Wealth Inequality, the Tax Code, & Opportunity for Children

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Why wealth and assets matter for children
Why focus on building assets?

Income is necessary, but alone is insufficient for long-term financial stability and mobility

Assets matter economically, socially and psychologically

• Assets create a financial buffer to weather emergencies
• Promote success in the labor market
• Promote long-term thinking, planning and psychological well-being
• Enhance the well-being and life chances of children
• Increase the likelihood of going to and succeeding in college

It’s not just what you earn, but also what you own.
How well do we build assets?

44% of households are liquid asset poor in America

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How wealth inequality has grown

Source: Saez & Zucman, 2014
How taxes affect wealth inequality
Tax expenditures for building wealth in 2014

Discretionary Budgets vs Asset-Building Tax Expenditures (2014)

$464 billion

$620 billion

Combined Discretionary Budgets of:
- Health & Human Services
- Education
- Veterans Affairs
- State
- Homeland Security
- Justice
- Energy
- Agriculture
- Housing & Urban Development
- Transportation
- Treasury
- Labor
- Interior
- Commerce
Who benefits from these tax programs

The top 1% receive more support than the bottom 80% combined

Author's analysis based data from the Urban Institute (2014) and Congressional Budget Office (2013). Includes roughly 60% of total federal spending on asset-building tax programs.
Who benefits from these tax programs

A top-income family could buy a Cadillac with their annual benefits
A bottom-income family could barely fill the gas tank

Average Federal Benefits in 2013

Income Percentile Range

<table>
<thead>
<tr>
<th>Percentile Range</th>
<th>Average Federal Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20%</td>
<td>$77</td>
</tr>
<tr>
<td>20-40%</td>
<td>$285</td>
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<tr>
<td>40-60%</td>
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<td>95-99%</td>
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<tr>
<td>Top 1%</td>
<td>$23,164</td>
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<tr>
<td>Top 0.1%</td>
<td>$33,391</td>
</tr>
</tbody>
</table>

Author's calculations based data from the Tax Policy Center (2014). Includes selected tax programs for homeownership, retirement and higher education. Note that this analysis does not include any tax programs for investment and inheritances, which are even more upside down than other tax programs.
Who benefits from these tax programs

![Graph showing asset limits force families into asset poverty.](chart.png)

- **TANF (state avg):** $2,468
- **SNAP (federal default):** $2,000
- **SSI (federal mandate):** $3,000

Asset limits vs. Asset Poverty Level: **TANF**, **SNAP**, **SSI**
What can we do to increase financial security and opportunity for children?
Household Financial Security Framework

What it really takes to build economic security over time

- **learn**: financial skills & build human capital
- **earn**: income & public benefits
- **save**: for emergencies & the future
- **invest**: in assets that will generate wealth & income
- **protect**: gains made through insurance & avoiding predatory practices

Assets can increase earning capacity.
Children’s Savings Accounts (CSAs) are a promising way to increase assets and college-going aspirations for children and their families. In their ideal form, CSAs are:

- Established for children as early in life as possible.
- Seeded with an initial deposit and built by contributions from family, friends and children themselves.
- Augmented by savings matches and/or other incentives and age-appropriate financial education.
- Used for an asset-building purchase, such as higher education, at age 18.
Children, Assets & Educational Outcomes

Key Research Findings

A low- or moderate-income student with just $500 or less saved for college is:

Three times more likely to attend college and
four times more likely to graduate from college
Campaign for Every Kid’s Future
Launched at Clinton Global Initiative (CGI) America in June 2015

Every kid deserves a shot at a brighter future.
We’re working to connect 1.4 million kids with a savings account for higher education by 2020.

#savingsforkids
Five Takeaways

1. Wealth matters for kids’ success
2. Wealth inequality is extreme and growing
3. Spending on tax programs to boost wealth is enormous
4. This spending is upside down, exacerbating wealth inequality
5. Reforms like universal CSAs can address the trend