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THE ASSETS REPORT 2008

A Review, Assessment, and Forecast of Federal Assets Policy

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The purpose of this report is to summarize and take stock of the current state of federal policy through an asset-building lens, especially as it affects the asset base of lower-income families with limited resources, which is the focus of our work.[1] The report is divided into three sections. The first is a review of policy developments in the past year related to asset building, highlighting administration action and significant legislation, including assets-related bills introduced in the first year of the 110th Congress; the second is an examination of the president's budget proposals for Fiscal Year 2009 from an assets perspective; and the third is a forecast of the assets policy issues that may be considered by Congress during the year or two ahead. A companion report, *The 2008 Assets Agenda*, to be released in April, will offer a detailed description of a range of policy proposals to broaden savings and asset ownership.

The Assets Report 2008—Highlights

2007 Review

- The administration responded to the housing crisis by creating the Hope Now Alliance to conduct aggressive outreach to homeowners at risk of delinquency and foreclosure.
- FHASecure was launched in response to the housing crisis as a refinancing option for homeowners with non-FHA adjustable rate mortgages.
- The IRS began allowing taxpayers to directly deposit their tax refunds in a maximum of three accounts, a change expected to encourage and facilitate saving.
- The Senate introduced the New Savers Act, which includes 14 low-cost proposals to stimulate saving, especially by lower-income Americans.
- The House of Representatives reintroduced the ASPIRE Act, which would establish universal children's savings accounts opened automatically at birth.
- The Freedom to Save Act, the first sweeping proposal to reform asset limits for major public assistance programs was introduced by Rep. John Conyers (D-MI).
- Proposals to reform the asset limit for the Food Stamp Program were included in both the House and Senate versions of the Farm Bill.
- The College Cost Reduction and Access Act was passed, changing the way some Section 529 accounts are treated in financial aid calculations.
- Presidential candidates in both parties highlighted savings policies as part of their economic policy platforms.

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President's Budget Proposals FY 2009

- The president's budget includes over $407 billion in tax expenditures related to asset building, which will overwhelmingly accrue to middle- and upper-income households, according to the Joint Committee on Taxation.
- The president proposes consolidating tax-preferred savings accounts into Retirement Savings Accounts, Lifetime Savings Accounts, and Employer Retirement Savings Accounts.
- The president makes his second consecutive proposal to extend Saver's Credit eligibility for deposits in Section 529 College Savings Plans.
- The Community Development Financial Institutions (CDFI) program is again slated for a drastic funding reduction, including the elimination of funding for Native Initiatives.

2008 Preview: The Congressional Agenda

- The stimulus package passed by Congress in January and signed into law by the president will deliver $110 billion in tax rebates, beginning in May.
- The potential onset of a recession may trigger additional calls for a policy response, which could include a focus on saving incentives and financial education. Though passage of specific savings legislation is unlikely, savings proposals are expected to generate interest and attention.
- Further examination of issues that created the housing crisis may lead to legislative and regulatory changes regarding the mortgage market and more broadly with respect to the provision of financial services.
- Deteriorating economic conditions may lead to a second stimulus bill, creating opportunities to consider additional policies designed to encourage saving and financial stability.

While the drama of the unfolding presidential campaign has distracted the public and policymakers alike, it has also created opportunities to focus on a number of asset-building issues. Last year, when the presidential race was wide open, with a range of candidates in both political parties vying for their party's nomination, we witnessed a good deal of creative ferment in the policy arena. The candidates put forward numerous proposals to address the issues of economic security, savings, access to financial services, homeownership, and asset protection.[2] Some of these proposals may fall by the wayside as their proponents recede from view. Others may prove to have a life of their own, forming the basis of innovative reforms.

Despite the robust policy discussions, no significant legislative package made its way through Congress last year. Even as it became clear that economic conditions were worsening, neither the White House nor Congress pursued an ambitious social or economic agenda. Initial concerns over the performance of the subprime housing market led to a wider focus on the declining availability of credit. Rising foreclosures and mortgage defaults, along with falling house prices, led many economists by year's end to conclude that the housing bubble had burst and the ripple effects would plunge the country into recession. Home foreclosures reached record levels at the end of 2007, with over 2 percent of all outstanding mortgages under threat of foreclosure. Equally troubling, almost 6 percent of outstanding loans were delinquent, according to the Mortgage Bankers Association.[3]

The looming fall presidential and congressional elections spurred prompt, bipartisan action. Over $100 billion in rebate checks meant to stimulate spending and stave off a deep recession are scheduled to flow into household coffers starting this May. However, most Americans say that they will either save these funds or use them to pay down debt. According to a recent Pew poll, 47 percent of Americans intend to use their rebate to pay bills; 23 percent say they will save the rebate; only 19 percent expect to spend it.[4] Should recent poor economic growth trends of declining job growth and real wages continue, households may be forced to further adjust their consumption and debt servicing plans.

As both individual households and the larger economy feel the stress of a debt-led recession, the timing is right for policies aimed at facilitating household savings. Americans today spend an average of 14.5 percent of their annual income servicing debt—a 30 percent increase in the last 15 years.[5] A recent survey by the Consumer Federation of America highlights a growing awareness on the part of the public of the need to save, with 79 percent of respondents agreeing that Americans are not saving enough.[6]

The convergence of a significant federal budget deficit, expensive international commitments, and an economic downturn has created a torrent of problems that policymakers will be asked to address. In the context of a slowing economy, lawmakers should be expected to identify a range of policy options to help working families increase their savings, pay down expensive consumer debt, and rebuild their asset base. The challenge will be to enact effective programs to promote saving and asset building, thereby enabling families to plan for their future.

2007 REVIEW

The Credit and Housing Crisis

In October 2007, Treasury Secretary Henry Paulson and HUD Secretary Alphonso Jackson announced the creation of the Hope Now Alliance in order to respond to the accelerating subprime crisis. Following weeks of negotiation by government officials and the nation's major mortgage providers, the alliance agreed to conduct aggressive outreach to homeowners who are at risk of defaulting or are already delinquent in their payments. These homeowners would be encouraged to contact their servicers to learn about options to avoid foreclosure. In December, Secretary Paulson and Secretary Jackson unveiled a plan to freeze rates on subprime mortgages scheduled to adjust between 2008 and 2010 for homeowners who are mostly current on their payments.

In September 2007, the Federal Housing Administration launched "FHASecure," a refinancing option for homeowners with non-FHA adjustable rate mortgages. Both borrowers who are current on their mortgage payments and borrowers with limited delinquency resulting from payment shock due to a recent interest reset are eligible for such refinancing, which can substantially lower monthly mortgage payments. The FHA has reworked 100,000 troubled mortgages under FHASecure and other programs, and aims to reach 300,000 families by the end of this year. By the end of January, the Hope Now Alliance had modified approximately 150,000 subprime loans.

Additionally, Congress discussed a number of bills designed to address the current housing crisis and reform the existing mortgage lending system. The Mortgage Reform and Anti-Predatory Lending Act of 2007, introduced in the House by Rep. Brad Miller (D-NC), sets forth strict standards for the licensing of mortgage originators—whether independent brokers or persons employed by a lender; details minimum standards for mortgage issuance, including a borrower's ability to repay; requires increased disclosure of fees and loan terms; and establishes an office of housing counseling within the Department of Housing and Urban Development. The bill was passed by the House and is currently under review in the Senate. The Federal Housing Finance Reform Act of 2007, introduced in the House by Rep. Barney Frank (D-MA), seeks to increase regulation of Fannie Mae and Freddie Mac and the Federal Home Loan Banks. The bill was passed by the House and is currently under review in the Senate.

Additional funding, much of which has already been dispersed, was allocated to support foreclosure prevention programs. The Neighborhood Reinvestment Corporation, now NeighborWorks America, received $180 million to administer the National Foreclosure Mitigation Counseling program and to fund HUD-approved counseling intermediaries, state housing finance agencies, and local NeighborWorks organizations to conduct foreclosure counseling. The FY 2008 Consolidated Appropriations Act also entrusts NeighborWorks to provide foreclosure counseling training courses and to conduct an evaluation of the effectiveness of foreclosure counseling interventions.

Several bills related to the mortgage crisis included increased support for financial education and counseling, including a bill introduced by Rep. Eddie Johnson (D-TX), which would encourage financial institutions to provide financial education by including it in the set of activities that would qualify for Community Reinvestment Act (CRA) credit.

Tax Filing and Split Refunds

The Internal Revenue Service implemented a policy change in 2007 that allows taxpayers to have their tax refunds directly deposited into a maximum of three bank accounts. Previously, refunds were issued in a lump sum, and families were reluctant to direct their entire refund into savings, especially into tax-preferred savings accounts, like Individual Retirement Accounts (IRAs), that are subject to restrictions on withdrawals. The ability to divide a refund into "money to spend" and “money to save” directly on Form 8888 may encourage families to save a portion of their refunds in such accounts.

The asset-building policy community had promoted the split-refund proposal for a number of years, and it had been included in the president’s budget since 2004. Given that many households up and down the income scale receive sizeable refunds—the average refund exceeds $2,000—the ability to split refunds represents a potentially powerful institutional mechanism to promote savings. Moving 25 percent of refund deposits into savings accounts could net more than $55 billion in savings each year. Last year, approximately 80,000 filers split their refund into multiple accounts. It is likely to take several years for this policy change to realize its potential, given the inevitable challenges of implementing and publicizing any new mechanism.

Asset Limits

In addition to an income test, eligibility for many federal public assistance programs includes an “asset” or “resource” test that looks at a family’s savings, investments, and other wealth. While these asset tests are intended to ensure that limited federal funds are allocated to those most in need, they can discourage saving, promote unproductive consumption, and deplete resources. In 2007, members of Congress on both sides of the aisle sought to address this disincentive to save by changing the asset-limit rules in the Food Stamp Program, which was being considered for reauthorization under the Farm Bill. As of the end of 2007, the Senate and House had passed bills that included Food Stamp Program reforms that would index the existing asset limit to inflation and exclude IRA and 401(k) retirement accounts and higher education savings accounts, such as Section 529 College Savings plans. The Senate bill also called for the asset limit for the Food Stamp Program to be increased from $2,000 to $3,500. A conference committee composed of members from both houses will ultimately negotiate the final details of the Farm Bill before it is sent to the president.

Rep. John Conyers (D-MI) introduced the Freedom to Save Act of 2007, a sweeping proposal to eliminate or significantly increase the asset limit across major income support programs, including the Food Stamp Program, Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and Medicaid. While the bill attracted a number of Democratic co-sponsors, the costs associated with such a reform precluded broad support in the House. The bill played an important role, however, in shedding new light on the need to reform asset limits and potential policy options for Congress to consider.

New Savers Act

In August 2007, Sen. Hillary Clinton (D-NY) and Sen. Gordon Smith (R-OR) introduced the New Savers Act, a bill that aims to promote saving by all Americans, especially lower-income Americans, through targeted incentives and easier access to wealth-building financial services. The bill includes the following provisions:[7]

Title I: Savings and Financial Education at Tax Time

To facilitate savings and provide reasonably priced transaction accounts, individual taxpayers will be able to open accounts on their tax return. Taxpayers will also be able to purchase U.S. savings bonds directly by checking off a box on their tax return. In addition, the Treasury Department will make available up to $25 million in grants each year to support tax return preparation clinics for low-income taxpayers. Finally, the secretary of the treasury will establish national savings performance measures to evaluate the extent to which Americans are saving and using the federal tax process to facilitate their savings activities.

Title II: Access to Wealth Building Financial Services

The secretaries of the treasury and of health and human services are instructed to undertake a number of programs and strategies to promote access to wealth-building financial services. Efforts will focus on encouraging the use of electronic payments; linking benefits cards to savings products; and providing the resources, incentives, training, and assistance to connect individuals to a variety of wealth-building financial products and services. To execute this agenda, the bill authorizes up to $50 million a year in grants.

Title III: Children's Savings Accounts

The earlier children start saving and accumulating assets, the more financially secure they will be throughout life and in retirement. The bill creates Young Savers Accounts (YSAs), which will allow parents to make tax-advantaged, direct contributions to Roth IRA–type accounts for their children. The current rules for Roth IRAs require owners to have earned income, which means that at present families have no tax-benefited, restricted way to save for a child's first home, college, or retirement.

Title IV: Expansion of the Saver's Credit

The Saver's Credit is a nonrefundable tax credit that matches lower-income taxpayers' contributions to 401(k) plans, IRAs, and other savings vehicles. To help more eligible families take advantage of the credit and create an incentive to save for higher education, this proposal expands the list of eligible savings vehicles to include Coverdell and Section 529 education savings accounts and increases the contribution amount that is eligible for matching credit.

Title V: United States Savings Bonds

U.S. Savings Bonds are a valuable tool for promoting saving, especially among small savers. The bill would expand efforts to market and promote access to U.S. savings bonds, and create a tax credit available to employers who facilitated the purchase of savings bonds through their participation in the payroll savings plan.

Title VI: Qualified Tuition Programs

Section 529 College Savings Plans, or qualified tuition plans, are a useful means of saving for postsecondary education. The bill would ensure that detailed information on the operation and performance of each state's program was made available each year and that an annual report was issued assessing the use and effectiveness of qualified tuition programs in assisting taxpayers. It would also create a grant program to support innovations on the state level to increase participation.

Children's Savings Account Proposals

Various children's savings account proposals continued to garner attention last year, both in Congress and on the campaign trail. In a speech before the Congressional Black Caucus Institute in September 2007, presidential candidate Hillary Clinton indicated her interest in a proposal to endow every child at birth with an account seeded with $5,000. Her remarks drew a great deal of public attention, with varied reaction from pundits, the press, and the public.[8] Previously, in speeches before the Democratic Leadership Council and at the New America Foundation, Senator Clinton had proposed seeding these "baby bond" accounts with $500.[9] While the resulting confusion over exactly what the senator was proposing served to publicize the idea, it was difficult for advocates to defend the general concept of children's savings accounts after they became associated with the potentially high costs of a baby bonds program.

ASPIRE Act

The America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) proposes to establish a universal accounts-at-birth system. The act, which was first introduced in 2005, was reintroduced in the 110th Congress in September 2007. Co-sponsored by House members Patrick Kennedy (D-RI), Phil English (R-PA), Jim Cooper (D-TN), Rahm Emanuel (D-IL), and Tom Petri (R-WI), the act would create a Kids Investment and Development Account (KIDS Account), with a starter deposit of $500 for every child born in the United States. The bill also provides incentives to encourage additional contributions to these accounts for families earning less than the national median income. The ASPIRE Act was not introduced in the Senate in 2007; Sen. Charles Schumer (D-NY) intends to introduce a bipartisan version of the bill in 2008.

Young Savers Accounts
By creating a new tax-preferred financial product, Young Savers Accounts would allow parents, for the first time, to make contributions to Roth IRA accounts for their children. Initially introduced by Sen. Max Baucus (D-MT) in March 2006 as part of the Savings Competitiveness Act, Hillary Clinton and Gordon Smith included the provision in their proposed New Savers Act, which they introduced in summer 2007. This product would fill a gap in the tax-advantaged savings continuum by creating a savings vehicle that could be used by children.

Lifetime Prosperity Act
Originally introduced as the Lifetime Prosperity Act of 2005 by Rep. Connie Mack (R-FL) and other House Republicans, this proposal would allow children to own Roth IRAs as soon as they are born. It would permit family members and neighbors to contribute to a child's Roth IRA and receive the Retirement Savings Tax Credit for that contribution. It would also raise the limits on the Retirement Savings Tax Credit to allow middle-income working families to receive this credit, which is currently limited to low-income families. The bill was reintroduced by Representative Mack in the 110th Congress as H.R. 2163, the Kids Invest and Develop Savings (KIDS) Act of 2007.

401Kids
Introduced in 2006 as H.R. 5314 by Rep. E. Clay Shaw, Jr. (R-FL) and other House Republicans, this proposal would convert Coverdell Education Savings Accounts into 401Kids Savings Accounts. These accounts would have expanded uses and could be rolled over into a Roth IRA. The proposal would make it possible for a restricted, tax-advantaged savings account to be opened in a child's name as early as birth, with up to $2,000 of after-tax contributions permitted each year. The funds could be used for the K-12 and postsecondary education expenses currently allowed under Coverdell Education Savings Account rules, but also for expanded qualified uses that include a first-time home purchase or retirement. The bill has been reintroduced in the 110th Congress as H.R. 87 by Rep. Judy Biggert (R-IL).

PLUS Accounts
As proposed by Sen. Jeff Sessions (R-AL), U.S. citizens born after December 31, 2007, would have an individual Portable Lifelong Universal Savings (PLUS) Account automatically opened for them by the federal government. These accounts would be endowed with a one-time $1,000 contribution. Beginning on January 1, 2009, individual PLUS accounts would be established for all working U.S. citizens under the age of 65, with a mandatory 1 percent of each worker’s pre-tax wages withheld and automatically deposited into their account (workers could voluntarily contribute up to 10 percent of their pre-tax earnings). Employers would also be required to contribute at least 1 percent (and up to 10 percent) of earnings. No withdrawals from PLUS accounts could be made until the account holder reached the age of 65, although there would be a loan program for pre-retirement uses.

Financial Education
The Financial Literacy and Education Commission (FLEC), created by Congress in 2003 to design and advance a new financial literacy and education agenda, was not active in 2007. Following the release of its 2006 report, *Taking Ownership of the Future,* criticized by the GAO as being composed of “broad pronouncements that do not include a specific implementation plan,” the commission introduced no new legislative initiatives in 2007. In January 2008, President Bush issued an executive order calling for the creation of separate body, the President’s Advisory Council on Financial Literacy, which was given a similar mandate, but with a greater focus on the activities of the private sector. Made up of 19 private-sector leaders, the council will focus on five areas over two years: financial literacy for youth, financial education in the workplace, financial access for underserved populations, research on the state of financial

literacy, and community outreach and the dissemination of effective programs. The council will reside within the Department of the Treasury, which will provide funding and administrative support.

College Cost Reduction and Access Act of 2007
Signed into law by the president in September 2007, the College Cost Reduction and Access Act made significant changes to the rules governing Section 529 higher education savings accounts. Under the provisions of the act, such accounts held in a dependent student's name are no longer excluded from financial aid calculations and will be treated as parental assets. Additionally, to avoid the problem of savings in Section 529 accounts being counted as both income and assets, the act clarified existing laws so that distributions for qualified expenses would not be considered as income when determining financial aid eligibility. Despite President Bush's FY 2008 budget proposal to exclude savings in Section 529 accounts from financial aid considerations, these investments will continue to be included in determining a family's ability to pay for higher education.

Taxpayer Protection and Assistance Act
Last year, Sen. Jeff Bingaman (D-NM) introduced the Taxpayer Protection and Assistance Act of 2007. The bill would enable the secretary of the treasury to make matching-fund grants of $6–10 million for the development and expansion of tax preparation clinics and to increase funding for taxpayer assistance clinics. The bill also includes new regulations for entities that offer refund-anticipation loans. The Senate Committee on Finance is considering this legislation.

Predatory Lending
There are various pending mortgage bills containing provisions to prevent predatory lending practices. Rep. David Scott (D-GA) introduced a bill in July 2007 authorizing the secretary of the treasury to make grants for counseling and education programs designed to prevent families from falling victim to such practices. The bill also calls for the creation of a toll-free telephone number for complaints about predatory lending and for an advisory council, to be housed within the Department of Treasury.

Community Reinvestment Modernization Act of 2007
Introduced by Rep. Barney Frank (D-MA), the Community Reinvestment Modernization Act would expand the universe of institutions under the jurisdiction of the Community Reinvestment Act, as well as to require financial institutions to continue to meet the credit and capital needs of underserved communities in the context of an evolving modern financial services industry. The introduction of this bill signals the beginning of a lengthy debate over the role and obligations of financial service providers, beyond the banking sector, in serving low- and moderate-income consumers and communities.

Description and Analysis of the President's FY 2009 Budget

The president's FY 2009 budget includes proposals for new initiatives, budget requests for existing programs, and a presentation of the government's finances. A description and analysis of each of these, as they relate to asset building, is provided here. With a few exceptions described below, the FY 2009 Budget includes many of the same proposals offered in previous years, as they have thus far failed to prompt congressional action. No new major asset-building proposals are included for the first time in this year's budget. Several large proposals made during the last year, such as the proposal to create Lifetime Savings Accounts, are included in the budget, but their prospects for consideration are low given the political realities of the final year of a two-term administration with low approval ratings.

In the broad arena of policies related to savings and asset building, much of the action remains on the tax side. This is true of both proposed and existing policies, and is reflected in our analysis, which catalogues over $407 billion in tax expenditures related to asset-building, compared to $22.21 billion in requested appropriations for the programs we identify as linked to asset-building activities. The tax breaks that support homeownership, retirement savings, and capital investment flow overwhelmingly to those on the upper half of the income scale. The federal resources available to assist those on the lower half of the scale build their asset base continue to pale by comparison. While most of the asset-building programs in HUD, the Department of Health and Human Services, and the Treasury Department are not slated for funding increases, the administration is once again requesting a significant increase in funding for postsecondary education, mainly through added funds for Pell grants.

A. New Initiatives and Proposals

Savings Policy and Tax Reform

Tax reform was expected to be one of the major policy initiatives of the second term of the Bush administration. Thus far there has been little progress in this area. The final report of the President's Advisory Panel on Federal Tax Reform issued in November 2005 was designed to provide a foundation for a national discussion of transforming our tax system into one that would be "simple, fair, and pro-growth."[10] The FY 2009 budget includes no specific proposals toward these ends. Instead, the president has reintroduced three savings proposals presented in previous years.

Retirement Savings Accounts and Lifetime Savings Accounts

The president again proposes creating two new consolidated savings accounts: Retirement Savings Accounts (RSAs) and Lifetime Savings Accounts (LSAs), with the intention of simplifying taxpayer decision-making and encouraging more saving. LSAs would capture all savings goals not covered by RSAs, including additional retirement investing. Individuals would be able to contribute no more than $5,000 a year to RSAs and $2,000 a year to LSAs. The Saver's Credit, a nonrefundable credit applied to the first $2,000 contributed to retirement plans, would apply to RSAs, but not to LSAs. Contributions to both accounts would be nondeductible, but earnings would accumulate tax-free. Withdrawals from LSAs could be for any purpose at any time without penalty, while RSA withdrawals would be tax-free only after age 58 or in the event of death or disability.

The president also included in the plan the elimination of a 10 percent penalty on early withdrawals from retirement plans prior to age 59½ by active duty service members.

Employer Retirement Savings Accounts

As in previous years, the president proposes a single Employer Retirement Savings Account (ERSA) to consolidate the varied employer retirement plans, including 401(k), SIMPLE 401(k), Thrift, 403(b), and governmental 457(b) plans, SIMPLE IRAs, and SARSEPs. Existing 401(k) and Thrift plans would be renamed as ERSAs. Annual contributions would be limited to $15,500 ($500 more than under the previous year's proposal). Further, 403(b) and governmental 457(b) plans, SIMPLE IRAs, SARSEPS, and SIMPLE 401(k) plans would also be renamed as ERSAs or else continue as separate plans but would be unable to receive contributions as of January 2010. Contributions to an RSA could be from pre-tax income (that is, the contribution would be tax-deductible, and the taxpayer would not pay income tax on the money until it was withdrawn), or from post-tax income but scheduled and withheld from the employee's payroll check, or by means of voluntary and periodic contributions made by the taxpayer.

Homeownership

In the president's State of the Union speech, he highlighted the creation of the Hope Now Alliance, which was designed to assist families avoid foreclosure. This effort was brokered by the Treasury Department and the Department of Housing and Urban Development, and is a private-sector collaboration of lenders, loan servicers, mortgage counselors, and investors. Its success will depend on the willingness of the participating private-sector firms to reach out to homeowners and offer them viable options to help them stay in their homes.

Hope Now Alliance

Through the Hope Now effort, 25 mortgage services representing 94 percent of the subprime market have sent over 500,000 letters to delinquent borrowers. Additionally, a free hotline counsels 4,000 homeowners a day. Due in part to these outreach efforts, loan modification rates doubled from the third quarter 2007 to the fourth quarter 2007 and continued to increase in January 2008. However, no funding has been authorized for the Hope Now program.

Project Lifeline

Project Lifeline, announced in early February 2008, is an effort by six of the largest servicers in the Hope Now Alliance to reach the most distressed borrowers, with the aim of delaying foreclosures. Project Lifeline will target borrowers who are 90 days or more late on mortgage payments and have not yet taken action to work with their servicer. Project Lifeline augments the Hope Now efforts and encourages lenders to halt the foreclosure process and borrowers to seek individualized counseling. Lifeline will also help borrowers with prime, Alt-A (between prime and subprime), second lien, and home equity mortgages, as well as those with subprime loans, by developing individual counseling and foreclosure avoidance plans, taking into account consumer debt obligations.

Modernize Federal Housing Administration

To meet the demand for affordable, fixed-rate mortgage products by underserved homebuyers, the president proposes to reform the Federal Housing Administration. The administration suggests eliminating the 3 percent down payment requirement for FHA-insured mortgages and allowing qualified borrowers to finance 100 percent of the purchase of a home. Adding such flexibility to the underwriting standards would decrease the amount of cash needed at closing, increasing the risk to insurers but likely to bring more borrowers into the FHA. A new pricing structure would assess premiums based on the size of down payments and credit scores.

Reform Fannie Mae and Freddie Mac

The president also proposes increasing the single-family national loan limit ceiling to 100 percent of the Government Sponsored Entity (GSE) conforming loan limit of $417,000 (for high-cost areas). Congress has offered at least six pieces of reform legislation since 2006, but no FHA reforms have been enacted. In a separate measure, the January 2008 economic stimulus package bill included a temporary increase in GSE and FHA loan limits to 125 percent of the area median house price through December 31, 2008. This increase would raise loan limits to more than $700,000 in high-cost areas.

Expand State Financing Options
The president proposes amending the rules relating to qualified mortgage bonds to allow state and local governments to use tax-exempt bonds to raise funds to refinance existing loans for eligible subprime borrowers. This temporary authority would be effective for 2008–10 and would target subprime borrowers who are at risk of default. If state and local governments are allowed to issue tax-exempt bonds for this purpose, they will be able to offer lower interest rates and better assist homeowners at risk of default.

District of Columbia Homebuyer's Credit
The administration proposes to extend through 2009 the one-time, nonrefundable $5,000 credit for first-time homebuyers in the District of Columbia. The credit phases out for individual taxpayers with adjusted gross incomes between $70,000 and $90,000. Extending the credit is intended to make homeownership in the District of Columbia more affordable.

New Markets Tax Credit
The president's budget extends the New Markets Tax Credit authority for an additional year, in order to generate $3.5 billion in new credit allocations. Investors who support community development projects can apply to receive credits, claimable over seven years, of up to 39 percent of the amount of a qualified equity investment.

Extending the Saver's Credit to Section 529 College Savings Plans
The president again proposes making the Saver's Credit available to eligible taxpayers when they make contributions to a Section 529 College Savings Plan for postsecondary education. The Saver's Credit, a nonrefundable tax credit that reduces taxable income up to $1,000 for low- and moderate-income households, currently applies only to retirement plans, such as IRAs and 401(k)s. Taxpayers with adjusted gross income of up to $53,000 are currently eligible for the credit. The proposed change would make Section 529 College Savings Plans more attractive to low- and moderate-income families.

Modifying the Earned Income Tax Credit Filing Requirements
The president proposes modifying the eligibility requirements for EITC filings to make filing simpler and to minimize noncompliance. Married but separated spouses living with a qualifying child for over half the year could claim the credit, as could a taxpayer who lives with his or her child and extended family. Under this proposal, the IRS would also contact individuals who recently received a valid Social Security number through a change in immigration status, such as naturalization, to inform them of the benefit.

The president's budget also calls for military personnel to have the option to include combat pay as earned income. Depending on the taxpayer's rank, number of months in combat zones, and number of children, among other factors, including combat pay from earned income could increase the amount of the credit to which he or she was entitled.

Asset Limits
Repeating a first-time proposal from last year, the administration proposes to exclude all assets held in retirement and education savings accounts when determining eligibility for the Food Stamp Program. By excluding these accounts from the current $2,000 asset limit for eligibility ($3,000 for households with an elderly or disabled member), a major disincentive that prevents many low-income families from saving for targeted purposes such as retirement and education would be eliminated. The president proposes to fund this exclusion by eliminating state flexibility in determining which assets to exclude from the limit, which would force the tightening of eligibility rules in the 10 states that have exercised this authority.

Table 1. New Tax-Based Programs to Build Assets—Effect of Budget Proposals on Receipts (in millions of dollars)

	2009	2010	2011	2012	2013	2009–18
Expand Tax-Free Savings Opportunities*	1,527	3,545	3,023	1,075	-1,314	-592
Consolidate Employer-Based Savings Accounts	-80	-120	-132	-141	-150	-1,484
Expand Saver's Credit to Include Qualified Tuition Programs	-88	-183	-198	-213	-227	-2,259
Allow Tax-Exempt Qualified Mortgage Bonds to Refinance Subprime Borrowers	-116	-230	-305	-329	-331	-2,687

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2009,* "Analytical Perspectives," table 17-3.

*In the short term, the creation of LSAs and RSAs generates revenue because there will be federal taxes and penalties associated with the shifting of savings into these accounts. These gains do not represent any improvement in the government's overall revenue stream, however, and the back loading of savings incentives will have much greater costs in the out-years.

Table 2. Extending the Expiration Provisions of Programs to Build Assets—Effect of Budget Proposals on Receipts (in millions of dollars)

	2009	2010	2011	2012	2013	2009-2018
Extend First-time Homebuyer Credit for the District of Columbia	-20	-19	0	0	0	-39
Extend the New Markets Tax Credit	-132	-194	-191	-217	-231	-1,287

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2009*, "Analytical Perspectives," table 17-3.

B. FUNDING REQUESTS FOR EXISTING PROGRAMS

Education

We include selected education funding and savings proposals related to higher education, adult education, and vocational training in this report because insofar as these programs support the development of human capital they reinforce asset-building programs. For a more detailed look at the president's budget proposals for K-12 and postsecondary education, including student loan and grant levels, see New America Foundation's Federal Education Budget Project analysis.[11]

Proposed funding for college readiness programs and Career, Technical and Adult Education changed little from previous years, while proposed funding for student financial assistance programs was increased slightly. This year's budget maintains current levels of funding for TRIO and GEAR UP, college preparation programs for low-income students, and eliminates the LEAP initiative, which encourages states to establish scholarships for college students. The budget again proposes zero funding for the Career, Technical and Adult Education Account, a program for which Congress appropriated $1.3 billion in 2008. In a new initiative, the president's budget authorizes the Department of Education and the Department of Labor to provide $363 million in short-term loans to assist 377,000 dislocated, unemployed, transitioning, and older workers to obtain retraining. Significantly, the president seeks an increase of nearly 20 percent over the previous year in the Pell grant budget.

Housing and Urban Development

The HOME Investment Partnership Program (HOME) provides financial assistance to low-income families to purchase homes or rent affordable housing. The FY 2009 request for nearly $2 billion is approximately $360 million more than that approved by Congress for FY 2008. The additional funding would make possible the development of 85,350 units of affordable housing through new construction, rehabilitation, and/or acquisition. Each federal dollar for HOME is estimated to leverage $3 from other public and private sources.

The American Dream Downpayment Initiative (ADD), a component of HOME, provides grants to first-time low- income homebuyers to help them meet down-payment and closing costs. This year, as he did last year, the president proposes allocating $50 million to ADD to help more than 6,000 families buy homes. In past years, appropriations have fallen short of the president's authorization levels. In FY 2007, the president requested $100 million, but Congress appropriated only $25 million. To date, ADD funds have helped over 21,000 families become new homeowners, with assistance averaging $7,500 per household.[12]

For the third consecutive year, funding for Housing Counseling Assistance is proposed as a stand-alone account. The program enables housing counseling services families preparing to purchase their first home to avoid predatory lending practices. The program also allows counselors to assist homeowners facing default. Separating this account from the HOME program might guarantee a more stable revenue stream in the future. The 2009 request of $65 million is $15 million, or 30 percent, more than the 2008 enacted level and $20 million more than the proposed 2007 level. In FY 2007, 50 percent of clients who received pre-purchase counseling purchased a home or became mortgage-ready within 90 days, a slight increase over the previous year and exceeding the target of 30 percent.

Added to the Housing Choice Voucher program in 2001, the Homeownership Voucher program allows first-time homebuyers to use their Section 8 vouchers to meet monthly mortgage and other homeownership expenses. The FY 2009 budget proposes amending the Housing Choice Voucher program to grant state and local public housing authorities more authority and flexibility. In recent years, the housing authorities have surpassed their performance targets for home purchases aided by the voucher program, which will make possible an estimated 9,000 home purchases this year.

The president again requests $48 million for Family Self-Sufficiency (FSS) program coordinators, a significant decrease from the 2006 appropriated level of $93 million. Enacted in 1990, the FSS program is a potentially powerful asset-building vehicle that allows participating families in assisted housing to set aside, in an escrow account, money that would otherwise go to rent increases. Account holders receive their accrued FSS escrow funds plus interest upon successful fulfillment of an individualized self-sufficiency plan. A national HUD evaluation of FSS found that FSS participants had larger increases in income and were less dependent on public assistance than nonparticipants.[13]

This year's budget authority for the Self-Help Homeownership Opportunity Program (SHOP) nearly equals the previous year's request of $40 million, which was approximately $12 million more than the 2008 enacted level. National and regional nonprofit organizations apply for SHOP grants to assist low-income homebuyers who contribute sweat equity toward the construction of their homes. Although grant recipients are not required to provide matching funds, the public-private nature of SHOP leverages an estimated $10 in resources for every federal dollar spent.[14] According to the most recent Program Assessment Rating Tool (PART) evaluation, SHOP is effective, well managed, efficient in transferring funds to intended recipients, and not duplicative of other federal efforts.

The Neighborhood Reinvestment Corporation (now known as NeighborWorks America) is a quasi-public organization comprising 235 community partners in all 50 states, the District of

Columbia, and Puerto Rico. NeighborWorks America works to expand homeownership opportunities, increase financial education levels, and create and promote affordable housing opportunities. The president requests $150 million for the agency, of which $25 million is designated for foreclosure prevention and mitigation. This is a $30 million increase over the requests of the previous two years.

Health and Human Services
The president's budget maintains funding authority for the Assets for Independence Demonstration program at $24 million. This program targets low-income individuals and enables their asset accumulation goals by matching participant savings with public and private funds in Individual Development Accounts (IDAs). During 2004-06, participants' IDA deposits increased by 46 percent, and the number of participants who used their savings for asset purchases rose by 52 percent, in part because of the match. Appropriation levels have risen over the years, from $10 million annually during FY 1999 and FY 2000, to a high of $25 million annually from FY 2001 through FY 2003, dipping slightly in subsequent years to $24 million.

Treasury
The president requests $29 million for the Community Development Financial Institutions Fund, an amount equal to the FY 2008 request and $21 million more than the FY 2007 request. The CDFI Fund provides equity investments, grants, loans, and technical assistance to new and existing community development banks, community development credit unions, community development loan and venture capital funds, and microenterprise loan funds. Despite the president's attempts to phase out the program, Congress continues to fund it, most recently at a near historic level of $94 million.

Of the four programs that make up the CDFI Fund, two—Native Initiatives and Bank Enterprise Awards (BEA)— are slated for elimination in FY 2009. The administration argues that Native communities can continue to seek funding from the larger CDFI pool. The counter argument is that because of the dearth of financial service providers in Native communities, coupled with a unique administrative structure under which tribal governments and agencies fill the role of traditional CDFI nonprofits, these communities require dedicated CDFI funding. The BEA program rewards banks and thrifts that increase their loans and investments in low- and moderate-income communities, including through investment in CDFIs, and has been an important source of capital for CDFIs.

The remaining two programs, the New Markets Tax Credit and the CDFI Program, would receive increases over 2008 enacted levels of 2 percent and 58 percent, respectively.

The president requests $3.6 billion for IRS taxpayer services and operations; this includes funding for Taxpayer Assistance Centers, Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly, and a toll-free hotline and Web site for assistance. The president requests only $8 million for VITA, a program to assist low-income individuals prepare their tax returns and claim such benefits as the Earned Income Tax Credit.

Labor
The president's budget allocates $148 million for the Employee Benefits Security Administration, which safeguards workers' retirement savings. The 2009 request is an $8 million increase over 2008.

The Pension Benefit Guaranty Corporation (PBGC) is a federal entity responsible for protecting the defined-benefit pension plans of 44 million Americans by encouraging full compliance with pension laws and regulations. Premiums paid by insured pension plans cover most of the agency's budget. At present, the PBGC has a $14.1 billion budget deficit. A major goal in FY

2009 is to restore solvency to the pension insurance system. The budget request is for $445 million, a 4 percent increase over previous years.

Small Business Administration

The Small Business Administration's Microloan Program is no longer explicitly slated for elimination, having survived budget cuts intended to make the program self-financing and ending the provision of technical assistance (which led to an additional $14 million cost savings in FY 2008). Though the president eliminated funding for FY 2007, Congress has continued to appropriate funds for the program. In FY 2008, the SBA aims to reach 2,500 start-up, newly established, or growing small businesses, exceeding the number reached in fiscal years 2003-06.

Table 3. Funding Levels of Selected Discretionary (Spending) Programs to Build Assets (in millions of dollars)

	Actual 2007	Estimated 2008	Requested 2009
Department of Education			
Pell Grants-Funds Available	13,661	14,215	16,851
Academic Competitiveness Grants	350	440	490
Supplemental Educational Opportunity Grants	975	958	--
Work-Study	1,171	1,171	1,171
Leveraging Educational Assistance and Partnerships (LEAP)	164	161	--
TRIO (discretionary funding)	828	885	885
GEAR UP	303	303	303
Department of Housing and Urban Development			
HOME	1,800	1,600[a]	1,967
Self-Help Homeownership Program (SHOP)	20	60	39
Housing Counseling	42[b]	50[c]	65
American Dream Downpayment Initiative	25	10	50[d]
Family Self-Sufficiency Voucher Program	48	49	48
Homeownership Voucher Program[e]	3	5	14
Neighborhood Reinvestment Corporation	117	300	150
Department of Health and Human Services			
Assets for Independence Demonstration Program	24	24	24
Department of Treasury			
Community Development Financial Institutions	55	94	29
Department of Labor			
Employee Benefits Security Administration	149	139	148
Small Business Administration			
Microloan Program, loan levels	19	20	25
TOTAL	**19,754**	**20,484**	**22,209**

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2009.*

[a]H.R. 2764, Consolidated Appropriations Act, 2008.
[b]Department of Housing and Urban Development, "FY2009 Budget, Comparative Summary, Fiscal Years 2007–2009," appendix A, 11. February 2008.
[c]H.R. 2764, Consolidated Appropriations Act, 2008.
[d]The American Dream Downpayment Initiative has a $50 million set-aside within the HOME program; hence, this figure is not included in the total calculation.
[e]Office of Management and Budget, "Detailed Information on the Homeownership Voucher Assessment," ExpectMore.gov.

C. REVIEW OF EXISTING TAX EXPENDITURE PROGRAMS

In addition to allocating funds, the budget includes an analysis of the tax code. Tax expenditure programs in the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions are a primary vehicle for achieving many of the federal government's policy objectives. Collectively, they subsidize a broad range of activities, including many investments related to asset building such as mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the value of these asset-building tax expenditure programs is approximately $407 billion on an annual basis.

There are two commonly used methods for estimating the value of tax expenditures. The first involves calculating revenue losses attributed to provisions in the tax code; the second involves determining the budget "outlay equivalent." The difference between the two is that the revenue loss method counts money that would have come in to the Treasury absent changes in tax legislation, and the outlay method looks at money actually spent by the government. The results of the two methods will vary slightly depending on the specific expenditure. In the case of some refundable tax credit programs, such as the Earned Income Tax Credit, outlays and revenue effects need to be considered together to capture the ultimate scale of the policy effort.

Tax expenditures as a policy tool work best when the benefits or incentives are related to income and are intended to be widely available. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, they are not available to many citizens who would potentially benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these programs. Not surprisingly, 90 percent of the benefits under the two largest tax expenditure categories (homeownership and retirement) primarily go to households with incomes above $50,000 a year.[15] All told, the federal government offers over $159 billion a year in support of homeownership, over $122 billion to subsidize retirement savings, and over $117 billion in support of private investment (through such means as the reduced tax rate on capital gains).

Table 4 identifies the tax expenditures related to asset building included in the federal budget. Some are familiar and easy to understand, while others are obscure and more complicated. For the purpose of this presentation, tax advantages that can be claimed by businesses are not included, even if they help subsidize employee training. The table details projected tax expenditures for FY 2009 and includes estimated expenditures for FY 2008 and FY 2000 (in 2000 dollars) for purposes of comparison. Of note for FY 2009 is the significant increased cost of the mortgage interest deduction and savings in defined contribution 401(k) and IRA plans, as well as the phasing out of the deduction for higher education expenses.

Table 4. Value of Select Asset Building Expenditures, FY 2009
(in millions of dollars)

Housing	**FY 2000**	**FY 2008**	**FY 2009**
Deductibility of Mortgage Interest on Owner-Occupied Housing	55,100	89,430	100,810
Deductibility of Property Tax	19,495	12,620	16,640
Capital Gains Exclusion on Home Sales	18,540	38,890	34,710
Exclusion of Imputed Rent for Owner-Occupied Housing	*	35,680	7,550
Subtotal Housing		*176,620*	*159,710*
Investment: Commerce			
Capital Gains	40,585	51,960	55,940
Capital Gains Exclusion of Small Corporation Stock	5	320	340
Step-Up Basis of Capital Gains at Death	27,090	35,900	36,750
Carryover Basis of Capital Gains on Gifts	185	760	800
Exclusion of Interest on Life Insurance Savings	14,990	21,925	23,500
Subtotal Commerce		*110,865*	*117,330*
Education			
HOPE Tax Credit	4,855	3,350	3,640
Lifetime Learning Credit	2,655	2,220	2,340
Coverdell Education Savings Account (Education IRA)	230	10	50
Deductibility of Student Loan Interest	265	820	830
Deductibility of Higher Education Expenses	*	1,180	0
State Prepaid Tuition Plans	180	1,000	1,290
Subtotal Education		*8,580*	*8,150*
Retirement: Income Security			
Net Exclusion of Pension Contributions: Employer Plans	84,350	48,480	45,670
Net Exclusion of Pension Contributions: 401(k) Plans	*	43,970	51,000
Net Exclusion of Pension Contributions: IRAs	11,170	6,650	11,700
Net Exclusion of Pension Contributions: Savers Credit	*	670	900
Net Exclusion of Pension Contributions: Keough Plans	4,255	11,890	13,000
Subtotal Income Security		*111,660*	*122,270*
TOTAL		**407,725**	**407,460**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2009*, "Analytical Perspectives." table 19-1.

*A valid comparison is not possible.

Tax Refunds: Potential Assets Building Resources

While not normally thought of as an asset-building program, the tax filing process presents families with an opportunity to begin saving. Over 134 million tax returns were filed in 2005, and nearly 104 million tax filers, or 78 percent of the total, received refunds. The average refund for all tax filers exceeds $2,000 a year. Tax filers with adjusted gross incomes of $30,000 or less often withhold more than is required as a means of forced saving; as a group they received 52 percent of refunds for tax year 2005. Households with adjusted gross incomes of $30,000 or less, and households with adjusted gross incomes of between $30,000 and $60,000, accounted for 55 million and 27 million refunds, respectively.

These resources can potentially be used for personal investment and asset development, and with the IRS's new "split refunds" option, families can direct refunds into multiple accounts, allowing them to easily invest in a variety of savings products. Table 5 gives an indication of the scale of these resources; the column on outlays refers to the money refunded to taxpayers, and the column on tax expenditures reflects the money not taken in by the government as a result of the lowering of tax liabilities.

Table 5. Funding Levels for the Earned Income and Child Tax Credits, FY 2009 (in millions of dollars)

	Outlays	Tax Expenditures	Total
Child Tax Credit	16,780	29,950	46,730
Earned Income Tax Credit	41,020	5,440	46,460

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2009*, "Analytical Perspectives," table 19-1.

2008 PREVIEW

Most pundits predicted that we would know who the presidential nominees of the two major political parties were to be by the beginning of February, months before this summer's party conventions. That this did not turn out to be the case is likely to be only one of many unexpected events this election year. What can be said with assurance is that last year's wide open campaigns generated a tremendous amount of interest in both politics and policy. The presidential contenders produced a number of policy proposals regarding savings and asset-building issues, some of which may receive increased attention and scrutiny in the general election campaign. However, such hotly contested races as the one we are witnessing, which draw the attention of policymakers and the public alike, make it difficult to predict how legislative and policy initiatives will fare.

One thing is clear: the economic news is not likely to be upbeat. Trouble in the housing market, which began with defaults in the subprime mortgage market that triggered a rise in foreclosures and a fall in housing prices, has had a negative ripple effect on other parts of the economy. Declining wages and poor job growth, combined with rising energy and health care costs, are a prescription for recession. Even if the economy skirts an official recession, the outlook for economic growth for the rest of the year is poor. For the many American families with high levels of debt and low asset holdings, the erosion of housing equity will make it even harder to weather income disruptions brought on by the economic downturn. In short, the problem of low savings is likely to become more pronounced.

The stimulus package, which was agreed to in January, will return over $110 billion in tax rebates to American families. The rebates will not arrive until May and only if a family files a tax return. Members of Congress who voted for the stimulus emphasized the need to stimulate the economy through spending. Unfortunately, this message may be the wrong one for the many families who need to bolster their household balance sheets. As we noted above, many families are planning to ignore the wisdom of their elected officials and intend to save these resources or use them to pay down their debt.

Regardless of what choices individual households make, an extended period of economic hardship may spur additional policy discussions, which could prompt more legislative action, either in the form of a second stimulus package or other targeted proposals that may be linked to savings and asset building. For example, Sen. Robert Menendez (D-NJ) has proposed offering households that contribute to eligible savings products a $500 Saver's Bonus when they file their tax returns. Anyone qualifying for the Earned Income Tax Credit (EITC) would be eligible for the Saver's Bonus, which would direct resources to working families most in need of a boost. There are a number of other areas where we could see legislative action, or at least a serious discussion of the issues, regarding saving and asset building. These are described below in more detail.

Response to the Housing Crisis
Rep. Barney Frank, chairman of the House Financial Services Committee, and Sen. Christopher Dodd (D-CT), chairman of the Senate Banking Committee, are committed to scrutinizing the finance and regulatory practices that contributed to the housing crisis. It is expected that their committees will focus initially on the dynamics of the subprime market as they relate to mortgage lending practices in general. Congress will continue to consider two pieces of legislation to reform the mortgage market, the Mortgage Reform and Anti-Predatory Lending Act and the Housing Finance Act, both of which were passed by the House in 2007. In addition, both Representative Frank and Senator Dodd have begun to discuss proposals to provide additional funding to state and local governments to purchase foreclosed properties and to establish a federal mechanism to purchase mortgage loans at deeply discounted prices for subsequent restructuring.

The administration will continue to encourage major mortgage servicers to work with homeowners in danger of losing their homes by foreclosure. To that end, in early 2008 the Hope

Now Alliance—a coalition of leading mortgage services committed to helping consumers affected by the subprime crisis—unveiled "Project Lifeline," a concerted effort to reach out to all homeowners, not just those with subprime mortgages, who are at least 90 days delinquent to discuss potential financing options that can help them avoid foreclosure. As foreclosures resulting from the subprime crisis continue to undermine the broader housing market in 2008, the administration will be under pressure to take measures to assure homeowners that their greatest, and sometimes only, major investment is protected.

Oversight of Financial Services

Representative Frank's commitment to the Community Reinvestment Modernization Act will lead to substantial discussion of potential regulatory reforms in the financial services sector.

Rep. Carolyn Maloney (D-NY) introduced the Credit Card Bill of Rights Act of 2008 to curb abusive credit card lending practices. While the bill proposes outlawing some of the most egregious practices, such as hiding fees and interest charges, and bait-and-switch (when a lender promises one set of loan terms to a borrower, but writes more stringent conditions into the agreement without informing the borrower), both consumer advocates and industry representatives are unsatisfied with the bill and are likely to continue debating its provisions.

Provision of Financial Education

Established by executive order in January 2008, the President's Advisory Council on Financial Literacy will focus on strategies to expand Americans' access to financial services, increase financial education in schools and in the workplace, and measure the nation's level of financial literacy. With a two-year mandate, the council could potentially play an important role in influencing financial literacy policy and serving as a forum for useful discussions of this topic. However, without knowing more about how the council plans to fulfill its mandate, it is difficult to predict its likely impact. No matter what the council does, financial education will continue to garner the attention of policymakers as either a stand-alone strategy or a complement to efforts to address the housing and consumer debt problems.

Savings Incentives

With the presidential election in full swing and a Republican president in his final year in office, Congress is unlikely to pass any significant savings legislation. However, we expect this issue to garner attention, which may lead to the introduction of specific proposals, such as the Saver's Bonus. Given the rebates due to arrive in May and the fact that tax filing time is an opportune moment to consider household finances and undertake financial planning, additional policies may be considered to reform the tax filing process to support saving.

Despite being dropped from the president's budget last year, the Individual Development Account Tax Credit may be considered by Congress as the Savings for Working Families Act, a bill that has numerous Democratic and Republican co-sponsors. Children's Savings Accounts are also likely to generate interest and provoke policy discussions, but we are not likely to see legislative action in 2008.

Asset Limits in Public Assistance Programs

As members of Congress become increasingly aware of the need to save, we have seen more interest in proposals to remove or increase asset limits used in determining eligibility for the Food Stamp Program, Temporary Assistance for Needy Families, Medicaid, and other public assistance programs. Following recent reforms to the asset limit in the Food Stamp Program as part of the 2007 Farm Bill, we anticipate that Congress will consider more aggressive reform proposals for eligibility rules governing Supplemental Security Income, Medicaid, and TANF in 2008.

NOTES

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[1] Asset building refers to public policy and private-sector efforts to enable individuals to accumulate and preserve long-term, productive assets—savings, investments, a home, postsecondary education and training, a small business, and a nest egg for retirement.
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