



THE ASPEN INSTITUTE
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REBUILDING HOUSEHOLD BALANCE SHEETS

Rapporteur's Report

By Colby Farber



The Aspen Institute Initiative on Financial Security is a leading policy program dedicated to helping bring about the policies and financial products that enable all Americans to save, invest, and own.

The Aspen Institute is an educational and policy studies organization based in Washington, DC. Its mission is to foster leadership based on enduring values and to provide a nonpartisan venue for dealing with critical issues.



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REBUILDING HOW WE SAVE



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OVERVIEW:

Financial Security: An Issue That Unifies and Inspires

In the wake of the Great Recession, there is new urgency in America to address a pressing need for greater household financial security. From 2007 to 2010, Americans' median net worth fell 38.8%, and mean net worth fell 14.7%. Americans currently face a \$6.6 trillion retirement savings deficit.¹ A bipartisan consensus is within political reach on the need to rebuild household balance sheets with policies that expand private savings and thus enhance middle-class opportunity and security. The decline in wealth from the housing and financial crises, the stagnation in wages, and the inadequacy of retirement savings attract new interest from industry leaders, advocates, and policy leaders on both the left and right. The urgency to enact policies now that improve financial security does not just apply to lower-income Americans; these are policies that have the potential to impact most Americans. Smart savings policies belong in a pro-growth agenda and can be pursued through modest investments or targeted reforms that policymakers should champion and implement.

The 2012 Aspen Institute Financial Security Summit was an exclusive gathering of top business leaders, experts, advocates, and media. The Summit advanced the dialogue on the public and private solutions that build more savings and wealth in American households, strengthen middle-class opportunity, and improve the economic future of the country.

In an election year with a budgetary showdown looming, the Aspen Institute Initiative on Financial Security (Aspen IFS) chose to host its first Financial Security Summit in Aspen, Colorado to bring thoughtful leaders together to wrestle with the contours of a new strong and politically feasible financial security vision. With the American economy at crossroads, Summit participants revealed compelling consensus around savings policies that have the power to enhance economic mobility and financial security while directing Americans away from a culture of unaffordable consumption.

From acclaimed civil rights leaders such as Andrew Young and activists such as Marc Morial to leading conservative scholars such as Douglas Holtz-Eakin and prominent independents such as David Walker, the headlines emerge: financial security is the key to America's promise to its middle class, and achieving a much greater measure of financial security is a goal that financial industry leaders and consumer advocates believe in and can advance.

OPENING RECEPTION & KEYNOTE: What Has Happened To The National Agenda To Rebuild Household Balance Sheets?

Featuring: Marc Morial, President & CEO, National Urban League

The Financial Security Summit opened with Marc Morial, President and CEO of National Urban League, framing a history of Americans' household financial security to influence what the nation's agenda to rebuild household balance sheets must incorporate moving forward.



Marc Morial, President & CEO, National Urban League

Over the twentieth century, American policymakers planted seeds for long-term investments in America's future. Americans rebounded from the Great Depression, built a strong and stable middle class, and enjoyed higher educational attainment rates and higher homeownership rates. Americans created a bedrock social insurance system, which added key federal supports for disadvantaged Americans and quashed elderly poverty rates. Americans enjoyed unprecedented advancements in civil rights and race relationships, the status of women, and technology gains. Policymakers advanced the needle for the nation and its communities.

“ In order to grow out of this crisis instead of repeat it, policies that supplement wages with benefits and encourage savings are needed to continue to move the needle toward a stronger, more prosperous America. ”

Now, we find ourselves with the pen to draft a vision and strategy for 21st century America. The recent economic crisis has erased almost two decades of accumulated prosperity and has caused disproportionately devastating implications for minority populations.² When evaluating today's challenges, policymakers cannot respond with a patchwork of policies that treat the recession as a routine, cyclical downturn in a business cycle. Instead, policymakers must match today's solutions with today's challenges and context.

For so many Americans, their earnings over the last thirty years have not kept pace with the rate of inflation. With diminishing earnings, Americans have borrowed at unsustainable and sometimes exorbitant rates. It is in this context that policymakers must rethink how to invest in America's future. In order to grow out of this crisis instead of repeat it, policies that supplement wages with benefits and encourage savings are needed to continue to move the needle toward a stronger, more prosperous America.

SESSION 1: SHIFTING GEARS:

Moving From a 'Borrow and Spend' to a 'Save and Invest' Economy

Featuring: Philip English, Co-Chairman, Government Relations Practice, Arent Fox ; J. Mark Iwry, Senior Advisor to the Secretary, U.S. Department of Treasury; Andrea Levere, President, CFED; Maya Macguineas*, President, Committee for a Responsible Federal Budget; Marc Morial, President & CEO, National Urban League; Moderator: Lisa Mensah, Executive Director, Aspen Institute Initiative on Financial Security

*unable to attend

How must America restructure our economy to stop widening the wealth gap and democratize capital instead of credit?

Opening the first roundtable session, Andrea Levere, President of CFED, expanded on Marc Morial's opening remarks with another brief history lesson, this time from a purely savings perspective. Three decades of studies have conclusively demonstrated that when given the right structures and incentives, low- and moderate-income people can and do save. Through various matched savings demonstrations that span a lifetime, low-income Americans have saved for post-secondary education and training, to buy a home, to start and grow a business, and increasingly for emergencies. Adults who have been in matched savings programs continue to save over time. Children with savings accounts in their own names with as little as \$500 in those accounts are six times as likely as their peers without accounts to go to college.³ "Owning assets doesn't just provide financial security; it also changes aspirations," Levere remarked. It's the combination – financial and psychological leverage – that is critical.

Policymakers, consumer advocates, and business leaders have known about these studies, and in the past lifelong asset-building policies have received broad bipartisan support. Yet, as Marc Morial highlighted, a culture of consumption has overshadowed the long-term benefits of asset building, and too many American families have insufficient or no savings to fall back on or to supplement their income.

Returning to the present, Levere agreed and quantified this "too many" number – 43%. According to CFED's 'liquid asset poverty' data point, which evaluates the ability of a household to live at the poverty level for three months during a disruption in the main source of income, not taking into account the value of a home, car, or business, 43% of American households are liquid asset poor. This staggering number underscores the need to shift gears and step on the gas. Phil English elaborated and noted that "We are now facing a dramatic need to reposition America as a savings society and create opportunities for investment. As we do that, it is essential that we create opportunities for people toward the bottom of the economic ladder to achieve social mobility through being able to have assets. This is a challenge that is aimed not only at people at the bottom of our society, but also at people in the middle."

With agreement from the featured speakers that asset-building policies are both necessary to build cushions during hard times and to create springboards to invest in secure financial futures, Summit participants directed their focus to the policies that would be smart investments in the current budgetary and political environment.

“There are a number of things that can be hugely consequential and productive. We ought to go full steam ahead on the initiatives that are most promising and build on the foundation of Social Security, Medicare, and Medicaid to improve and expand matched savings,” Mark Iwry commented. Participants agreed that expanding participation in saving and investing to approach universality are critical elements that require an institutional framework in order to bring asset-building benefits to scale.



Session participants emphasized the value of an Automatic Individual Retirement Account (IRA) policy, which would build off of the success that automation has had in increasing 401(k) participation rates to bring the 78 million American workers – about half of the workforce – who currently are not offered workplace savings plans into the retirement savings system. Iwry noted, “For another \$1 billion a year – less than a 1% increase in our current investment in the private pension system – we can make the system dramatically more equitable, and reach tens of millions of people who are now left out....Automatic enrollment has now reached about half of the 401(k) market. We need to keep going.” English agreed, stating that an Automatic IRA policy is “simple to do and comparatively easy to advocate.”

In addition, featured participants acknowledged that a matched savings policy, such as an expanded Saver’s Credit, would improve the allocation of savings incentives so that more incentives are targeted at lower-income Americans who would benefit from them the most. An expanded Saver’s Credit would reward savers not in proportion to how much they earn, but rather in proportion to how much they save. “If we make the system more equitable with a small incremental investment on top of the \$120-\$130 billion a year that we now spend, another \$3 billion a year or so would pay for a refundable robust Saver’s Credit that would reach tens of millions American households,” Iwry continued.

As well as expanding the current Saver’s Credit, which is targeted at retirement saving, featured participants supported child savings accounts policies, which would establish savings accounts for all American children and add progressive matches so that all children can enter adulthood with an investment for post-secondary education, work-related expenses, or other qualified purposes. As English listed his priorities to help America transition into a ‘save and invest’ economy, he included a child account policy, “which I think potentially is a revolutionary idea that has traditionally enjoyed support across the political spectrum.”

Levere agreed that child savings accounts are a wise investment in tomorrow’s America, but added that current asset limit barriers must be addressed for all of these savings policies so that Americans can work to build assets over a lifetime rather than forego building up assets in order to maintain Temporary Assistance for Needy Families (TANF) and other income-based government support. “How do we lift out these archaic policies of asset limits that basically say ‘if you get any public benefits you can only have this much in value,’ which doesn’t allow the profit-loss statement and balance sheet to work together to help people build assets as they move themselves out of poverty?” Levere posed.

Summit participants agreed that policy designs to promote saving and investing should encourage lifetime savings habits rather than piecemeal asset-building efforts that are unintended consequences of some of the current asset limits. Whether these policies are folded into fundamental tax reform or added to an updated list of tax expenditures to incentivize savings, Summit participants acknowledged that these policies would restore the long-term inequities exacerbated by current savings incentives, increase economic mobility, improve lifelong saving habits, raise the national savings rate, and

in doing so help offset America's budget deficit, trade deficit, and culture of consumption that threatens future household financial security.

“ We are now facing a dramatic need to reposition America as a savings society and create opportunities for investment. As we do that, it is essential that we create opportunities for people at the bottom of the economic ladder to achieve social mobility through being able to have assets. ”

–Phil English



Philip English, former Congressman (R-PA); Co-Chairman of Government Relations Practice, Arent Fox

SESSION 2: BEYOND PAYDAY LOANS: Can All Americans be Banked?

Featuring: William Bynum, CEO, Hope Enterprise Corporation; John Carey, Managing Director, Global Consumer Banking, Citigroup; Timothy Flacke, Executive Director & Co-Founder, D2D Fund; Ben Mangan, President, CEO, & Co-Founder, EARN; Moderator: Michelle Miller, Correspondent, CBS News

How can technology and other innovative strategies for financial access transform the financial services industry to cater to all Americans? What policy obstacles currently exist?

After discussing the policy imperative to promote a culture of saving and investing for a more financially secure future for American households, Summit participants stepped back and addressed how to first connect all Americans to the financial mainstream so that households can stably and effectively save and invest. “You can argue that about half the country is either in poverty in some way that you define poverty, or on the verge of poverty, so we’re talking about 150 million Americans and over 20% of children who live in poverty,” Ben Mangan remarked. “Obviously the drag when we’re talking about half of the country is enormous and when we’re talking about nearly a quarter of the future of the country living in poverty, even more dire.”⁴



Ben Mangan, President, CEO, and Co-Founder, EARN

Yet before deciding how to bring people into the financial mainstream, Mangan suggested we must first discuss what it means to be banked. “There is a presumption that people just need to know better and they will then go from the mattress to the bank, and the fact is we are no longer in a financial services system that is binary. There is a wide spectrum of reasonably priced financial tools, products, and services that are available to people, and it’s a very rational choice in many cases not to use a bank if you have unsteady income.” Mangan continued, “We are at a point now where you don’t necessarily need a savings account at a bank to move ahead. There are savings functions attached to prepaid cards that people can use that are much more attractive to lower-income consumers for a variety of reasons.”

Tim Flacke agreed and elaborated that “The [questions are] what are you paying to manage your money; and is it reasonable; and can we do better; does your set of relationships give you a pathway of any kind, any sort of

ladder, or is it designed to keep you where you’re at; is it convenient and meet your lifestyle needs? The question is what do you need and are you getting it from choices you have made?”

However, Bill Bynum challenged this notion and asserted, “At some point people need a relationship with a depository financial institution if they are going to participate in the economic mainstream and become financially secure and mobile. If you are stuck in a relationship with payday lenders, check lenders, or parallel institutions that charge exorbitant rates, you are anti-saving.” John Carey agreed, reaffirming, “There’s really only one reasonable choice and that is to go to a regulated institution.”

While their optimal prescriptions to bank everyone differed, session participants shared the intention to move away from high-cost, inferior services that prevent people from moving ahead. “You are really unlocking a different view of the future for people when they start to think about their future and especially when you involve kids,” Mangan remarked. “So our goal is to bring the best savings products to scale to foster prosperity, because we believe savings is transformative.”

How savings policies interact with people is arguably as important as the product and policy design. “We cannot just get the supply side right,” Tim Flacke affirmed. “We cannot have the optimum set of public policies, the ideal product set, and leave it at that. We also have to think about the demand side, and the good news is that we have a lot of opportunity here.” Flacke discussed how many, particularly low-income, individuals are too overwhelmed to touch the topic of personal finance; but making savings fun and gratifying not only creates savings habits, but also educates individuals in the process to create more financially capable consumers. Through videogames and prize-linked saving, D2D Fund attracts new savers, incentivizes more saving, and educates individuals in a non-traditional classroom setting to effectively alter people’s saving habits.



Tim Flacke, Executive D2D Fund; Karen Elinski, General Counsel, Government Affairs, TIAA-CREF

Consumer demand is crucial to successfully draw in new savers, and simplicity is a key factor. Flacke advised that tax season is a perfect moment to capture new savings while people are already in front of tax advisors or tax software at the moment they decide what to do with their tax refunds. Carey granted that simplicity is crucial, and technology is a main driver to ease the burden of opening and maintaining an account. Summit participants agreed that new common platforms, particularly cell phones, have cut the burden involved in opening and managing bank accounts and are promising vehicles to attract more future savers.

Kim Polese mentioned that ClearStreet, Inc. has a cell phone-based app that directs savings toward paying down debt or toward a savings goal. Lenny Glynn added that Putnam Investments has a similar app available to its clients that compares product prices to help people find the best deals and then calculates how much the savings may be worth at retirement. As a result, consumers can opt to invest their savings for retirement. Through these cell phone apps, consumers create “impulse savings” habits while learning about the value of saving for retirement and paying down debt.

While technology has eased burdens, many unbanked and underbanked individuals still interact with fringe lenders because of convenience, accessibility, and uneasiness with interacting with the mainstream financial industry. “There is an appropriate and unfortunately deserved skepticism among many who are unbanked, and I think we’ve got to turn that around both by seeing a different paradigm and holding banks more accountable to serve these populations, and also by looking at other institutions like credit unions,” remarked Bill Bynum.

“The government has played and should continue to play limited and smart roles in promoting financial security certainly, and even financial access,” Flacke stated. Whether through the U.S. Savings Bond program, government public service announcements, and smart regulations to protect consumers from misconduct, the government has a responsibility to help form and protect the structures that make the banking system more accessible and supportive to unbanked and underbanked populations. Mangan concluded, “While it’s very exciting to think about what is possible to help people accomplish when we focus on behavior, we have to have that conversation concurrent to the broader frame around equity and wages and the way the government invests in producing wealth for different people. As much as I believe in the possibility of people achieving great things given the right incentives, there are structures that are greater than any individual persons will or behavior change.”

SESSION 3: HOW CAN WE RAISE A NATION OF SAVERS?

Featuring: José Cisneros, Treasurer, City & County Of San Francisco; Kilolo Kijakazi, Program Officer, Financial Assets & Economic Security, Ford Foundation; Moderator: Krissy Clark, Senior Reporter, Marketplace, American Public Media

What novel practices and policies, such as child savings accounts and the Kindergarten to College program, can effectively educate Americans and also strengthen their financial security?

In both of the previous sessions, Summit participants proposed child savings accounts as a powerful policy idea whose time has come. As an antidote to shift Americans away from borrowing and toward saving and investing, as a solution to connect Americans to the financial mainstream, as a strategic instrument to weave financial education into children's everyday lives, and as a long-term investment in all Americans, a national child accounts policy would be a triumph for policymakers, the financial industry, consumer advocates, and all American families.

Krissy Clark opened the session and turned to José Cisneros, Treasurer of the County and City of San Francisco, for an overview of San Francisco's Kindergarten to College program. San Francisco opens a child savings account for each of the approximately 4,500 children entering kindergarten in a public school each year. Each kindergartner automatically receives an account in his or her name, and the city automatically makes the first deposit of \$50, or \$100 if a student receives free or reduced-priced lunch. While the city of San Francisco owns the accounts on behalf of families, Citibank holds subaccounts for all families with the kindergartners as the designated beneficiaries. Therefore, San Francisco is able to open accounts for all kindergartners without requiring social security numbers and can keep account deposits locked

up until children reach 18 years old, at which point children can use their account balances for any post-secondary school purpose. To incentivize families to contribute to children's accounts, accounts are matched dollar-for-dollar for the first \$100 saved, and if families set up automatic contributions and leave them in place for at least six months, accounts receive a "Save Steady" bonus of another \$100.

Cisneros continued, explaining that Kindergarten to College is the first child savings accounts program to incorporate all six elements identified by the field as being crucial to success. It is automatic – every child receives an account at the start of kindergarten with no signature or paperwork necessary; universal – every child is eligible and no social security numbers are required; provides a seed deposit and ongoing savings match; has a range of deposit options including by mail, online, or at a bank branch; is linked to financial education taught in the classroom; and is publically funded. "We did not try and reinvent anything here," Cisneros clarified. "We really reached out to the best learnings that are out there."

Clark then turned to Kilolo Kijakazi to expand on this point and highlight some of the best findings that demonstrate that children savings accounts are a wise investment to give all American children a jumpstart on their futures. Kijakazi detailed the American



Kilolo Kijakazi, Program Officer, The Ford Foundation

Dream Demonstration (ADD) in the 1990s that was the first national test of Individual Development Accounts (IDAs), which are matched savings accounts for adults. ADD found that the right structures and incentives encourage low- and moderate-income individuals to save, but the demonstration was not scalable as designed.⁵ Then researchers, practitioners, policymakers, and funders of asset-building turned to focus on child savings accounts. Child savings accounts could be scalable almost immediately, offered the possibility of more democratized access to higher education, and enjoyed bipartisan appeal. Asset-building policy proponents envisioned child savings account policies to be universal, begin at birth, and incorporate a government deposit and a progressive match system, which resulted in the Saving for Education, Entrepreneurship, and Downpayment (SEED) demonstration to set the stage for universal, progressive asset-building policies for children and their families.⁶ Evaluation for this ten-year project is currently wrapping up, but completed analysis has shown that families at all income levels saved, the program significantly impacted parents' expectations for their children to go to college, and enrollment was challenging without automation.

In addition to large-scale demonstrations, Kijakazi highlighted academic studies that reiterated synergies that children savings accounts create with ambition, behavior, and educational achievement. Children with savings accounts in their own names were six times more likely than similarly-situated children without accounts to go to college, wealth has shown to be a better predictor of achievement than income, and debt is associated with lower achievement and higher behavioral problems. Moreover, when studies controlled for wealth, the racial achievement gap was significantly reduced.⁷

“ Children with savings accounts in their own names were six times more likely than similarly-situated children without accounts to go to college. ”

Despite being one of the nation's wealthiest cities, San Francisco faces many challenges of income and wealth inequality. Cisneros revealed that one-third of children in San Francisco are born into households with no savings or assets of any kind. This number jumps to one-half for African American and Latino children. In San Francisco, one-fifth of households have zero or negative net worth. In addition, more than one-half of public school children receive federal free and reduced-price lunch benefits at school. Motivated by the promising findings that Kijakazi mentioned, San Francisco's treasury started the Kindergarten to College program.

San Francisco launched Kindergarten to College two school years ago, and “When we look at these earliest adopters,” Cisneros observed, “over 60% of them are families whose children are receiving free and reduced-price lunch federal benefits. That tells me that the poorest families in our city are making up the majority of early adopters of our Kindergarten to College program.” Moreover, Cisneros touched on an EARN study that found that among parents whose children were enrolled in the K2C program during the 2011-12 academic year and were saving for their children's higher education, 34% of parents that saved have been doing so in K2C accounts while 18% have been using 529 accounts. Parents were allowed to select more than one option if they were saving in multiple types of accounts.⁸ “We know that when our families save for college we all do better. When kids make their futures brighter, it makes the situation in our city better and our communities more successful,” Cisneros stated.

Cisneros continued, “While we're excited about the opportunity to roll out this program in San Francisco and really bring real tangible benefits and successes to kids in our city, we really are looking further down the road. We see this as an opportunity to pilot this type of program in a real city in the U.S. and to have it be studied, to have us learn from it, to maybe have it replicated in other cities, but probably more importantly to be looked at and considered at the state level or ultimately the federal level because that's really where we believe the true successes will come in looking at this type of a program.”

Summit participants were resoundingly enthusiastic about expanding these child savings programs and bringing them to scale, but were frustrated by the lack of broad public support that is typically necessary to compel congressional leaders to push these policies. Kijakazi alluded to past legislation including the ASPIRE Act, which would have created universal children savings accounts at birth, and several other similar bills, all of which were introduced in Congress but then plateaued in policy action in part because no constituency held policymakers accountable for taking action beyond introducing bills. Kijakazi also touched on the United Kingdom's Child Trust Funds, which provided every child at birth with a £250 voucher to open a child savings account. The program launched in 2005 for every child born after 2002, but fell victim to budgetary cuts in 2010 without overpowering pushback from the broader public.

“...the poorest families in our city are making up the majority of early adopters of our Kindergarten to College program.”
–Treasurer José Cisneros

Andrea Levere noted that polling during the SEED initiative showed that “while people loved the idea of children savings accounts, they didn’t know what problem [they were] trying to solve. The huge change we see now given the recession, the economic crisis, and people’s focus on the achievement gap and the loss of wealth, is we now see people across the broadest spectrum of housing authorities, school districts, and others saying this is a solution to the problems we’re seeing with the families we work with.”

Cisneros added to this point and expressed, “I think we are developing that base of constituent support, because one of the things we are starting to find is that we are developing a population of grateful parents who finally have come to the point where they do understand what this program is doing and what opportunity it does give their kids and they are literally blown away by this opportunity.” This is a heartening and successful start, but more attention on solidifying and expanding existing child savings account policies is necessary for the country to realize the full benefits connected to empowering America’s youth with savings accounts and financial prowess.



Lisa Mensah, Executive Director, Aspen Institute Initiative on Financial Security

SESSION 4: MOVING UP:

Jobs, Benefits, and the Search for Financial Security

Featuring: Douglas Holtz-Eakin, President, American Action Forum; Damon Silvers, Special Counsel & Policy Director, AFL-CIO; Moderator: Lisa Mensah*, Executive Director, Aspen Institute Initiative on Financial Security

*stand in for Edward Luce, Chief U.S. Columnist, Financial Times

How can we address future employment growth and stagnating wages and benefits to jumpstart household mobility?

To start the second day of discussion, Lisa Mensah asked session participants to consider why steady wages no longer signify financial security and how policymakers could act to repair this discrepancy and help Americans convert their wages into adequate lifelong income. The two featured session participants, Douglas Holtz-Eakin and Damon Silvers, agreed on broad maladies that have weakened the relationship between a job and financial security, and cited lack of economic growth, growing public debt, and uncertainty as symptoms that have contributed to the deterioration of income as a driver of wealth.

Holtz-Eakin and Silvers offered different historical perspectives that explain how the country arrived at stagnating wages and benefits that have not kept up with rising costs. Holtz-Eakin told an international narrative about how after World War II the United States' economy was undamaged, and as other countries' economies rebounded in the 1950s and 1960s, competitive pressures emerged. Additionally, during the Cold War, the U.S. set out to contain the Soviet Union and economically linked together the Western democracies. The globalization that the United States built put real downward pressure on the wage distribution, and because the U.S. approached globalization from a national security perspective, the U.S. never developed an economic strategy to take advantage of globalization.

Silvers covered the same time period from a domestic perspective, noting that the U.S. had a stable savings rate similar to that of other developed countries during the postwar era until around 1980, when the savings rate steeply declined, bottomed out around the millennium, and remained there with the exception of a brief uptick during 2008 when people started repaying debt. Simultaneously, around 1980 Americans started to experience a decline in defined benefit (DB) plan coverage, and real wages have not grown much since 1980 while productivity has grown dramatically. The real wage gains that have occurred have been overwhelmingly concentrated at the top of the income structure. Consumer spending has risen to an unsustainable percentage of GDP while wages have stagnated, and the tax code during this period of declining savings has become less progressive.

Both accounts led to the U.S.' current economic environment, where Holtz-Eakin explains, "We are seeing business cycles driven by asset movements and the old macro tools don't seem to work anymore. There is a sense out there that somehow the business cycle has changed and these fluctuations are harder to manage." Holtz-Eakin and Silvers both agreed that the country needs long-term, pro-growth structural shifts, which would also resolve some uncertainty that currently concerns households.

Holtz-Eakin advised, "You have to protect the core functions of the government – national defense, infrastructure, basic research, education – and take the spending out elsewhere, typically transfer programs....If you think about what that

means for the U.S. right now, it means that you don't cut discretionary spending, and instead you do reforms to the entitlement programs."

Yet Silvers contested Holtz-Eakin's recommendations, explaining that "What we have gone through is a generational experiment on whether concentration of wealth and income makes our economy healthier or not healthier, and the results are in; they are that it makes our economy fundamentally unhealthy. An inequitable distribution of wealth drains sustainable demand and leads to demand essentially being manufactured through unsustainable borrowing. And secondly, the weakening of transfer payments and the deterioration in the ability of our retirement income system to produce income and financial stability for older Americans – these things are not good for an economy with an aging population. They are not pro-growth."

“ Globally the return to high skills has gone up; globally the return to financial capital has gone up. We need to give our people skills and capital. ”
–Douglas Holtz-Eakin

Both session participants agreed that the solutions to reform the Social Security system already exist, and policymakers should decide them soon to clear up some of the existing economic uncertainty that households face. Holtz-Eakin and Silvers also both agreed that the educational system, and particularly vocational education, is due for reform, and has been for quite some time, but Silvers added, "People have been saying for 20 years or more, 'the solution to our problems is education'...Maybe there's a reason we haven't fixed it. It doesn't stand by itself."

Holtz-Eakin cautioned against focusing on policies to backfill inequities and instead opted to counteract inequality in policies moving forward. Holtz-Eakin stated, "I do not believe that we will ever be successful either as a matter of arithmetic, or economics, or certainly politics, in trying to fix after the fact – through tax and transfer programs – the inequality problem that we face. That approach looks like a land war in Asia that ends with us all really being exhausted. Instead, we have got to get ahead of this. We know that if you look at the wage distribution, it began to widen in the '70s into the '80s, the bottom fell out in the '80s and '90s and the top went way up, and then the bottom stopped falling and the top continued to rise....So to get ahead of this, we need two things. Globally the return to high skills has gone up; globally the return to financial capital has gone up. We need to give our people skills and capital. And that means, in my view, we've got to have serious efforts at broad, defined contribution plans that everyone has access to – we have to have a private pension system again – and we have to have better education....That's how we solve our inequality problem."

Expanding on this point, Holtz-Eakin added that in a defined contribution world, "We don't have broad participation at all, and because we don't handle the saving problem, people don't reap the global return to having financial capital, and the wealth and income distribution have widened." Mensah clarified, "So you are putting the fix of rebuilding a private pension system into the inequality equation," to which Holtz-Eakin responded, "Absolutely."

Silvers added, "When you start talking about how to deal with inequality at the front end, not at the back end, you have got to have a system in which workers have a real voice and bargaining power." Mensah then asked what responsibility lies with employers, to which Silvers replied, "What employers do have some responsibility to do in my opinion, is to participate in insurance structures in a general sense. It does not mean that employers have to manage those structures.... The fundamental problem with 401(k)s is simple – there's not enough money in them, and the reason why there's not enough money in them fundamentally is because of the failure of employers generally to make contributions comparable to the level of the contributions they used to make in the DB system" Silvers concluded, "The employer responsibility is



Douglas Holtz-Eakin, President, American Action Forum; Damon Silvers, Special Counsel & Policy Director, AFL-CIO

to pay, but we don't have good structures right now that make sense from anybody's perspective for employers to play their part."

Silvers closed, remarking that "The debate that we face is 'what is the nature of the structural direction that we want to take?' There are some points of common ground here, and there are some points of divergence around things like whether we want a more progressive tax code as a structural response or not." While this session's debate corroborated Silvers' synopsis, it also illuminated the consensus that job compensation, through wages and benefits, needs to be restructured and perhaps supplanted to support workers in preparing for lifelong financial security.

SESSION 5: SOCIAL SECURITY, PENSIONS, SAVINGS, AND INSURANCE:

Is there a New Rule of Thumb for a Secure Retirement?

Featuring: Ryan Alfred, Co-Founder & President, BrightScope; David Certner, Legislative Counsel & Legislative Policy Director, AARP; Janice Gregory, Former President & Founding Member, National Academy of Social Insurance; Joshua Gotbaum, Director, U.S. Pension Benefit Guaranty Corporation; Michael Noetzel, Managing Director, Institutional Relationships, TIAA-CREF; David C. John, Senior Research Fellow, The Heritage Foundation; Christine Marcks, President, Prudential Retirement; Moderator: Lisa Mensah, Executive Director, Aspen Institute Initiative on Financial Security

How can private savings best be managed to serve as a crucial component to Americans' nest eggs? How do we maintain social insurance's role as a strong foundation to Americans' lifelong retirement safety nets?

As the Baby Boomers continue to retire and Washington's tax reform discussions escalate, there has been a lot of noise around retirement savings inside the beltway, in national headlines, and at household dinner tables. A snapshot of household retirement security in 2012 reveals that only half of the American workforce has the ability to save for retirement through their employers, very few other workers save for retirement on their own, most have not saved nearly enough, and the economic and financial downturns have chipped away at account balances of all sizes.⁹ Add increasing lifespans, rising health costs, and an unsustainable federal budget into the mix, and retirement security recalibrations are not only overdue, but also changes have become imperative to maintain and enhance lifelong financial security. Financial Security Summit

participants devoted the largest portion of Summit discussions to addressing different layers of today's retirement security challenges and opportunities, and participants discussed achievable improvements to update the nation's current retirement security system so that it can successfully operate for the Baby Boomers, their children, and grandchildren.

Christine Marcks, President of Prudential Retirement, delineated many of the big issues that shaped the rest of the session. Marcks outlined, "We talk about transforming U.S. retirement, and that means we really focus on tackling issues that we see threatening the retirement security of millions of Americans. The issues that we see most prevalent are first of all the coverage gap – the fact that 78 million Americans don't have access to employer-sponsored plans. Second, retirement savings adequacy – people aren't saving enough to I think enjoy even a modest lifestyle in retirement, let alone the lifestyle they would like to have, and certainly the market volatility over the last several years has only exacerbated that issue....The third issue is an emerging risk, it's longevity risk



Christine Marcks, President, Prudential Retirement

and I say it's emerging only because so much of the focus in the industry for the past few years has been on investment risk and not really focusing on the fact that people are living longer life expectancies; people are living in retirement now 25 or 30 years, and the numbers are going up. That means you have to save even more to support that lifestyle. Fourth is the pension funding gap – the challenge that many sponsors of defined benefit plans have with respect to managing the investment and longevity risks to support the promises that they've made to their employees to provide lifelong benefits." In addition to the issues that Marcks teed up, participants also focused on Social Security, retirement risks and who should bear responsibility, and holistic approaches to incentivize saving for retirement that do not cannibalize saving for other nearer-term needs.

Focusing specifically on coverage, Marcks first disclosed that she would concentrate on issues in the defined contribution (DC) world because "it is clear that DC plans are the predominant private source of retirement savings to supplement Social Security." From watching participants' behaviors in early DC plans, Marcks found that just offering the plan and education was not enough to overcome inactivity and convince workers to take advantage of workplace retirement plans. The Pension Protection Act (PPA) of 2006 made headway with automatic defaults to overcome employees' inertia. Employers can now use automation to default employees into 401(k) plans, and automatic enrollment has yielded very low opt-out rates. In expanding coverage, Marcks cited the power of payroll deduction, institutional pricing, and fiduciary oversight as some of the benefits that can enable effective retirement programs for the 78 million Americans who currently are not offered workplace plans. Marcks recommended Automatic IRAs and Multiple Employer Plans (MEPs), which would pool various small employer plans into a single plan so employees could benefit from these advantages, as policies that would significantly expand coverage. "This expanding coverage dynamic is a very important component of solving the financial security issue. There has been progress, but we have a long way to go and the clock is ticking."

David John, Senior Fellow at the Heritage Foundation and co-designer of the Automatic IRA policy, endorsed Marcks' coverage comments, "If the individual does not have the opportunity to participate, the individual has absolutely no chance of success." John restated the accomplishments that automatic enrollment has shown, explaining that it has especially demonstrated incredible results with the five groups who are most likely to under-save – younger workers, workers involved in small businesses, lower-income workers, minority workers, and female workers. When designing the policy, John paired automation with IRAs because people are familiar with the IRA structure, the accounts are easily portable and can be rolled into and out of 401(k) plans, and employers cannot contribute since IRAs are individual accounts, therefore making the policy politically attractive. Congressman Richard Neal (D-MA) has introduced the most recent Automatic IRA legislation, which John explains is not expensive and covers any ordinary costs on employers with a federal tax deduction. John concluded, "The key thing about this is that it could raise participation from about 50% to 90% just like that... This is not the solution; it is a solution. There are additional parts that need to be added, there are additional fixes that need to be done for DCs, DBs, and other plans, but this is a start. This will make things so that more Americans can actually start to provide for themselves on top of Social Security and go forward."

“**Defined contribution plans need to be seen as retirement income plans, not retirement savings plans, because they are going to be the basis of retirement income for millions of Americans.**”
–Christine Marcks

Session participants agreed that these additional solutions include changing the retirement frame. Marcks mentioned, "Defined contribution plans need to be seen as retirement income plans, not retirement savings plans, because they are going to be the basis of retirement income for millions of Americans. We know that changing the frame of these plans really does have an impact." Defined contribution plans were not originally structured to provide defined benefit-like

income, but using income as a success measure rather than using the account balance changes how people think. Mike Noetzel agreed, “We’ve got to get to looking at DC plans as replacement income,” adding, “building sustainable long-term financial security isn’t really a pipedream; it’s doable. It’s going to require a more prescriptive focus not only to retirement, but actually getting people through retirement.” Noetzel elaborated, “What would something look like if you really wanted to create an ideal plan for the 21st century? Some of the tenants are already out there. It’s going to continue to recognize that it’s a shared responsibility of employers and employees; it’s going to provide income that lasts a lifetime, well beyond in many cases 30 years with the growth in longevity; it’s going to help retirees meet uninsured health care expenses; it probably will recognize that one size doesn’t fit all, although it’s critical that there’s continuity in certain pieces of it to make it work; and finally it’s going to include strong education and advice components and recognize that most people need help making decisions about achieving financial security and retirement security.”

To make this happen in practice, Noetzel argued, salary contribution rates around 10% or higher are necessary, in addition to consistent savings with no gaps, appropriate advice and guidance, and annuity options within plans. “Through this process, employers owning the outcomes of their employees has to really be introduced into this construct,” Noetzel asserted. Marcks added that employers need safe harbor coverage to bring annuity-like income into DC plans.



Christine Marcks, President, Prudential Retirement; David John, Senior Research Fellow, The Heritage Foundation; Ryan Alfred, Co-Founder & President, BrightScope; Michael Noetzel, Managing Director, Institutional Relationships, TIAA-CREF

While these solutions ring true for some American workers, too many American workers cannot stretch the little or no savings that they have. Ryan Alfred introduced the issues of transparency and accountability into the conversation, explaining that when he started Brightscope, “We felt that all the key players – plan sponsors, service providers, participants – frequently did not have the data they needed to make the right decisions in the market....Plan sponsors are in a role where they are fiduciaries to their plans’ participants. Part of that duty involves selecting and monitoring service providers to ensure the fees their participants are paying are reasonable. We felt that at the time many plan sponsors did not know their fee structures and, if they did, whether they were reasonable.” In response, Brightscope aggregated data and created accountability and feedback loops to make plan structures more transparent, which enable

fiduciaries to lucidly analyze plans, engage in a dialogue between participants and providers with questions and concerns, and ultimately be in better positions to preserve and grow participants’ retirement savings.

Joshua Gotbaum, Director of the Pension Benefits Guaranty Corporation, emphasized the importance of preserving the defined benefit system, which is “more efficient and more effective at producing retirement security,” and currently covers 75 million people. “In order to preserve [the defined benefit form], there is going to have to be greater flexibility afforded to employers in plan design, in plan construction, and in the regulatory structure with which they comply. Absent that flexibility, the [current] trend of declining market share, but not declining numbers, will become a decline in absolute numbers,” Gotbaum asserted. “There is a tradeoff in a voluntary system between making employers responsible for all aspects of retirement plans and their willingness to offer them at all. Employers can always do financial planning and investing better than employees, but if it comes at the cost of [employers] paying all costs, and if it comes at the cost of additional fiduciary responsibilities, and if it comes at the cost of greater disclosure than switching to a DC plan, then some of them just will not do it.”

David Certner echoed many of the benefits that Gotbaum connected to DBs, but Certner attributed them to the Social Security system. “If you think about Social Security, what does it do? It’s very simple, it’s nearly universal, it’s extremely



Michael Noetzel, Managing Director, Institutional Relationships, TIAA-CREF; Joshua Gotbaum, Director, U.S. Pension Benefits Guaranty Corporation; David Certner, Legislative Counsel & Policy Director, AARP

cost effective, it's a shared employee-employer cost, it has a progressive benefit – obviously highly unusual in a retirement structured world, which is mostly based on tax subsidies – it's completely portable, it's guaranteed lifetime income with a cost of living adjustment – again, something pretty remarkable in the retirement income sphere – it's a guaranteed benefit with no market risk. These are all incredibly valued by the American population.” Certner discussed that while Social Security was designed to be a floor of guaranteed income, in reality it is much more than that. For one-third of retirees it comprises 90% or more of their retirement income. Social Security plays a substantial role in all retirees’ replacement income, even considering the top quintile.¹⁰

To further demonstrate Social Security’s inimitable role in maintaining a middle class in retirement, Certner explained that while the average balance accumulated in a 401(k) is around \$100,000, to purchase an annuity that would basically emulate today’s Social Security benefit, which is on average roughly \$1,200 per month, an individual would need to accumulate \$300,000 today.¹¹

However, Certner reemphasized that Social Security is only intended to be an income floor, and that supplemental savings are necessary for workers to maintain secure retirements. Certner advised that policymakers build off of Social Security’s success and popularity and create universal add-on accounts that, like Social Security, are simple, automatic, use payroll deduction, and pool assets to be administratively efficient.

Janice Gregory followed Certner, focusing on Social Security and contributing a historical legislative perspective. Today, Gregory declared, the Social Security system is not in crisis. In 1983, legislation was enacted only ten days before full benefits could not be paid. By contrast, today Social Security is 100% solvent for another 20 to 21 years, and “in that time, through thoughtful steps we can make the program sustainable for as far into the future as we want,” Gregory stated. Gregory discussed how while the recommendations of Greenspan Commission, which assembled from 1981-1983, and which focused on getting the Social Security system through the 1980s, were balanced, the final Social Security bill that was enacted into law incorporated a 70% benefit reduction, about 10% revenue, and 20% increased coverage. “Emphasizing further benefit reductions for the future not only makes that imbalance worse, but I think it begins to endanger the retirement security of our children,” expressed Gregory.

Gregory continued, “We do have a longevity increase, but it’s unfortunately not evenly spread out. Males who are in the top half of earners have gained about 6 years at age 65 over the last 3 decades, but lower-paid males have only gained about 1.3 years, and we’ve already wiped out that gain with the age amendment. For women gains have been a little more modest, but they have gone up for the top half. But they’re actually negative for low-paid women. This is not something I think we can plow into without considerable pain.”¹² Moreover, Gregory conveyed that ‘high paid’ under Social Security does not equate to ‘high paid’ under the tax code. Somebody earning about \$60,000 is considered ‘high paid’ under Social Security, and the median, which some plans like Simpson-Bowles reduce benefits for, receive an income of about \$34,000.¹³

Winding down her initial remarks, Gregory suggested that policymakers consider what the appropriate income replacement rate should be for Social Security. It was 39% for an average earner and is already decreasing to 32%.¹⁴ “Are we going to make retirement possible in the future or not? If we are, I think we have to think about revenue....Poll after poll shows that regardless of conventional wisdom in Washington, people by the same substantial majority would rather pay more in contributions than see benefit cuts. This is across party lines and true across age groups.”

Tying all of these layers together, David John expressed, “One of the mistakes that we make, and this is true when discussing Social Security and all the individual pieces, is to look at them as pieces and not as part of means to provide retirement security. There can be many paths to retirement security, and one of the things that we need to do going forward is to make sure they’re comparable.” John discussed how the U.S. retirement system was not created as a system, but rather as pieces developed over time. While some additions are necessary and some pieces are due for updates, John acknowledged that “Relatively minor fixes can have huge impacts going forward so it’s not a matter of tearing everything down and starting over, it’s recognizing what we’ve got and adding bits and pieces and making corrections to all of the various parts.”

Certner agreed, maintaining, “I don’t think it’s getting us anywhere if we’re just substituting additional savings with what Social Security’s providing, because Social Security today is not providing enough. What we really are aspiring to is maintaining Social Security, but [also] adding to it – actually developing other systems on top of Social Security that are simple and automatic, [and] that will let people accumulate additional savings that can be in many different forms... What is key is that it is done through the employer payroll tax mechanism, because that is the most effective.” Lenny Glynn of Putnam Investments added, “Social Security is the indispensable base on which to build all future retirement security... I think there’s pretty much universal agreement on that.”

“ There can be many paths to retirement security, and one of the things that we need to do going forward is to make sure they’re comparable.... Relatively minor fixes can have huge impacts going forward... ”
–David John

Linking the assets agenda and retirement agenda, John continued, “There’s an interesting trap with retirement savings, which is if you spend it early then you’ve got deep troubles at another time. So there has to be to some extent, at some age, a parallel track where you try to [save for multiple purposes].” On top of mentioning policies such as child account proposals and saving for homeownership, John explained that structures to handle multi-purpose saving already exist. The United Kingdom has platform accounts, in which employee contributions are split into two tracks. A percentage goes into retirement saving and a percentage goes into saving for shorter-term needs. Thirty of the United Kingdom’s largest employers have already adopted the platform, and other countries are exploring the mechanism as well. “Realistically speaking,” John asserted, “in order to meet the goal of helping people to build a future, were going to have to do both – it’s not an either-or conversation.”

Silvers challenged this standard, contending that, “We have the model for how to provide these goods to low-income Americans completely wrong.” For individuals with incomes significantly below the median, current structures that demand they self-fund their education, health, and retirement needs are impractical. Silvers proceeded, “I’m for the employer kicking in because I think it makes a difference in terms of participation, but it shouldn’t make any difference in terms of employer cost, and yet employers are quite resistant to the notion that employers should be responsible not for fiduciary duties and downside investment risk, but just for cash input at the front end.”

Douglas Holtz-Eakin agreed that employers can reallocate their compensation without adding additional costs, with some exceptions. For example, employers cannot lower salaries for minimum-wage workers, and so to avoid adding costs they may switch workers from full-time to part-time. On an individual basis, if employers contemplate reallocating wages and benefits alone, they risk jeopardizing workers’ satisfaction, which may lead to resignation. “The examples that work well are ones where all employers are in or out,” Holtz-Eakin commented.

“ For the folks who do care about economic security and retirement security, I think it’s important that we make sure that when we have budget debates in Washington, debates are really about how do we achieve financial security within the budget framework, not how do we achieve a good budget ignoring the needs of health and retirement security. ”

–David Certner

Over the span of the discussion, Summit participants zoomed in on different aspects of retirement and then zoomed out to examine the system in its entirety. Not stopping there, participants continued to step back, viewing retirement security as a piece of lifelong financial security. Retirement security requires updated policies compatible with other savings policies for nearer-term purposes including post-secondary education, homeownership, and out-of-pocket health expenses. While disagreements about which parties should bear certain risks remain, Summit participants agreed that policymakers must fortify the retirement security system and reinforce existing components rather than allow the current system to weaken. David John cautioned, “When we talk about tax reform we need to be very, very careful that the retirement system isn’t collateral damage,” and Certner followed, “For the folks who do care about economic security and retirement security, I think it’s important that we make sure that when we have budget debates in Washington, debates are really about how do we achieve financial security within the budget framework, not how do we achieve a good budget ignoring the needs of health and retirement security.”

KEYNOTE:

Building the Wealth of Tomorrow's America

Featuring: Kabir Sehgal, Emerging Market Equity Sales, J.P. Morgan; Ambassador Andrew Young, Co-Chairman & Founding Principal, GoodWorks International; John Hope Bryant, Founder, Chairman, & CEO, Operation HOPE; Moderator: Jared Sandberg, Editor, Bloomberg.com

If the Occupy Wall Street movement gave voice to the challenge of inequality, legendary Civil Rights leader Andrew Young, banker and author Kabir Sehgal, and John Hope Bryant took up the challenge with a more practical dialogue about how to create more savings and wealth in American households, strengthen middle-class opportunity, and in doing so improve the economic future of the country.

After a day of dense discussion, Summit participants reconvened for a keynote conversation featuring Andrew Young, former U.N. Ambassador, Atlanta Mayor, and Martin Luther King Jr.'s strategist, Kabir Sehgal, John Hope Bryant, and Jared Sandberg as moderator, who discussed putting the task to build wealth for tomorrow's America at the top of the national agenda. Ambassador Young rewound time and explained how Martin Luther King Jr. was a product of the New Deal. Young talked about how King adopted the goal of making the New Deal work for black Americans since Southern racial segregation prevented them from sharing benefits of the New Deal, which Ambassador Young defined as democratic capitalism. "He was killed when he raised the question of 'can democracy and capitalism work for poor people as it has worked for the upper class and middle class?' Had he had a chance to live, we might have answered that," Ambassador Young expressed.



Ambassador Andrew Young, Co-Chairman & Founding Principal, GoodWorks International

John Hope Bryant continued on the historical timeline, voicing that "Communism failed because it could not create a middle class. Capitalism succeeded precisely because it could create a middle class, but capitalism has begun to falter because it has not made itself useful and relevant to [all]." Bryant continued, observing that over the last 20 years, American businesses have opted for short-term, need-based approaches, rather than approaches to build wealth over time. Presently, "70% of all black men today are dropping out of high school, and 30% of all kids are dropping out of high school in the richest country on the planet. Also, 40-50% of urban kids are dropping out of high school. If free enterprise and capitalism were working for the poor, this would not be true," Bryant stressed.

Sehgal countered that capitalism has been working for the poor, and "American business was integrating long before politics were." Analyzing Occupy Wall Street through the lens of the Civil Rights movement, Sehgal assessed, "It's one thing to invoke the Civil Rights movement as kind of a message for dignity – we all need a job, we all need a bank account. I'm not sure if the tactics of the Civil Rights movement, which are protesting and banging on drums, may be the right tactics to bring about change right now."

“ [Martin Luther King Jr.] was killed when he raised the question of can democracy and capitalism work for poor people as it has worked for the upper class and middle class?’ Had he had a chance to live, we might have answered that. ”

–Ambassador Andrew Young

Ambassador Young noted that “There is a very wide super highway of economic opportunity between [the Tea Party and Occupy Wall Street].” For instance public-purpose capitalism, including generating new wealth by investing in environmental improvements, is a smart step forward. Moreover, American households can return to the savings culture that Ambassador Young grew up with in the 1930s and 1940s when he accumulated defense stamps for the war effort. Bryant agreed, noting that “If people have more financial empowerment, they need less consumer protection.” Bryant detailed the 100-year commitment that Operation HOPE has embarked on with Gallop, “HOPE Business in a Box,” to double financial literacy rates and increase economic energy in underserved schools across America.

Ambassador Young ended the conversation advising future policymakers on how to create more wealth in American households, strengthen middle-class opportunity, and in doing so improve the economic future of the country, recommending, “You have got to have a global vision and a neighborhood plan, and you can get almost anything done if it’s inclusive with the entire neighborhood and if it’s relevant to the entire globe.”



Jared Sandberg, Editor, Bloomberg.com; Ambassador Andrew Young, Co-Chairman & Founding Principal, GoodWorks International; Kabir Sehgal, Emerging Market Equity Sales, J.P. Morgan; John Hope Bryant, Founder, Chairman, & CEO, Operation HOPE

SESSION 6: FINDING COMMON CAUSE: Responsible Financial Practices for the 21st Century

Featuring: John Carey, Managing Director, Global Consumer Banking, Citigroup; John Tippetts, President & CEO, North Island Credit Union; Moderator: Susan Ochs, Senior Fellow, Aspen Institute Initiative on Financial Security

Moving past the rhetoric and regulatory debates, this session focused on standards of practice in the financial industry. It explored areas of agreement among all stakeholders and identified ways to pursue common goals.

Opening the last day of discussion, Aspen IFS Senior Fellow Susan Ochs approached strengthening household balance sheets from a different perspective and steered a discussion on what the financial industry standards could and should be to create best practices in banking. Recognizing this session's opportunities to spark an ongoing constructive dialogue, Ochs posited that common ground between industry stakeholders – bankers, consumers, shareholders, regulators, board members – exists, with many areas where reform is in all stakeholders' interests.

Ochs described how destructive practices became the industry norm leading up to and during the financial crisis. A complete collapse of mortgage underwriting standards defined the run up to the housing crisis, while the backend of the foreclosure crisis was wrought with practices including wrongful evictions and faulty robo-signing. In the broader industry, over-reliance on fee income – especially penalty fees such as overdraft – remains standard industry practice. Banks losing focus on consumers has been a common theme permeating across all of these issues.

As a result, today emotions still run high. A lack of trust persists, and frustration exists on both sides. Consumers feel cheated that the industry has gotten away with these practices, while the industry often feels unfairly tarred with the bad acts of others in the headlines and frustrated that regulations are perhaps not as focused and effective as they could and should be. This has resulted in a polarized national debate with much emphasis on symbolism but not enough serious talk about broader structures and practices.

A flawed binary focus on regulation exists, with Ochs noting, "I find that the conversation around regulation tends to be either you are pro-regulation or anti-regulation; it's not about what are the right ones, how do we structure industry in the right way, and how do we make sure it moves forward on a sound footing."

As a result, Ochs has set out with Aspen IFS to create a lasting constructive conversation around these issues with appropriate stakeholders in a nuanced and thoughtful way. Ochs pronounced, "Our vision for how we think about what we want this program to drive towards is a more stable, customer-centric, and empowering industry that is really serving all stakeholders."

Linking these best industry practices even closer to the other Summit sessions, Ochs discerned that the underbanked have potentially remained underbanked out of lack of trust and even fear, noting that bank fees are often unpredictable, disproportionate to the size of the underlying transaction, and punitive. Additionally, these practices can inhibit wealth

creation among the underbanked. As an example, overdraft fees are paid mostly by those who can afford them the least – the young and people making under \$30,000 per year.

Ochs concluded her opening remarks, commenting, “I believe the financial industry is in a little bit of an airline moment. When a plane goes down, people don’t think ‘wow, that airline company must have bad safety standards.’ They think, ‘flying is not safe.’ I think there is a bit of that going on in the financial industry right now – that everyone gets tarred with the bad practices of the one.” Ochs observed that balanced discussions about industry practice can lead to impactful gains to restore trust and restructure some business models if those are what are in stakeholders’ best interests.

“ I find that the conversation around regulation tends to be either you are pro-regulation or anti-regulation; it’s not about what are the right ones, how do we structure industry in the right way, and how do we make sure it moves forward on a sound footing. ”

–Susan Ochs

John Tippetts, President and CEO of North Island Credit Union, continued the conversation and differentiated credit unions from other industry actors. “There is no such thing as a large credit union,” Tippetts began, explaining that while there are 7,000-8,000 banks and 7,000-8,000 credit unions, credit unions impact only 3-5% of the financial services industry. Credit unions enjoy an uncommon trust with their member-owners, partly because they are not-for-profit cooperatives and have a volunteer board. Credit unions offer banking products and services, but the customer is the shareholder and credit unions aim to return capital to customers when possible. Community-based by any definition, credit union members are locally grouped, whether by geography or association. Lastly, while credit unions do consider credit scores when evaluating loan approvals and interest rates, Tippetts remarked that North Island Credit Union engages in “storybook lending,” where employees spend a lot of time with individual members to evaluate their specific decisions and understand the factors that influenced credit scores.

John Carey, Managing Director of Citigroup’s Global Consumer Banking, emphasized the distinctions between credit unions and banks, deeming that there is a space for both because of the different advantages they offer. As Tippetts highlighted, credit unions are able to develop close relationships with their customers, are able to serve their targeted segments with unique product sets to meet their needs, have the power to adopt truly tested innovations rather than divert resources to research, and have no outside shareholders. Yet, credit unions do not benefit from scale and as a result can run into fulfillment challenges, for example burdening employers with many different roles and encountering larger regulatory burdens due to their size.

On the other hand, big institutions enjoy scale – with technology, automation, operation centers, among other areas – and have the ability to innovate broadly and drive new technology, have access to capital and diverse funding, have broad coverage so they are not subject to concentration risk, and have a diverse set of products. Yet, they also face enormous regulatory scrutiny and must address shareholders’ needs and expectations.

Moving on, Carey agreed that common ground between stakeholders exists and there are certain industry standards that could be established. First, Carey posed that “There ought to be common language about what terms mean,” and cited Annual Percentage Rate (APR) definitions as one example of where standardization should occur. Carey recognized that the Consumer Financial Protection Bureau (CFPB) is headed in the right direction with its work particularly in the credit card disclosure space to elucidate some uncertainty for consumers. “If you can create greater understanding, part of it

comes with financial literacy, part of it comes with raising the bar overall, then institutions can compete on a level playing field,” Carey affirmed.

Carey discussed credit cards further, stating that, “In many ways the market wasn’t working and it actually created an environment where I think you were almost penalized for best practices because it hit your profit and loss statement (P and L). You weren’t getting the pickup in acquisition, and others were basically grabbing market share from you.”¹⁵ Carey discussed how institutions often used non-consumer-oriented practices such as low teaser rates, which made it hard for institutions such as Citi that had locked in rates to compete, “So going at it alone is not necessarily the right outcome.”

Yet Carey granted, “We have to get back to the point of a much more customer-centric environment,” and discussed how institutions have to migrate away from putting too much weight on rewarding employees for delivering on revenue and earnings and not enough for delivering on management risk, reputational risk, customer satisfaction, and brand protection. Carey touched on Citi’s scorecard that emphasizes metrics beyond just maximizing profits to also evaluate employee performance as an example of the responsible finance the industry should follow to create economic value for customers.

Tippets built on Carey’s point about responsible finance, agreeing that appropriate incentives are needed to prevent unethical practices or practices that do not have the customers’ interests in mind, and he suggested that measurable consequences, not regulations, are the appropriate reaction to prevent poor practices. Tippets detailed that institutions need flexibility to deal with the variability that dealing with diverse customers requires. Moreover, if regulators advocate for plain vanilla products, “The only winners in that are the big guys because they have economies of scale to deal with that,” Tippets remarked.

Summit participants reacted positively to this industry perspective, but as Karen Elinski mentioned, “It is not standard though necessarily...it just strikes me that there should be some standardization of ethical practices.” Carey responded that “Regulators look at institutions now not just at how effectively they’re managing product risk and credit risk, but they’re looking at how [banks are] managing all the risks in business from an operational standpoint and from a reputational point of view.”

“ We have to get back to the point of a much more customer-centric environment. ”

–John Carey

Carey summed up that in a for-profit institution, “At the end of the day it’s like a balloon. If you squeeze the air out of one side, the need for revenue is going to go on the other side and that’s a practical reality that we have to deal with.” Though this reality will remain true, this session’s conversation proved that there is plenty of movement to refurbish industry practices to benefit all stakeholders.

SESSION 7: A MEMO TO THE NEXT ADMINISTRATION:

A Chance for Change

Featuring: Philip English, Co-Chairman, Government Relations Practice, Arent Fox; J. Mark Iwry, Senior Advisor to the Secretary, U.S. Department of Treasury; David Walker, Founder & CEO, Comeback America Initiative; Moderator: Lisa Mensah, Executive Director, Aspen Institute Initiative on Financial Security

This session put forward an ideas-driven savings agenda for the next Administration to consider as principles to put each American household on a sound financial footing.

Ending the Summit on a forward-looking note, Lisa Mensah remarked that the currents of the financial crisis, a recession, and a need for greater financial security are going to push the country toward savings-driven policy solutions, and what we've seen at the Summit are many of these themes together.

Mensah then returned to where Marc Morial started the Summit in the opening keynote and asked featured participants to contribute their policy priorities to rebuild household balance sheets moving forward. Free of the politics that usually restrain this type of debate, featured participants focused on smart policies and priorities that the next Administration should adopt to help American households build and strengthen their financial security.

Mark Iwry started, citing the Automatic IRA proposal as "a breakthrough in coverage in our private pension system and would in fact accommodate many of the goals that we have discussed." Iwry restated some benefits of the Automatic IRA policy and explained, "The financial services community can step up and provide, on a more efficient and lower-cost basis than has been typical in the past, receptacles for tax-favored contributions and accumulation of those contributions. That's the kind of structure that Automatic IRAs would promote and make possible. The unbanked would not have to have their own bank accounts in order to do that."

Iwry continued, "I believe that it is something that will continue to be a priority for the Administration. That would make saving easier for people who don't now save. We not only need to make it easier, we [also] need to make it more remunerative. A companion strategy would be to expand the Saver's Credit....Both are what we really need."

Remaining on the theme of making savings easier, Iwry suggested to expand and promote savings opportunities at tax time and remarked that "the majority of the tax-paying population who do get [tax] refunds are experiencing a savable moment. The Administration has promoted the strategy of making it easy for people to tell the IRS 'I want to save part of my refund.' This is a bipartisan effort."

Iwry ended his comments by noting the macro benefits that his savings-driven recommendations would precipitate and stated, "We're not only doing right by giving the most help to those who need help the most. We're [also] doing good in an effective way by providing incentives to people who are least likely to use those incentives to merely shift their savings

from one pocket to another. That is, tax incentives that are targeted to people not in the top tax brackets tend to produce incremental saving....The poor, the moderate income – given the incentives to save – will save, and we'll also get more national savings by targeting them."

“ ...tax incentives that are targeted to people not in the top tax brackets tend to produce incremental savings....The poor, the moderate income — given the right incentives to save — will save, and we'll also get more national savings by targeting them. ”

–Mark Iwry

David Walker stayed at a macro level, remarking that “If we don't put the government's finances in order, then whatever gains we achieve in the short-term will not be sustained over time.” Walker resurfaced some of the challenges that Summit participants mentioned in earlier Summit sessions, stating that “We have a serious culture problem. I think our culture has changed dramatically over a number of decades to where we have moved towards a debt-based consumption-oriented society at all levels.”

Walker then focused on pension reform, saying that “We need pension reform. We've only got 50% of full-time workers covered by a pension plan; most of those are covered by a defined contribution plan. We have too much in pension savings that leaks out, that never makes it to retirement, or if it makes it to retirement it is paid out as a lump sum. And Social Security is absolutely critical because it is truly the foundation, with 22% who rely solely on Social Security for their retirement income; most people rely on it for their primary source of retirement income.¹⁶ George W. Bush didn't realize the second word in Social Security is security, not opportunity. At the same time, I personally believe we're never going to get individual savings up without automatic savings. We need automatic savings – automatic, payroll deduction, real trust fund, real investment, real fiduciary responsibility and liabilities, government can't touch it, increases our savings rate.”

Phil English also started with the need for macro reforms and affirmed, “I believe that we need to make a fundamental shift from consumption to savings....Tax reform ought to shift more of the burden to consumption as opposed to income in order to have a sustainable tax code long-term.”

English then turned to retirement security and stated, “We also need a commitment to pension reform as a component of retirement security.” First focusing on Social Security, English asserted that it “is the most soluble of the major problems on the agenda, and in my view it is soluble within the parameters of the traditional Social Security system....We can create a more solvent Social Security system with a design similar to what we have currently and also potentially new revenues.... By raising the threshold on the Social Security tax, you could improve the solvency of the system and improve benefits, and I think some of us have decided around here that both of those are worthy objectives.”

“ ...we're never going to get individual savings up without automatic savings. ”

–David Walker

English next turned to the issue of access to savings accounts and advised that “We should be pushing for universal access to retirement vehicles and pension programs. Also I believe that we need to preserve access to a major part of the market for defined benefit plans.” Supporting Iwry’s policy recommendations mentioned, English said, “I agree that the Auto IRA is extremely important and for a very modest tax expenditure could have a huge impact on the savings picture,” and later commented, “I think we should expand the Saver’s Credit.”

English then turned to starting to save earlier and remarked, “I’ve long believed that child savings accounts are potentially a major game-changer for the way that individuals, particularly who are growing up in families with limited resources, approach savings and begin to interact with the economy.”

English also mentioned the need to reevaluate current asset limits, reform long-term care, promote financial literacy at an early age, and reform homeownership policies, which Walker agreed play a central role in the savings patterns of the middle class and are fundamental to deal with in order to realize significant economic growth.

English closed by observing that “What we’re talking about here is a group of ideas that appeal to a broad variety of members, but tend to take a backseat to other issues that are higher on their agendas...It’s a uniquely difficult set of ideas to put forward in this environment.”

Yet while it is a difficult political environment, featured participants from across the aisle formed broad consensus on the smart policy solutions that would restructure our country’s priorities to promote a stronger, more financially secure America at both the macro and household levels.

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–Phil English

Earlier in the session, Mensah quoted President Obama during a speech he gave at Georgetown University when he declared, “We cannot rebuild this economy on the same pile of sand. We must build our house upon a rock. We must lay a new foundation for growth and prosperity – a foundation that will move us from an era of borrow-and-spend to one where we save-and-invest, where we consume less at home and send more exports abroad.”¹⁷

As our country acknowledges the need to create and renovate current policies, a chance for change exists to include policies that Summit participants cited as strong reinforcements – as key materials in the new foundation for growth and prosperity – to rebuild household balance sheets.

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