Building Better Savings, Building Brighter Futures

*PUTTING THE PIECES TOGETHER
TO ENSURE ALL AMERICANS
CAN SAVE FOR TODAY
AND FOR TOMORROW*

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BUILDING BETTER SAVINGS, BUILDING BRIGHTER FUTURES

Even as the U.S. economy continues to grow and produce jobs, far too many Americans are still feeling their wallets being strained, some living paycheck to paycheck, while even upper- and middle-income families are finding that expenses outstrip their capacity to save. Ultimately, they must prioritize their expenses, with housing, food, gas, and childcare often taking precedence over other important, but less immediate needs – such as saving for emergencies and providing for their retirement.

As a result, we are seeing a new generation of Americans growing up with little or no savings to help them climb the economic ladder or simply weather a difficult time. Overall, savings rates have dropped from nearly 14 percent in the 1970s to less than 6 percent today, while nearly half of U.S. households don't have a savings plan, and only 27 percent have a cushion to cover basic expenses for just three months if a layoff or other crisis leads to loss of income. Parents are having trouble affording college for their children. Newlyweds find difficulties investing in a home. Workers are unable to take the risk of starting a new business.

It's clear that savings are the path for middle class families to achieve the American Dream, yet that dream is being put at risk.

The status for retirement savings is even more dire, as private-sector pensions are increasingly disappearing. In the 1980s, the vast majority – more than 80 percent – of workers were covered by traditional, "defined-benefit" pension plans. Today, a mere 18 percent of all private-sector workers are covered. Frustratingly, corporate consultants state openly that defined-benefit plans are a thing of the past. That means the light at the end of the tunnel – a secure retirement paid for in large part through pension plans – is a fading flicker for the vast majority of Americans.

As a result, families are being forced to shoulder the burden of saving for retirement, which diverts efforts away from saving for shorter-term needs. For many, there just isn't enough money to go around. One-third of workers, and nearly two-thirds of those earning less than $35,000 a year, say they're not saving for retirement at all. For others, a lack of access to savings plans has created a formidable hurdle – 55 million workers do not have access to any employer-provided retirement plans. The combination of these factors has resulted in profound financial insecurity among an overwhelming majority of Americans. According to a survey by Americans for Secure Retirement, 88 percent of all Americans are worried about "maintaining a comfortable standard of living in retirement."

Every American should have the tools to ensure they can bear the brunt of household emergency expenses without being pushed into bankruptcy. Every American should be empowered to save for their future retirement without it jeopardizing their financial stability.

The time is now for Congress to advance smart, forward-looking ideas to ensure hardworking Americans who play by the rules are able to build a nest egg, plan for a comfortable retirement – or both! Just as it was the Democratic Party that created Social Security, and it is the Democratic Party fighting today to ensure Social Security remains intact for generations of seniors to come, it will be the Democratic Party that again leads the charge to address the looming savings and retirement crisis.

This report proposes ways to make Americans more financially secure throughout their lifetimes by creating new vehicles that encourage personal saving, expanding employer-provided retirement plans, and strengthening Social Security.

BUILDING SAVINGS FROM THE START

Create a new savings vehicle, supported by targeted increases in the Child Tax Credit, so kids will get a head start on saving

To have the greatest impact, saving – and learning to save – should start on day one. Life can get expensive, from attending college, to buying a home, to supporting a family. When people must accumulate massive debt just to move ahead, it not only hurts them, it hurts us as a nation. Yet, it's unfortunately too common when it comes to paying for things like college or a home. We need to ensure that all Americans, regardless of a family's economic situation, can develop assets and create a system for investment. I welcome the work being done on this issue by my colleagues, like Rep. Ron Kind and others. We need to make saving a basic habit, and with the following initiatives we will do it as early as possible:

- ***Savings for Every Child***

  Rep. Keith Ellison and I have sponsored legislation to create USAccounts, which will give every child, upon birth, a new individualized savings vehicle in their name. The account will start with an investment of $500 from the federal government, and families can deposit up to $2,000 annually, post-tax, into each child's USAccount. For families below certain income levels, these contributions will be matched dollar for dollar by the government up to $500 per account, per year.

  These after-tax contributions could later be withdrawn tax-free to fund higher education – the cornerstone of the American Dream, yet one that many working families have trouble saving for. Or, once the child is no longer a dependent, this money can be rolled over into a Roth-style savings vehicle, where it can be used to pay for other important expenses and to help the child start their long-term savings on the right foot. Importantly, USAccounts will not count toward a family's determination of student tuition assistance or other federal programs' calculations of need, so that there is no disincentive toward saving greater amounts.

- ***Increasing the Child Tax Credit to Reward and Encourage Savings***

  In addition, to aid families who want to save, yet have trouble getting started putting money toward their child's USAccount, we include another match through the Child Tax Credit. Families who are eligible for the Child Tax Credit and make a contribution to their child's account will receive a matching amount, up to $500 annually per account, as an increase in their refundable credit when they file their taxes the following year. This is in addition to the earlier match that some working families will be eligible for, which is made directly into the USAccount.

  A wide range of respected economists cite the proven success of the Child Tax Credit in helping hard-working families meet the expenses of raising a family. By not only increasing the tax credit, but also using it to encourage savings, we will both help families with the real challenge of putting away funds, and also stress the importance of building a financial future.

Additionally, since the credit's current $1,000 amount is not pegged to inflation and, therefore, has not been increased in 13 years, we should encourage and support efforts to link the amount of the Child Tax Credit to inflation, as well as efforts from members like Rep. Rosa DeLauro to make permanent the higher credit amounts set in the *American Recovery and Reinvestment Act* and make the entire tax credit fully refundable.

- ***Promoting Financial Knowledge and a Greater Understanding of Saving Options***

Besides ensuring that every American has ample opportunities to build savings, we also need to ensure they know how best to take advantage of those opportunities. Unfortunately, too many Americans feel overwhelmed with the challenge of saving and don't know where to begin.

Nearly half of Americans don't track their monthly spending against a budget. Only slightly more have laid out a savings plan with goals. And, those between the ages of 18 and 24 are currently spending nearly 30% of their monthly income on debt repayment. That's three times the recommended amount – an amount that has doubled over the past two decades.

These statistics make clear: it is time to teach everyone about the basics of saving, just as we teach math, science, and history. The only way we can achieve that goal is if we dedicate greater resources to support financial coaching, education, and awareness. I welcome the work being done by many in the financial services industry to encourage responsible money management and support financial literacy. I believe it is time to elevate these efforts and build an established partnership between all stakeholders to improve financial understanding among all Americans. There are many ways this kind of partnership could take shape. For example, if the industry contributed five cents per unsolicited credit card offer to support financial capability efforts, it could raise $170 million per year.

Every American deserves to have the necessary tools and knowledge to manage their finances responsibly. I also look forward to working with my colleagues, like Reps. Rubén Hinojosa, Matt Cartwright, Bill Foster, and others who have proposed ways to partner with our elementary, secondary, and higher education institutions to include financial education in the process of preparing students for adult life. Like them, I believe financial education must be a lifelong learning process.

CREATING A NEST EGG FOR LONG TERM SAVINGS

Give workers the ability to save for the future today by removing barriers

Many workers that are currently not saving for their future say they recognize the importance of saving for retirement or other potential needs, but for a variety of reasons are not using existing savings vehicles. Either they are not able to meet the minimum contributions required by traditional IRA accounts, or they are concerned about fees and fluctuations in the market that could threaten their limited savings, or they worry about not having their money close at hand. To address these barriers, it is time to:

- ***Make permanent the President's myRA program to ensure all workers have access to a long-term, stable savings option***

In January, the Administration launched the *myRA* program, which allows workers to open an account with as little as $25, and gives them the ability to make automatic payments every pay period. The accounts were created to help workers who face barriers to saving, such as by not having access to an employer-sponsored savings plan. The funds invested go solely into U.S. savings bonds, ensuring these accounts remain stable, not at risk in the market. Further, the accounts do not have any associated maintenance charges or fees, which means every dollar that is invested will be returned – plus interest – to the account holder.

myRA accounts not only encourage workers to build a nest egg for their future, but also give workers peace of mind that they can access these funds in emergencies. Under the *myRA* program, participants can withdraw funds from their account tax-free and penalty-free – so these funds can be used as an emergency rainy-day fund as well as a future retirement account, further breaking down a barrier against savings.

myRA accounts are also portable, allowing employees to change jobs while still being able to easily maintain their accounts. Once a *myRA* account attains a balance of $15,000, the account will automatically roll over into a privately-managed Roth IRA account so workers can continue saving.

The Administration has taken an important step forward by using their existing legal authority to create this program. The *myRA* program represents an important saving tool, and as such it should be welcomed as more than just an administrative program – it should be codified into law.

- ***Encourage and reward savings through tax credits***

We will enhance and strengthen the Saver’s Credit provision in the tax code that incentivizes families to save for retirement, as proposed by Rep. Richard Neal. Because the current Saver’s Credit is non-refundable, it does not benefit those who need it most – low and moderate income households who have little or no federal income tax liability, but who shoulder a disproportionate share of the tax burden through a variety of other taxes, including payroll, excise, and state and local taxes. Rep. Neal has been the lead author of legislation to make the Saver’s Credit refundable and to also incentivize taxpayers to pay the credit toward their retirement accounts.

Additionally, Rep. José Serrano has put forward legislation to provide incentives for people to put their tax refunds toward savings, as well as making it easier for people to enroll in savings accounts at tax time. These initiatives help to highlight the importance of saving.

- ***Reduce policies that discourage savings***

To make clear that our federal programs and policies encourage personal savings and allow people to move up the economic ladder, while still providing a safety net for those in need, I encourage further work to be done on removing certain limitations and restrictions in social programs that force families to choose between building their own savings or qualifying for needed programs like nutrition assistance, family support, or disability insurance.

LAUNCHING A SECURE RETIREMENT PLAN

Guarantee a pension account for every American worker through a shared responsibility between employers and employees

According to Boston College's Center for Retirement Research, more than half of U.S. households – and nearly two-thirds of low-income households – won't have the income to maintain their pre-retirement standard of living. The challenges of retirement saving represent a growing threat not only to the lifestyles of those seniors who worked all their lives, but also to their adult children who may find themselves having to provide for their parents. Reps. Jan Schakowsky, Doris Matsui, and other members of the Democratic Caucus Seniors Task Force have been working hard to ensure seniors have a stable and secure retirement and strong quality of life, and we should continue to build upon these efforts.

I propose a two-part solution to ensure that every American is able to retire with peace of mind and enjoy their golden years, because they will have the security of a pension account – a substantial asset that they can further build upon with personal savings and Social Security benefits. My plan will:

- ***Ensure Pension Accounts for All Workers***

  While many employers already offer retirement plans to their employees, too many workers find themselves falling through the gaps. In many cases, they are not aware of their employer-provided plans or encouraged to enroll, while in other cases the employer may not be offering a plan at all.

  This initiative will direct employers with 10 or more employees, if they do not already offer a retirement plan, to open individualized retirement accounts for every employee. These federally-established Secure, Accessible, Valuable, Efficient Universal Pension accounts (SAVE UP accounts) will have traits similar to the Thrift Savings Plan currently offered to federal employees, with government oversight, private management, and a limited number of low-fee index fund options.

  Employers will be required to directly contribute into this account, or their existing employee accounts, a defined amount per hour, for every worker, which would be adjusted annually for inflation. Once enrolled, employees will automatically begin contributing 3% of their pre-tax income, with employee contributions increasing gradually over time unless the employee opts out. Contributions will be pre-tax, growth of investments will be tax-free, and withdrawals during retirement will be taxed as ordinary income.

As an example, with an employer contribution level of 50 cents per hour worked, per employee, an individual who works full time for 45 years (age 22 – 67) and contributes nothing beyond what his employer contributes could expect to see $160,000 upon retirement, based on average stock and bonds rates of return. If that same worker adds to his employer contribution with his own small contributions – an action that is made simple under this plan – he could expect $320,000 at retirement. A working couple would have $640,000. This is far more than the typical savings now, and coupled with Social Security benefits, will provide a much higher level of stability in retirement.

The plan does set a target benefit amount and ensures risks are spread among all participants so that no single individual bears the inherent risks of saving for retirement alone. In years with above-average returns, some stock market gains will be channeled into a collective investment pool. In years with below-average losses, these excess funds will then be apportioned among accountholders to help protect against huge swings in the market. As a result, while payout levels are not guaranteed, this plan will be more stable than other market-based retirement options. This is especially critical as during the last recession, far too many workers later in their careers saw their personal retirement investments slashed as the economy contracted, without enough years of work ahead to make up the difference.

- ***Provide Tax Incentives for Small Businesses***

I also want to help support small businesses who are helping to provide their employees with a secure retirement. That is why I propose providing a refundable tax credit to employers, which would be worth the value of their contributions into the accounts of up to 10 employees – equaling up to $10,400 a year for five years. This tax credit can either help reduce the cost of covering some of the employees for whom a business makes contributions, or encourage very small businesses to proactively make contributions for their employees even if not required to under this plan.

These tax credits would be open to any small business with less than $5 million in annual gross receipts. Additionally, to ensure that all small businesses can benefit, these tax credits will be refundable, meaning that any business, including small and newly-created ones that may not yet be earning profits, can still receive the credit.

Continuing to Defend and Strengthen Social Security

Making sure that the program that has served as a lifeline to millions of Americans for close to a century remains strong in the 21st century

Social Security continues to work, and work well, for the American people. In good years and bad, no institution does more to protect the financial security and dignity of Americans in retirement, through disability, or when a working parent dies and is survived by their young children and spouse.

I am proud that the House Democratic Caucus has fought so strongly for Social Security, and we must continue the fight. Leaders in our party like Reps. John Larson, Xavier Becerra, and others have put forward ideas to strengthen and enhance Social Security, recognizing the importance of this program to America's seniors.

Democrats were the ones who created Social Security, Democrats were the ones who stopped Republican attempts to privatize Social Security, and, most recently, Democrats have been the ones protecting the program from political scare tactics, such as false claims that Social Security will soon go bankrupt.

With a large and growing surplus of over $2.8 trillion, Social Security will be able to pay out full benefits for years. In fact, the most recent report of the Social Security Trustees projects that Social Security can continue to pay full benefits through at least 2033. With some modest tweaks to the program and a strong defense against drastic changes, we can ensure the program will remain this strong for decades to come. In particular, we need to:

- ***Strengthen Social Security Funding***

  Congress should explore eliminating the cap on a worker's earnings that are taxed to pay for Social Security. This cap is currently arbitrarily set at $118,500 in earnings, and as a result blocks off funds that could significantly strengthen the Social Security program.

- ***Stand Firm Against Changes to the Cost Of Living Allowance (COLA) For Social Security Known as the "Chained CPI."***

  While academics claim this change in the Social Security COLA would be only technical, in reality, if enacted, this change to the way COLAs are calculated will cut the Social Security checks of seniors on the first day by using a less generous measure of inflation to set annual increases in benefit checks.

- ***Continue to Combat the Cynical Strategy Being Employed by Opponents in Congress to Pit Seniors Against Disabled Workers.***

Earlier this year, Congressional Republicans passed a proposal to slash Social Security Disability payments to 11 million Americans. They did so under the false pretense that the program's solvency is being threatened and that this cut was somehow needed to ensure seniors' benefits. We do need to bolster the Social Security Disability Insurance fund this Congress, but we can do so by employing proven methods used previously by both Republicans and Democrats that are without controversy. For example, a simple transfer of funds within the Social Security program will have almost no effect on the underlying solvency of the program, and will ensure that the money paid in by workers will be paid out to those same people.

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The time to act is now. There is an urgent need to help Americans save, which is why I am putting forward this plan for "Building Better Savings, Building Brighter Futures." Let's start an important conversation, but let's also come together on real solutions to create a culture of saving in America.