• *Supporting retirement savings*

A large segment of the workforce, particularly low- and moderate-wage workers, workers in small businesses, and part-time workers, do not participate in workforce-based retirement plans, leaving them in many case entirely dependent on Social Security for post-retirement income. One option for bridging the retirement gap would be for Oklahoma to sponsor a system of Voluntary Retirement Accounts.[26]

This program, which would provide a low-cost and simple way to save for retirement, would be aimed at small businesses and their employees, self-employed persons, and other workers who don't have access to job-based retirement accounts. As with the state's 529 College Savings Plan, the State Treasurer's Office could oversee the program and contract with a financial institution or eligible broker to administer it. The accounts would be funded by fees and would incur no expense on the state.

Oklahoma could do more to broaden participation in 529 Plans including lowering the minimum amounts for initial and ongoing account contributions; providing a state match or refundable tax credit for deposits by low and moderate-income contributors; and excluding 529 Plan savings from calculations of eligibility for financial aid.

• *Eliminating asset tests*

While Oklahoma no longer subjects applicants for Medicaid and food stamps to an asset test, applicants for temporary cash assistance (TANF) are subject to a strict limit of $1,000 of countable assets. Since personal savings and financial assets help move people off public benefit programs and towards self-sufficiency, a rigid asset test for TANF seems to be counter-productive.

Three states – Louisiana, Ohio and Virginia – have eliminated asset limits for TANF, while others have either raised the asset limit or excluded various categories of assets, such as retirement accounts, from the definition of countable assets.

• *Incentives for employer*

Oklahoma's Department of Commerce administers a number of economic development programs that bestow tax credits, direct payments, or other benefits to businesses that meet certain qualifications. To recognize the importance of savings, eligibility for incentives in the Quality Jobs Program, for example, could be tied to firms offering retirement benefits, providing for automatic 401 (k) enrollment except when employees expressly opt-out (see above), or even offering direct deposit of paychecks.

> A growing body of research shows that asset ownership in the early years can have important benefits in building savings habits and shaping life expectations for children and families.

There are also many opportunities at the federal level to adopt or expand policies that encourage savings. These include:

- *Making savings a life-long habit through children's savings accounts*

A growing body of research shows that asset ownership in the early years can have important benefits in building savings habits and shaping life expectations for children and families. The ASPIRE Act, which has been introduced into Congress, would create a "lifetime savings account" (LSA) for every American child at birth.[27]

The Act would seed each LSA with a one-time $500 contribution. Children living in households with incomes below the national median income would be eligible for both a supplemental contribution of up to $500 at birth and the opportunity to earn up to $500 per year in matching funds. Withdrawals from the account could be made interest-free and without penalty for post-secondary education between age 18 and 25, and after age 25, to buy a home and for retirement.[28]

- *Enhancing retirement security by expanding the Saver's Credit*

Currently claimed by less than six million individuals, a proposal being promoted by the Obama administration would strengthen the Saver's Credit by providing a flat 50 percent match on deposits into qualified retirement accounts up to $1,000 per year for joint filers; automatically depositing this match directly into a designated account, and extending the credit benefit to households earning less than $65,000. If enacted, up to 50 million Americans would be able to use the Saver's Credit to build up a nest egg for retirement and other eligible uses.

The New America Foundation's *Assets Agenda 2011* describes a full range of federal policy proposals to broaden savings and asset ownership opportunities for lower-income families and individuals.[29]

4. Oklahoma Assets promotes savings as the foundation for building financial assets

Oklahoma Assets believes that savings are a basic cornerstone of financial security and economic opportunity for Oklahoma families. We encourage state policy makers to consider programs and policies to encourage and promote savings among all Oklahoma families, and to remove any unintended barriers to savings in state programs.

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NOTES

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