For today's threatened middle- and working-class families, assets provide much needed economic dignity in an uncertain world. As economist Amartya Sen said in his Nobel Prize acceptance speech, "I have tried to argue in favor of judging individual advantage in terms of the respective capabilities, which the person has, to live the way he or she has reason to value." An emphasis on capabilities is at the heart of an asset-based approach. It broadens the possibility to achieve and allows families to invest in their future welfare. It is empowering in a way that income transfers are not.

As with any story, there are caveats. An asset-based strategy should complement rather than displace income-based policies. We are not arguing for a smaller social safety net. Instead, we advance a system that both encourages lower-income families to save and provides them with essential income transfers and other support when needed. We are also not calling for universal homeownership. The past few years have made it clear that homeownership is not right for everyone, though it's still important to lower homeownership barriers and offer incentives for capable families.

Economic opportunity and asset accumulation go hand-in-hand. Low- and moderate-income families need to rely on assets to navigate tough times and prosper as productive members of society. It is time to harness the broad and bipartisan support for these ideas to make them a reality. D

Tax Policy: Spreading the Benefits More Widely

Bob Annibale & Wade Henderson

Whatever our individual circumstances, having savings is critical to achieving financial security. But this is especially true of the poor. According to the Federal Reserve, only one-third of families on very low incomes (less than $20,291) saved any of their income in 2007. This compares to almost 60 percent of households on incomes between $39,000 and $62,000 that managed to save something. Encouraging savings and providing the necessary tax incentives and financial products to put some money away is critical up and down the income ladder, but especially on the lower rungs. [See Bob Friedman, Ying Shi, and Sarah Rosen Wartell, "Savings: The Poor Can Save, Too," p. 30]

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Federal policies to encourage savings and asset building are already myriad, from tax-advantaged retirement savings plans to tax credits associated with college savings. These policies are excellent—but most of them primarily benefit higher-income taxpayers. For instance, the top fifth of the nation's earners receive an estimated 80 percent of all of the tax benefits from 401(k)s and other qualified pension plans. In addition, 40 percent of families earning $100,000 or more use a 529 plan to save for their child's education, compared to only 9 percent of families earning less than $35,000 per year.

What exists to help those at lower income levels? Chiefly, the earned-income tax credit (EITC). Since its introduction in 1975, the EITC, a refundable credit available to low- and moderate-income working taxpayers, has been one of our nation's most effective anti-poverty policies. In 2011 alone, working people and their families received $59 billion in EITC refunds.

But this powerful anti-poverty program can do even more: It also has the potential to promote asset building and financial security for low-income families by being linked to long-term savings products. In the same way that retirement and college-savings programs have been effective at promoting and supporting savings for those with higher incomes, the EITC can serve as the basis for asset building for families with lower incomes by linking refunds to automated and incentivized savings opportunities. The result would be a powerful new way to spur positive financial behavior for millions of economically vulnerable families.

Most people put financial savings into the same mental file as dieting: something that does not come naturally, and triggers the same recoil response. Eat less, spend less—none of us wants to do it, no matter how much we know it's good for us. Yet breaking down those mental barriers is a good idea, because savings can help make the unexpected financial pitfall—a medical emergency, a surprise home or car repair, a natural disaster—more like a speed bump instead of a catastrophe that throws people hopelessly off course.

So what is the best way to encourage positive financial behavior when the payoff date is uncertain? The EITC offers an opportunity to test one approach. In 2012, depending on marital status and the number of qualifying children, working families with annual incomes less than $50,270 are eligible for the EITC. A recent paper from the Center on Budget and Policy Priorities summarizing numerous studies from the past several years helps to explain why the EITC shows promise as a savings mechanism. First, the EITC is designed to encourage work, and it has succeeded in this regard. One study published by

the National Bureau of Economic Research found that expansions of the EITC between 1993 and 1996 resulted in more than a half million families moving from welfare to work. Second, by supplementing the wages of low-income workers, it has helped lift millions of Americans above the federal poverty line—6.3 million people, including 3.3 million children, in 2010. Third, it has succeeded in being a mostly short-term safety net, with approximately 61 percent of recipients using it for only one to two years at a time between 1989 and 2006.

As noted above, eligible filers and their families in 2011 received $59 billion in EITC refunds, amounting to an average refund of $2,240. The IRS estimates that 80 percent of eligible workers claim and receive the EITC, providing a once-a-year injection of cash that millions use to pay off debts or make important purchases. Reaching the other 20 percent of eligible workers who qualify for the EITC but are still not claiming it—leaving billions of dollars on the table—is a critical goal for expanding the EITC's effectiveness. Congress also has the opportunity to extend the 2009 changes to the EITC—which increased the size of the credit for larger families and eliminated the "marriage penalty" (raising the income thresholds for couples before the EITC begins to phase out)—and make them permanent before they expire at the end of this year.

Linking the earned-income tax credit to long-term savings products has the potential to promote asset building for low-income families.

But just as important as ensuring access to the EITC is shifting the behavior of existing EITC recipients, so that instead of viewing their refund as an annual windfall, working families can see it as a way to achieve longer-term financial goals. In order to effect that change, more should be done to link EITC refunds directly to automated and incentivized saving, so that the program becomes more than just a short-term benefit.

How exactly would this work? One idea with great promise is the New America Foundation's proposal for a Saver's Bonus, which would provide a match of up to $500 for low-income ($46,000 or less) households that deposit a portion of their tax refund into a variety of long-term savings products that already exist, including savings bonds, certificates of deposit, and educational or retirement accounts. For unbanked families, the policy would also make it easy for tax filers to open an account on their tax return. Any restriction on immediate access to the funds would vary depending on the type of savings vehicle chosen, with the idea being that the savings should be long term instead of short term.

A similar model was tested in New York City's SaveNYC program. Low-income New Yorkers had to agree to save a minimum of $100 of their tax return and deposit it into a savings account. If the individuals maintained the savings after a year they were eligible to receive a 50-cent match for every dollar up to $250. In total, some 2,200 people participated with 80 percent maintaining their savings and receiving the match; 70 percent of those receiving the match participated in the following year's program. The program is now being replicated in other cities across the United States.

The beauty of the Saver's Bonus proposal is the one-two-punch effect of combining the EITC refund with a matched savings deposit. At a maximum upfront per capita annual cost of $500, the outlay of public funds for the matched amount is far lower than for programs such as the home mortgage interest deduction, which according to the Half in Ten anti-poverty campaign cost the federal government $73 billion in reduced tax revenue in fiscal year 2005, with only 3 percent of the benefits going to the bottom half of wage earners. The New America Foundation estimates that a 20 percent take-up rate of a national Saver's Bonus program, with average savings of $250 per year per person, would cost around $1.25 billion. Compare that with the almost $400 billion spent by the federal government to help households build assets in fiscal year 2009, according to the Corporation for Enterprise Development. CFED estimates that nine out of ten federal dollars spent to help individuals build assets were in the form of tax expenditures that often benefited those able to deposit tax-deferred money into a 401(k), an IRA, or a 529 plan. As enrollment in these plans among low-income families is low, they tend to benefit far less from these federal tax expenditure policies.

Establishing and building savings not only leads to a more stable financial situation for poor people, but also unlocks a wider and potentially more beneficial roster of mainstream financial services. Many lower-income people rely on high-cost check cashers, payday lenders, and other alternative service providers, many of which charge high transaction fees to those who can least afford them. Encouraging people to save opens the gates to other financial products that can help build credit, finance large purchases, and potentially generate greater returns on principal.

A further advantage of a Saver's Bonus is the prospect of spurring educational and economic mobility. Lack of savings earmarked for educational expenses is too frequently cited as a substantial obstacle to college. Research has shown that young people with a savings account are seven times more likely to attend college than those without one.

Not only could an incentivized savings program around EITC refunds contribute to increased savings rates, it could in theory reduce reliance on the EITC in the long run, as recipients' incomes rise and they are phased out of the program's eligibility bracket. A low-cost savings incentive like the Saver's Bonus would provide a progressive and equitable opportunity for more families to build assets, helping them achieve real, long-term financial goals and economic security. **D**