THE ASPEN INSTITUTE

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Rapporteur's Report | *By Colby Farber*

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Top Left: Henry Cisneros; *Top Right:* Latta Reddy; *Middle:* Michael Steele; *Bottom:* Karen Dynan and Governor Jack Markell

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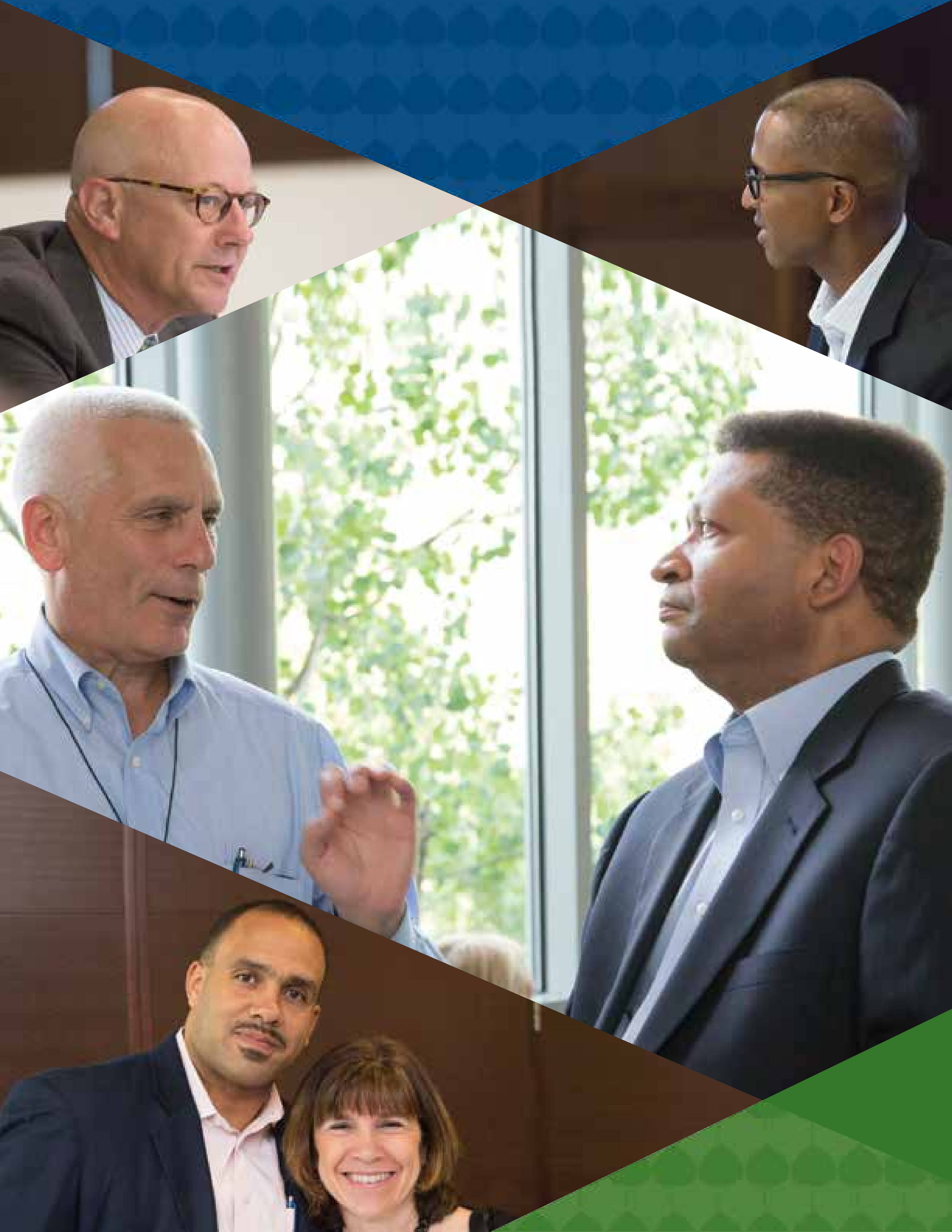

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OVERVIEW

John Rogers, Ariel Investments

2014 Aspen Institute Financial Security Summit

The 2014 Financial Security Summit examined how policymakers, the financial services industry, advocates, and academics can advance new policies and products to make it easier for households to build financial security and to reinvigorate the American Dream.

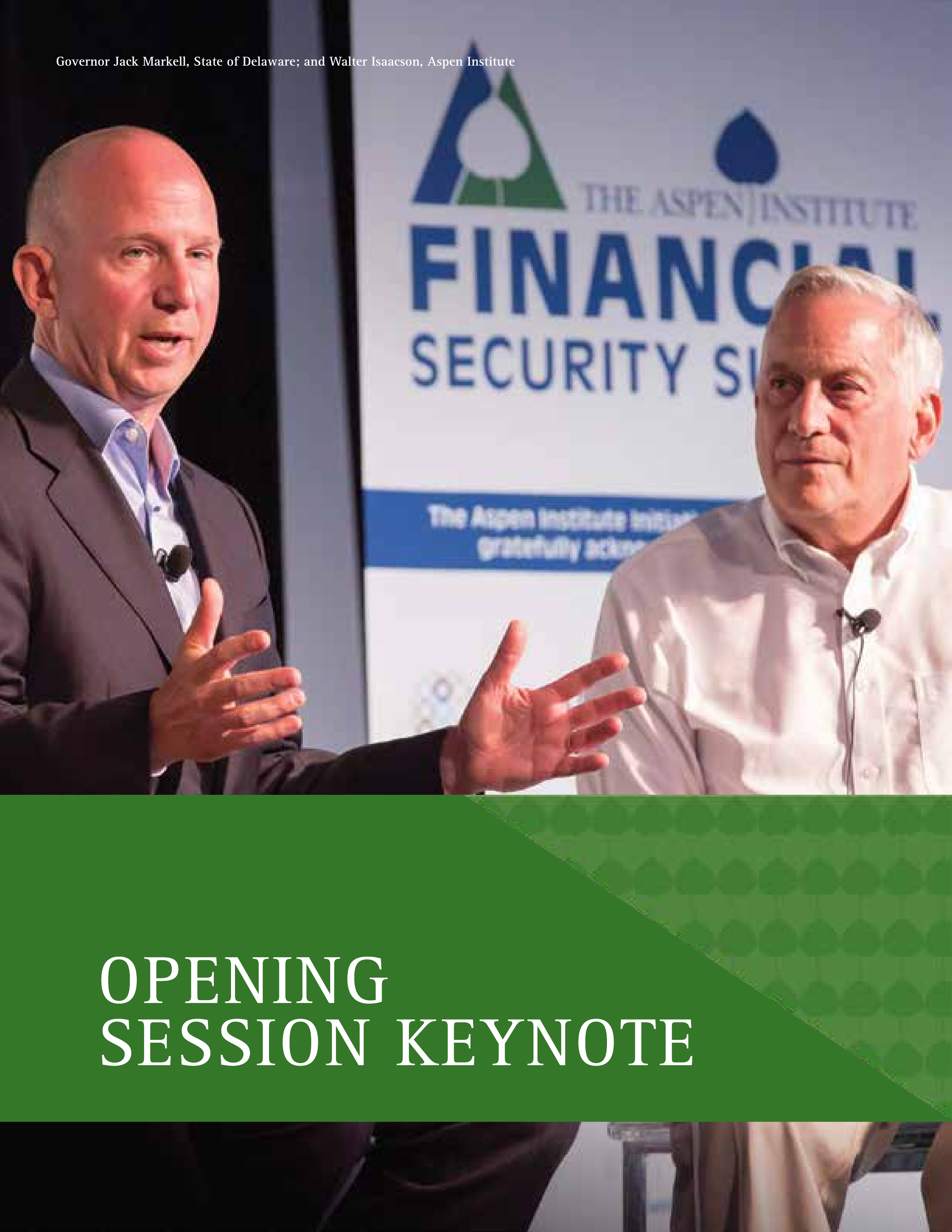
Newspaper headlines and stock market growth indicate that the U.S. economy has come a long way since the Great Recession, but the American Dream seems unattainable for many families. Instead, stagnating wages and financial insecurity are the reality for a significant number of American households who are struggling to make ends meet and invest in their futures. Families are still working to save and build assets and need the support of a strong policy framework that offers clear, simple, and fair incentives. To make real progress, however, they need decent jobs that are the foundation of everyone's ability to save.

Financial services are a key part of the recipe to build wealth and have assisted many American households in moving up the economic ladder to experience the American Dream. Yet many households lack access to mainstream financial services and therefore lack access to effective tools to invest in their futures. In the wake of the Great Recession, some financial providers have developed new products and services that aim to reach people who have been left out of the financial system.

As financial services innovators continue to think of new ways to chip away at inequality and assist more American households in strengthening financial security, policymakers continue to push for new programs and incentives to encourage households to build wealth. States are emerging as a major hub of innovation for expanding savings policies, including policies ranging from encouraging workers to save for retirement to policies incentivizing kindergartners to save for their futures. While states continue to test out innovative policies, federal policymakers continue to build consensus over the merits of well-tested policies to enhance household financial security, though partisan sentiments continue to hamper significant progress. In this context, the Aspen Institute Financial Security Summit convened 40 of the nation's top business leaders, experts, advocates, and media.

One key way to build wealth, even in difficult times, is to start early. The evidence on child savings accounts after more than a decade of research is clear: low income families can and do save. Savings has important impacts on increasing college attendance and on families' overall financial well-being. Universal approaches to expand child savings accounts speak to a bedrock American value of thrift.

Governor Jack Markell, State of Delaware; and Walter Isaacson, Aspen Institute



OPENING SESSION KEYNOTE

Inequality and Opportunity

"Inequality is the moral, economic, and political issue of our time."

Opening the 2014 Financial Security Summit, Aspen Institute President Walter Isaacson moderated a conversation with Delaware Governor Jack Markell, Karen Dynan of the U.S. Treasury, and John Rogers of Ariel Investments to set a broad framework for the rest of the Summit focused on inequality and opportunity in America.

Isaacson affirmed that "inequality is the moral, economic, and political issue of our time," and he acknowledged that financial security is particularly difficult during this time of slow and uneven recovery. Governor Markell agreed and suggested that policymakers and the private sector need to consider household financial well-being holistically—through educational programs, workforce development, financial coaching, alternative financial products, and more. For all of these initiatives, Markell argued, providers must reach people where they are—at the workplace, school, child-care centers—to integrate these services with people's everyday routines.

From a macro perspective, Karen Dynan acknowledged that "income inequality" and "inequality of opportunity" are two distinct challenges for many Americans. Focusing on the latter, Dynan cited that "in this country, for someone who is born into the bottom fifth of the income distribution, there is a 50% chance that person will still be in the bottom fifth of the income distribution as an adult." Though economic mobility has not substantially changed in the U.S. over the past few decades, the income distribution has widened so "people can still climb the ladder, but the rungs are growing apart."

John Rogers, Ariel Investments; Karen Dynan, US Dept of Treasury; Governor Jack Markell, State of Delaware; and Walter Isaacson, Aspen Institute

INEQUALITY AND OPPORTUNITY

"Mobility in this country hasn't changed much over the past few decades, but the problem is that income distribution has widened—so people can climb that ladder but the rungs are growing apart.

—Karen Dynan

We have to have strong, local minority businesses and small businesses to provide the jobs and role models that will strengthen our community, and that comes first.

—John Rogers

Women face a number of negatives. They earn less than men do, and that gets worse with age. They spend less time in the workforce than men do, either caring for kids or elderly parents. They invest more conservatively, which in these kinds of markets are a disadvantage, and they live longer. They make less money, they don't make as much on their investments, and they live longer.

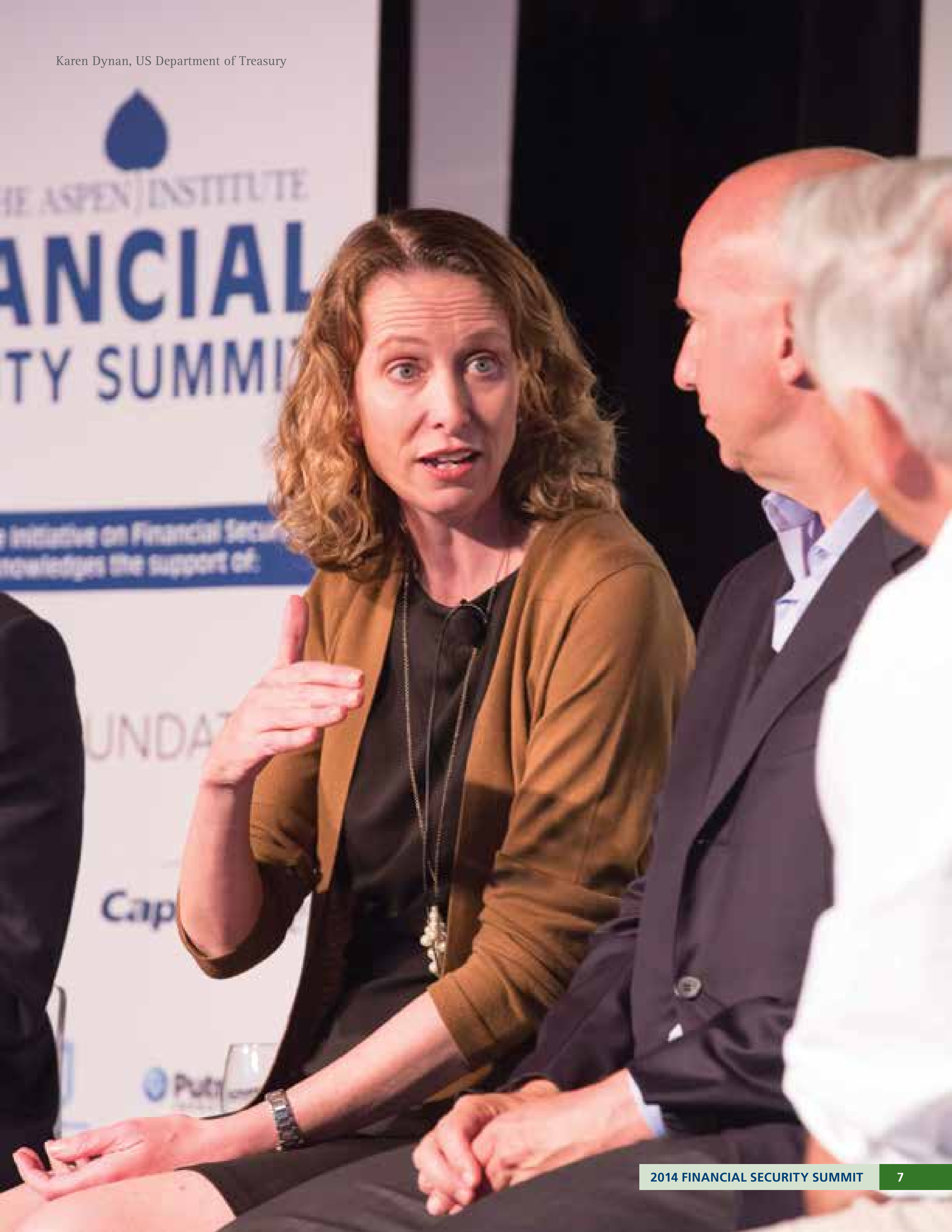
—Jack Markell"

Turning to policy solutions, Dynan addressed the Obama Administration's focus on promoting access to higher education, expanding the Earned Income Tax Credit (EITC) to address poverty while also expanding incentives to work, and creating starter savings accounts like the MyRA, which employers provide to workers through the Treasury Department program rolling out this year. Dynan also noted that "to do this right we need Congress to engage."

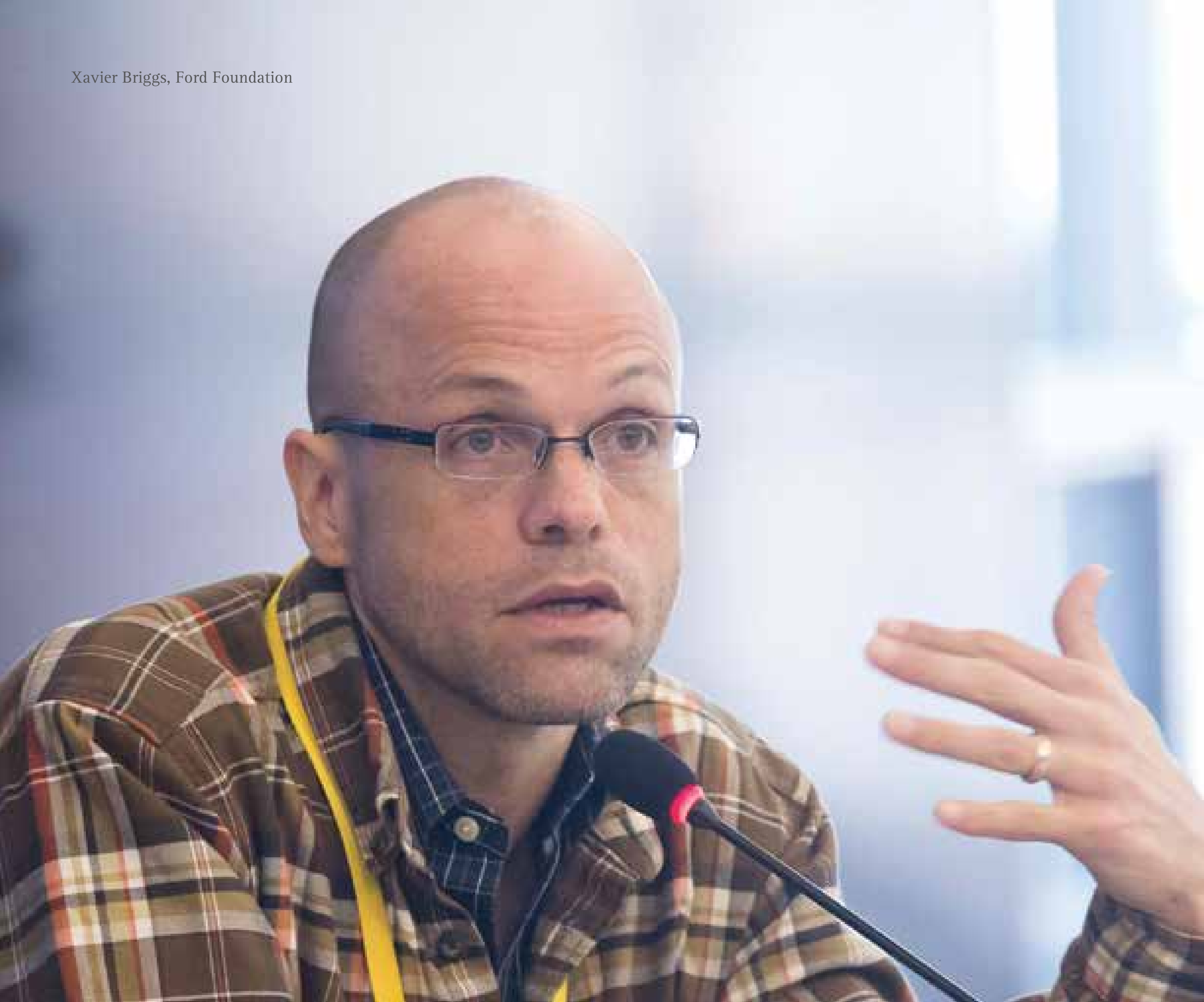
Markell explained Delaware's statewide financial empowerment strategy, "Stand By Me," which has provided financial empowerment services to over 13,000 Delaware residents since May 2011. Coaching customers are getting results as 80% are working to improve their credit and debt positions by entering into debt repayment plans, correcting credit reports and increasing credit scores. Markell noted that sixty-seven percent of the "Stand By Me" clients earn $29,000 or less a year, and that women specifically face big disparities in building a secure economic future.

Isaacson submitted that "one of the great drivers of economic inequality is access to the tools," and John Rogers cited financial literacy as a powerful tool to provide to kids at an early age in order to instill saving and wealth-building habits. Rogers also noted the lack of successful mentors and role models for minorities in too many major companies, and called for stronger local small and minority businesses to provide the jobs and role models to strengthen communities and chip away at income and wealth inequality. Markell and Dynan echoed that financial products that increase access to credit and checking account capabilities would make it less challenging for lower-income Americans to navigate the U.S. financial system.

Addressing both barriers and opportunities to building wealth and achieving financial security during an era of growing inequality, discussants covered a wide range of policy and product enhancements to set the tone for the rest of the Summit.



Karen Dynan, US Department of Treasury



Xavier Briggs, Ford Foundation

SESSION 1

Inequality and Household Balance Sheets

How does rising inequality impact the ability of American families to build assets, and what policy approaches are needed to ensure that all families can share in an expanding economy?

Picking up on the opening session's conversation, Lisa Mensah moderated a discussion with Jared Bernstein, Xavier Briggs, Maya Rockeymoore, and Reihan Salam on inequality's impact on households' financial security. Mensah pushed discussants to cover challenges to raise household wealth and lower inequality and then move to policy solutions that would address some of these challenges.

Jared Bernstein stated that the U.S. government's pivot to deficit reduction soon after the recession occurred at a time when the country needed stronger fiscal policies to spark strong growth in the economy. Investments are needed to put people back to work and to raise workers' incomes so that lower- and middle-income workers have a fair chance to build savings and assets. Bernstein cautioned that in order to address wealth-building and rising inequality head on, policymakers and the public should consider the full gamut of policy options--fiscal policy, monetary policy, and trade policy—as tools that can help restore broadly shared prosperity.

Maya Rockeymoore declared that income inequality is only a sliver of the challenge of inequality in America. Structural challenges with

Lisa Mensah, Aspen Institute; Jared Bernstein, CBPP; and Xavier Briggs, Ford Foundation wealth imbalances are the bigger challenge to address, and "what many people fail to realize is that race is a greater predictor of wealth than is class." Rockeymoore expounded that when looking at wealth across the spectrum by income quintiles, the racial wealth gap exists at every quintile and gets worse for the lowest quintile.

Turning to solutions, Rockeymoore voiced that policymakers must consider race and ethnicity especially because of demographic shifts that are taking place in the U.S. By year 2013, Rockeymoore explained, the nation will be majority-minority. "The people who are going to be the workforce of the future have to contribute to economic growth and retirement security regardless of race and income." Yet to date, the rising majority are the very populations who continue to be marginalized. Rockeymoore mentioned policies around homeownership, promoting entrepreneurship, and savings accounts for children as steps in the right direction to address wealth and racial inequalities. Rockeymoore also noted that current federal programs are pegged to incomes and suggested that policymakers consider pegging these policies to household wealth.

Reihan Salam added that challenges to boost workers' financial security should also consider the evolving pressures that U.S. employers face in their businesses. Larger employers on the whole offer more benefits, training, and professional development to their workers than smaller employers. Rather than creating policies to reduce this disparity between firms that have very different abilities to respond to policy initiatives, policymakers should take into account the pressures that these smaller employers face. Salam cited Senator Marco Rubio's proposal to provide access to the federal TSP Plan—or some type of savings platform—for employees who lack the access to savings plans at their workforce as an example of a dynamic public policy offering that acknowledges employers' pressures and promotes workers' choices.

Xavier Briggs discussed the multiple narratives that exist about causes of the recession—the foreclosure crisis, the jobs crisis, deficit and debt challenges—and how agreeing on the narrative is essential to focusing on challenges. Briggs recognized the difficulties that policymakers on both sides of the aisle face in crafting policies while the public remains confused over what the central problem is. Yet Briggs stated that all evidence points to a strong national consensus over the core principles of financial fairness and access to decent work that should underlie the marketplace and public policy. While broad-based agreement exists on these principles including spending smarter and differently on infrastructure, rather than just spending more, disagreement over the facts remains.

Henry Cisneros added that the wrong lessons about homeownership have been drawn from the financial crisis, and this has had a negative effect on reducing inequality because homeownership is a vehicle for economic mobility. Minority communities in particular still feel the pressure from an over-tightening of credit, and narratives are too heavily focused on deemphasizing minority homeownership rather than on the role of sound promotion of homeownership as a wealth driver.

Rockeymoore remarked that while gridlock reigns, now is the time to seed education on both sides of the aisle and build alliances and collaboration where they can be found. Jason Fichtner added that policymakers have not built up the courage to reform entitlement programs, which has led to a focus on reducing non-defense discretionary spending. While Republicans for the most part look to cut tax incentives to achieve broader rate reduction, and Democrats seek more money for additional welfare spending, Fichtner suggested bucketing policy areas, such as retirement, and focusing on revenue-neutral reforms to improve policies within the context of individual programs.

Briggs closed out the introductory session from a global perspective, noting that capitalist economies on the whole are currently at a crossroads with slow growth, high unemployment, and aging populations. The U.S. is challenged to make its dynamic market economy include everyone, not just as a moral or social justice issue, but also due to enlightened self-interest. "The evidence makes clear that a broadly inclusive, fairly run, capitalist economy yields much more robust and sustained growth. It's good for business, it's good for government revenues, and it's good for a variety of ways that go well beyond the interest of the poor."

Maya Rockeymoore, Center for Global Policy Solutions

INCLUSIVE ECONOMICS

"The evidence makes clear that a broadly inclusive, fairly run, capitalistic economy yields much more robust and sustained growth. It's good for business, good for government revenues, and good for a variety of ways that go beyond the interest of the poor or those who have been excluded.

–Xavier Briggs

What many people fail to realize is that race is a greater predictor of wealth than is class.

–Maya Rockeymoore

People look at their lives holistically. That's a tricky issue for public policies that are designed to be fiscally neutral because the same public policies are going to have different implications for different communities."

–Reihan Salam

Marc Jarmosevich, Bank of America

SESSION 2

Financial Product Innovation: Meeting Customers Where They Are

What role can innovation play in meeting customers' evolving financial needs?

Financial Security Summit participants shifted gears in Session 2 to explore the role that financial services are playing in the wake of the Great Recession. Maureen Conway moderated a discussion with Ben Mangan, Marc Jarmosevich, and Ted Gonder devoted to the role that industry-led innovation can play to meet the needs of Americans, particularly lower- and middle-income Americans.

Ben Mangan recommended taking a human-centered approach, rather than a needs-based approach, to design financial products for Americans who have traditionally lacked access to appropriate wealth-building tools. Rather than respond to people's needs—such as financial literacy—with education and assume that people will rationally use a product, Mangan affirmed that "taking a human-centered approach forces service providers to think holistically, talk about race, be ideologically agnostic, and design for solving the problem at the human level."

As an early pioneer of Individual Development Accounts (IDAs), EARN set out to help people build savings. They recognized along the way that building the habit of savings was as important as having a goal. "Creating savings habits not only influences household balance sheets, but it also influences human factors of prosperity

Ted Gonder, Moneythink; and Ben Mangan, EARN like control and self-efficacy, which breed confidence, spark optimism, and position people to envision a different future for themselves," explained Mangan.

Mangan discussed how EARN is using technology to drive scale with its new product Firefly, which operates on an online platform. While EARN initially intended to expand through more locations, Mangan heard from EARN's savers that they preferred the less time-consuming online option above higher-touch, more time-consuming services. Additionally, by creating an online starter-saver product, EARN can help drive savings behaviors at the lowest possible cost for the greatest amount of people.

Marc Jarmosevish discussed how Bank of America reexamined its business model for lower-income households and listened to its lower-income customers' significant desire for control. Bank of America responded with a no-overdraft product that gets rid of the uncertainty and surprise fees that can throw households who live paycheck-to-paycheck into a spiral of overdrafting and turning to payday lenders, among other higher cost alternative financial services.

Moreover, Jarmosevich mentioned that mobile activity outpaces online activity for Bank of America customers, which creates more engagement opportunities to interact with customers about smart usage and money habits.

Ted Gonder co-founded Moneythink in college while interning with local community organizations and hearing from high schoolers and teachers that the once-and-done financial education they received was often boring and ineffective. Ted and his co-founders sat down with students to discuss how they thought about money and what topics they found interesting. Reacting to their feedback, volunteers held recurring conversations with groups of five or fewer high school students, building on their interests on topics like celebrities' financial habits to make the lessons relevant.

Gonder added that over 90% of these high-school students were digitally equipped, and Moneythink used technology to unlock an entirely new way of learning, training, and engagement to create "not just an informative financial education program but a transformative financial education program that changes attitudes and behaviors." With an app, real-time data, and incentives modeled on games, among other features, Moneythink has successfully changed students' behaviors. For some students this includes taking different routes to school to avoid eye contact with fast food outlets—or opting to spend less by buying a snack at a nearby store instead of a vending machine. Through Moneythink's student-centered discussions, these students developed savvy financial habits that enabled them to, for example, buy a sibling glasses or save up to buy a ticket to prom, and defied the academic studies that concluded financial education programs were ineffective at changing behaviors.

TEACHING YOUTH TO SAVE

"We didn't bring value judgments into the room. When students see that saving and money are tools they can use to express their values, they then begin to open up and begin to see their viewfinder over the long term."

–Ted Gonder

Industry innovations that address lower-middle income Americans' needs with new products and educational strategies and are creating a more inclusive financial system. Yet, setting the stage for subsequent sessions, Mangan qualified that "the focus on using technology to achieve scale is not enough because there are structural changes that are far more powerful than the most powerful individual's agency."

Dedrick Muhammad, NAACP

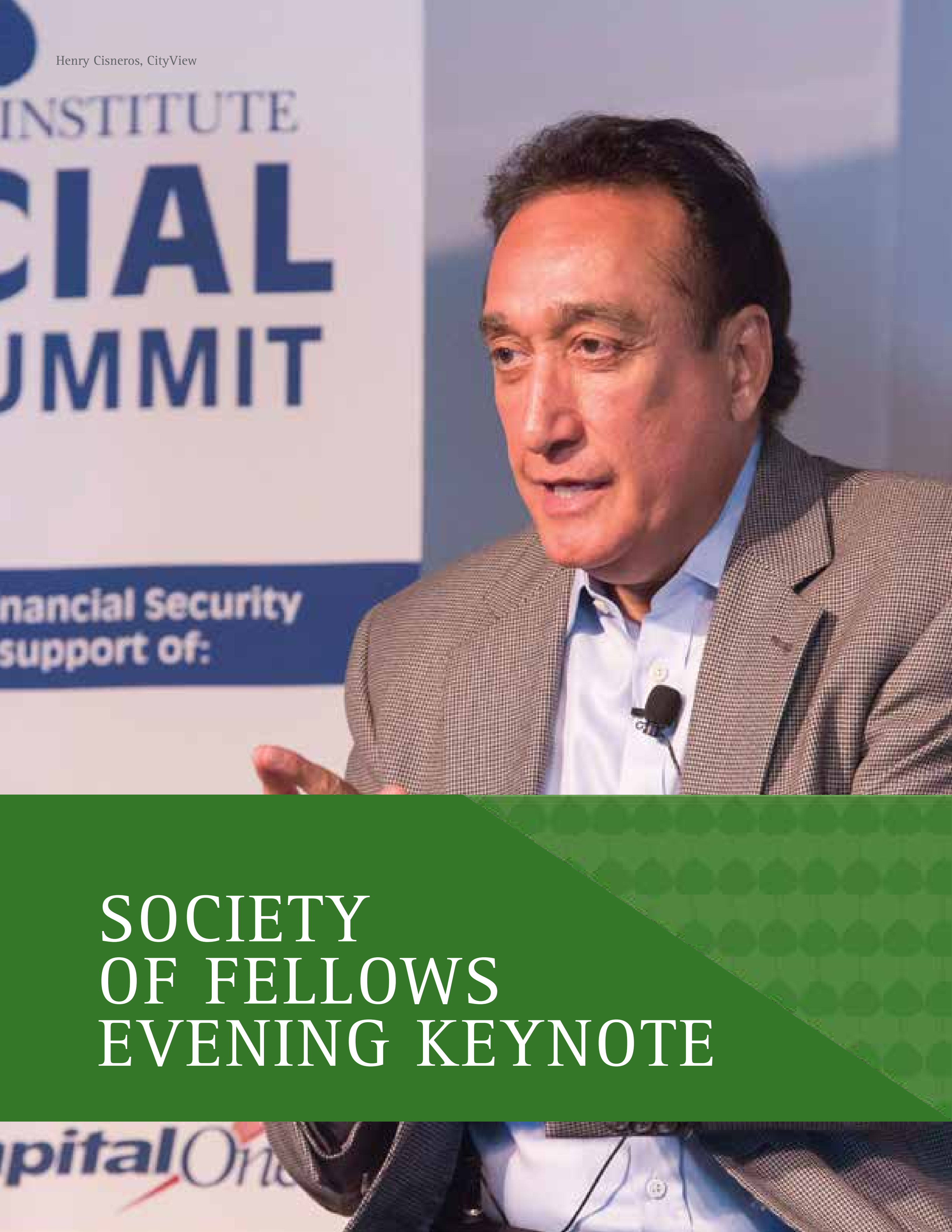
DESIGNING PRODUCTS FOR THE CONSUMER

We researched how our customers felt about money in general, and what motivates them and terrifies them. What we learned is that there's a significant need for control, and what we've all felt as consumers has been a lack of control.

—Marc Jarmosevich

Creating savings habits not only influences household balance sheets, but it also influences human factors of prosperity like control and self-efficacy,which breed confidence, spark optimists, and position people to envision a different future for themselves.

—Ben Mangan



Henry Cisneros, CityView

SOCIETY OF FELLOWS EVENING KEYNOTE

Recapturing the American Dream

A conversation on what rising inequality and reduced wealth means for families striving to join the economic mainstream.

Steven Pearlstein moderated an evening keynote with Henry Cisneros and Michael Steele, tying the Summit's theme of inequality and opportunity to the American Dream.

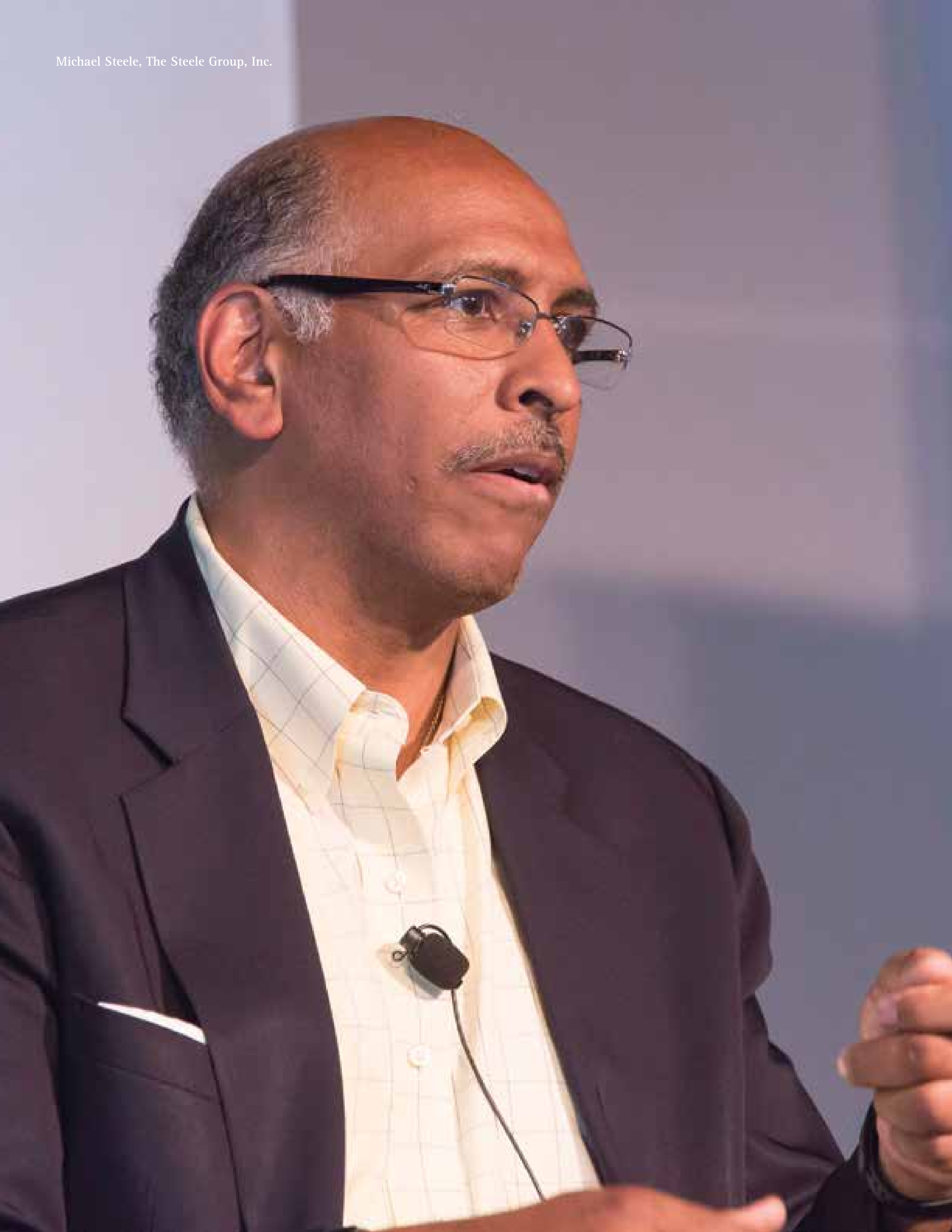
Michael Steele discussed how there is growing frustration with people realizing that the American Dream is not as easy to come by as it once was. "In many respects," Steele stated, "the struggles that we thought we've overcome in terms of educational opportunities and wealth opportunities, looking at the statistics, we are at or below where we were twenty years ago."

Henry Cisneros took a more optimistic stance on the American Dream. With regard to the Latino population, Cisneros asserted that "the American Dream is very much alive at least in the hopes, dreams, and ambitions of this very hard working population." Cisneros noted that the population of 55 million Latinos in the U.S. today will grow to be 100 million by year 2040. "We know that this population is going to be large," Cisneros stated, "but is it going to be large and undereducated, undercompensated, without net worth or wealth and eventually alienated?" Cisneros posed. Cisneros cautioned that though the American Dream remains strong, a sense of disillusion may set in after a generation works hard and has little to show for it.

Steele furthered the conversation, adding: "The sense of being a beneficiary of the American Dream continues to fall through African

Henry Cisneros, CityView; Michael Steele, The Steele Group, Inc.; and Steven Pearlstein, Washington Post

Michael Steele, The Steele Group, Inc.



Americans' fingertips. There is still the hope and optimism that every parent has for their child, but it is still tempered by a very stark reality."

Turning to politics, Pearlstein asked the duo to turn to solutions and discuss the Democratic and Republican parties' aspirations to restore or enhance the American Dream and any political ramifications of these aspirations.

Cisneros responded that when considering policies for education, wages, small business development, and more, Democrats seek to provide help to minority populations to access public services. On the other hand, the Republican Party shares many of the same aspirations, but its recent emphasis on deficit reduction and reducing federal spending leads to cutting programs. Cisneros warned that "if [your party] ends up on the wrong side of the demographic divide, [your party] could be out for a long time." Cisneros ended his point by adding that "this is not about creating an opportunity for minorities. This is about creating a country that can function over the next 50-100 years."

Michael Steele disagreed with Cisneros' party prediction and said the Republican Party is well poised to reinvigorate the American Dream, but "we have these politicians now who tend to be more political than policy oriented." Steele called on the public to take more responsibility for the people who are sent to legislate.

Both agreed that both parties need to come together to put together policies to revive the American Dream for households across the country. Cisneros remarked that he does not think the federal government will lead the way; instead, innovative solutions will emerge at the state and local level and be replicated in other states and municipalities.

RECAPTURING THE AMERICAN DREAM

"The sense of being a beneficiary of the American Dream continues to fall through African Americans' fingertips. There is still the hope and optimism that every parent has for their child, but it is still tempered by a very stark reality.

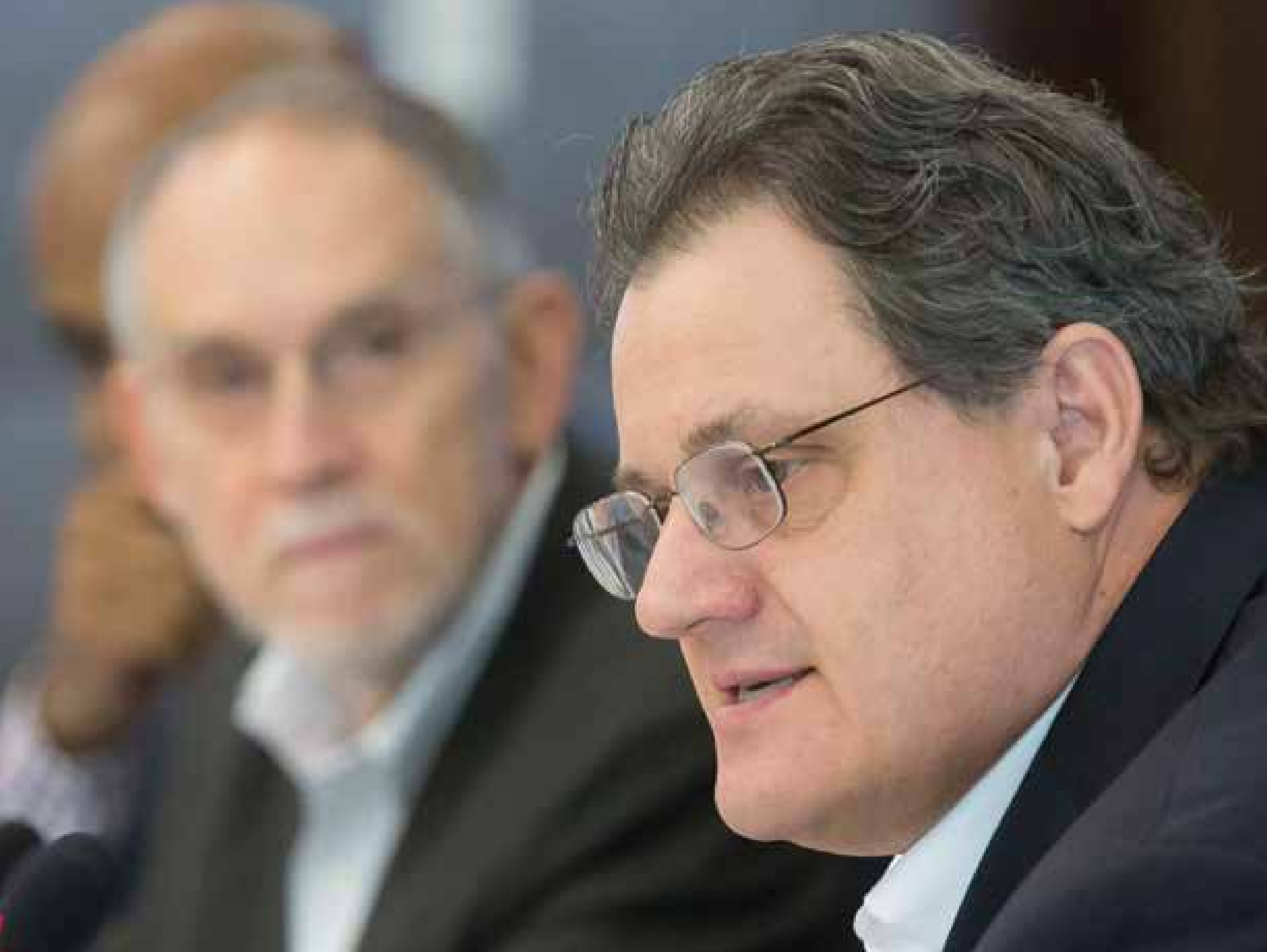
—Michael Steele

The American Dream is not about creating opportunities for minorities. This is about creating a country that can function over the next 50-100 years.

—Henry Cisneros"

The challenge is daunting: is the door to the American dream still open for new Americans, and for those who have yet to achieve it? There is hope, but people see that the path is longer and harder. As the country becomes ever more diverse, the urgency increases to ensure that opportunity exists for everyone.

Frank DiGiovanni, Ford Foundation; and Andrew Kline, Institute for American Values



SESSION 3

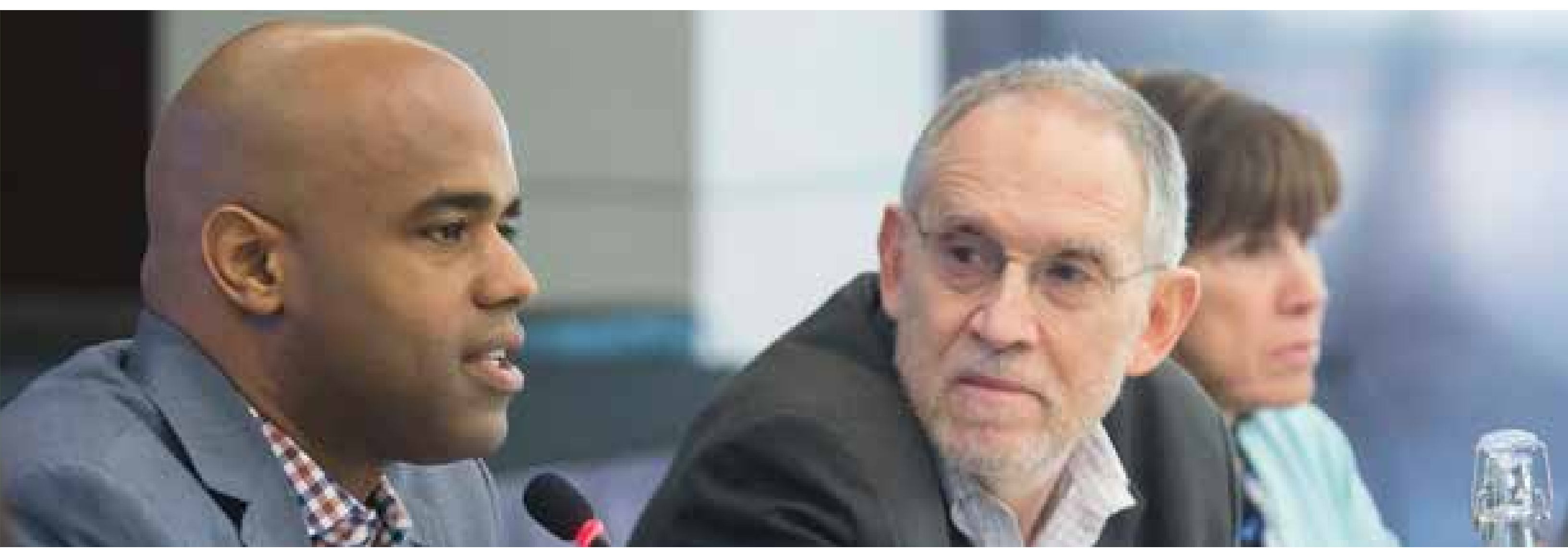
Building a Culture of Thrift: Child Savings Accounts and the Value of Saving

What have we learned over the past decade about the value of starting early?

Opening the second day of discussions, Jamal Simmons moderated a panel with Frank DeGiovanni, Andrea Levere, and Andrew Kline centered around the power of child savings accounts to address the Financial Security Summit's themes of inequality and opportunity.

Frank DeGiovanni summarized over a decade of research about child savings accounts and the value of starting to save early. DeGiovanni shared that low-income families want to and do save when provided with the appropriate accounts and incentives. Data from the SEED for Oklahoma kids experiment—a matched savings program in Oklahoma that opened accounts with an initial deposit of $1,000 for over 1360 kids—showed that 8.5% of families saved additional dollars. DeGiovanni contrasted this with the statistic that nationally only 3% of families have saved in 529 plans or Coverdell Education Accounts.

DeGiovanni additionally highlighted that child savings accounts have been positively associated with psychosocial development among children. Citing research led by Willie Elliot, DeGiovanni stated that high school students with less than $500 in a child savings account are three times more likely to enroll in college than students



Jamal Simmons, Raben Group; Frank DeGiovanni, Ford Foundation; and Andrea Levere, CFED

THE VALUE OF SAVINGS

All of us benefit by building a generation that is able to be financially secure and productive.

—Andrea Levere

Universality is important because if every American child has an account, it could be integrated into the fabric of American life and enable schools to tie financial education to the account as part of school curricula.

—Frank DeGiovanni

Savings is the best chance for lower-income households to grow wealth. At the end of the day, once we set up incentives and structures, we are still working on moving the national culture towards savings.

—Andrew Kline

without accounts and four times more likely to graduate. Mental modeling for college helps students develop a conception of themselves as college bound.

Based on consistently strong evidence pointing to the power of child savings accounts to lift up children and families, DeGiovanni called for a national system of universal progressive savings accounts for children. DeGiovanni elaborated, "Universality is important because if every American child has an account, it could be integrated into the fabric of American life and enable schools to tie financial education to the account as part of school curricula." Moreover, DeGiovanni suggested that universal policies build stakeholders, and avoiding means-testing increases the political feasibility of passing a national child savings account policy. Incorporating a progressive government match is a smart way to invest in future generations and reduce inequality in the U.S.

Building on DeGiovanni's remarks, Levere discussed the high level of innovation and activity around child savings accounts at the local, state, and federal levels. Focusing on recent developments at the state level, Levere discussed a statewide program that Colorado is launching as a partnership between the Department of Health and Human Services and the Department of Education, along with the philanthropic community, so that every child in public preschools in Colorado has a savings account with financial education built in the program for parents and children. These two government departments already serve and are trusted by lower- and middle-income families and can now integrate savings and asset building into existing institutions and programs.

Additionally, technology has made it possible and affordable to serve lower- and middle-income communities in ways that were not possible a couple of years ago. Resurfacing a point that Ted Gonder made in Session 2, Levere recognized, "When we think about asset-building and savings programs, we think about how we get the plumbing right so they work. In many cases we think about account infrastructure, but the other piece is the digital infrastructure that we need to build in."

Picking up on DeGiovanni's point about the importance of universal accounts for children, Levere mentioned the Kindergarten to College savings program in San Francisco that automatically opens an account that is locked until age 18 for all San Francisco kindergartners in public school. Family and friends can add to the accounts, and non-profits and partners have funded a progressive match to incentivize savings. "A beautiful thing about the Kindergarten to College program is that having a savings account is for all children—not just poor kids."

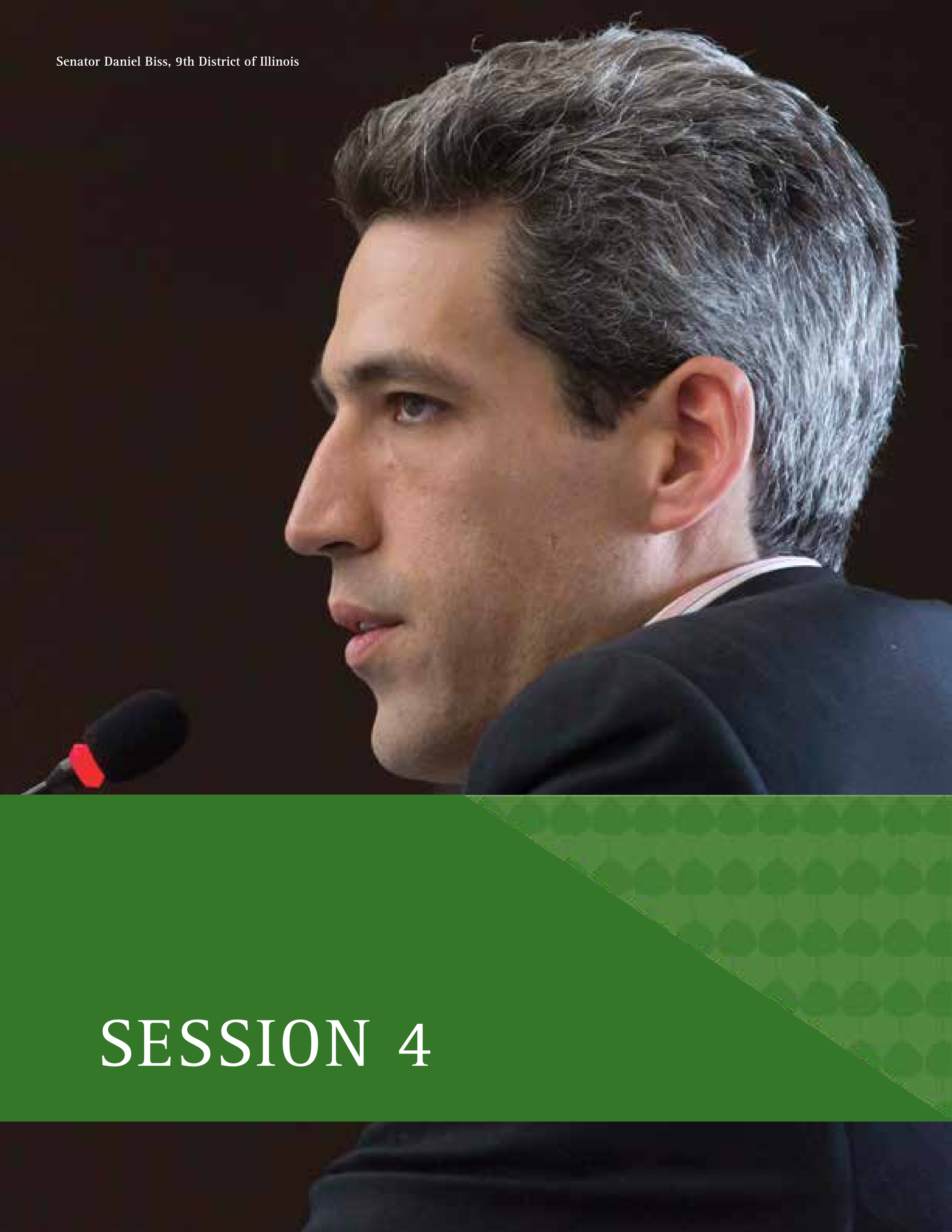
In addition to state activity, Levere highlighted the momentum that is building at the federal level to advance child savings account policies. Child savings accounts have always had bipartisan support, with the first ASPIRE bill cosponsored by Senators Rick Santorum and John Corzine. More recently, when Senator Ron Wyden became chair of the Senate Finance Committee earlier this Congressional session, he ranked child savings accounts as one of his top three policy priorities. His first committee hearing this summer cited data from a recent CFED report about the upside-down nature of tax expenditures, where people with higher incomes receive the majority of tax breaks due to the progressivity of the income tax system. DeGiovanni added, "Most Americans don't realize that using tax incentives is equivalent to direct federal spending." In the Finance hearing, Wyden addressed this point, acknowledging that the current system should be remedied and child savings accounts offer an effective solution.

Frank DeGiovanni, Ford Foundation; and Andrea Levere, CFED

Citing another benefit of national policy for universal child savings accounts, Levere noted that "this is an investment in human capital. All of us benefit by building a generation that is able to be financially secure and productive."

Andrew Kline discussed the idea of thrift as a cultural change. Kline explained that the three pillars of thrift have always been industry, frugality, and generosity. Kline discussed how from the 18th century to the 20th century thrift flowered as a reform movement, but in 1929 thrift fell off the map with the Great Depression and has not reappeared. Kline clarified that thrift's most basic definition means "to thrive," and that savings is the best chance for lower-income households to grow wealth. "And at the end of the day," Kline expressed, "once we set up incentives and structures, we are still working on moving the national culture towards savings."

Levere closed the session with an encouraging note about the culture around savings, expressing that "parents will do for their children what they will not do for themselves." Child savings accounts have the potential to not only uplift children, but also change the culture around savings for entire families and strengthen the financial security of all American households.



Senator Daniel Biss, 9th District of Illinois

SESSION 4

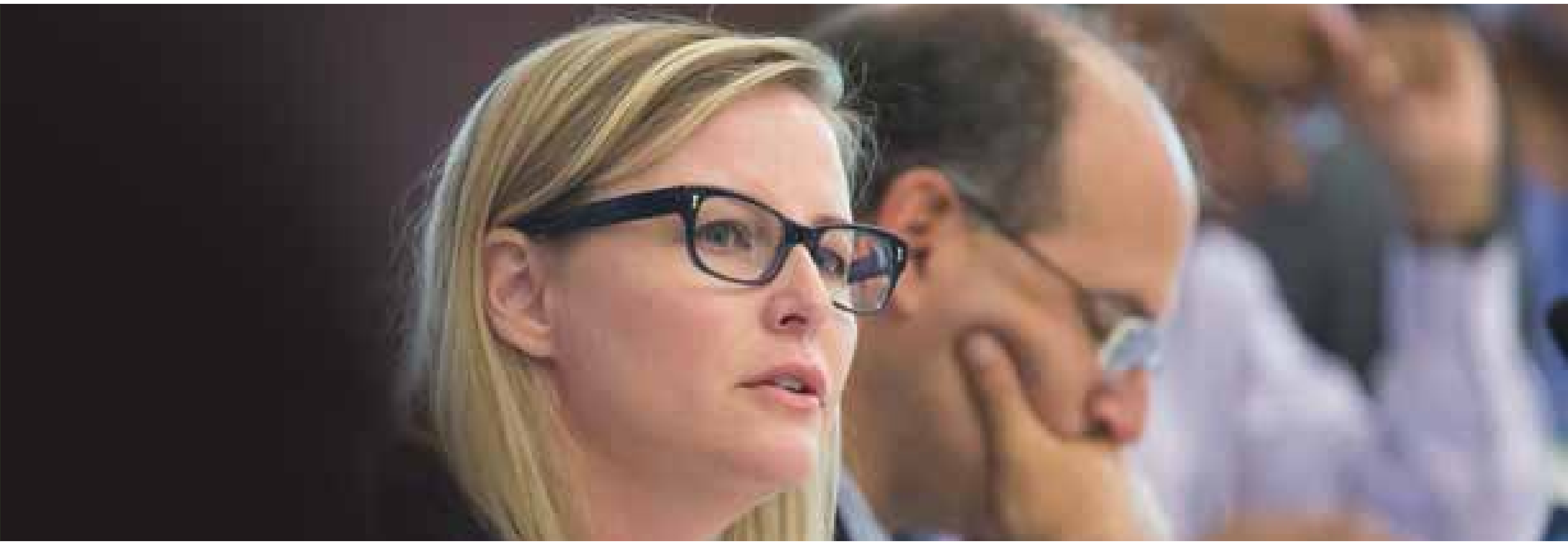
Strengthening Retirement Security: Expanding Coverage in the States

A growing number of states are moving forward to offer retirement solutions in the absence of federal reform. How would these solutions build upon our current system, and what lessons might they hold for national policy?

Opening Session 4, moderator Jeremy Smith acknowledged that a large and growing number of states have begun to look at innovative ways to promote retirement savings and turned to featured discussants to talk about how state-level reforms can bring more workers into the savings system and influence a national solution.

Illinois State Senator Daniel Biss stated the challenge broadly: "Regardless of context in America, in every retirement area there is a significant gap between what we claim to want to have and what we set aside."

Because retirement savings challenges exist on a long time horizon by definition, Biss noted, it is very important to move the discourse and bring more people into the system. Biss discussed the Automatic IRA legislation that he has proposed in Illinois to provide workers who currently do



Debra Whitman, AARP; and Damon Silvers, AFL-CIO not have access to retirement savings plans at the workplace with an IRA funded from automatic payroll deductions. Workers would be automatically enrolled and have the ability to opt out.

Discussing the proposal, Biss remarked, "I was really struck by the staggeringly lopsided cost-benefit analysis associated with this policy. We have a solution whose cost to the public sector is literally zero and whose cost to employers is basically negligible. It is fascinating that something with this kind of cost-benefit analysis has not moved faster."

Picking up on Biss' Automatic IRA progress in Illinois, Brian Graff explained that the Illinois proposal and various other state proposals active in 17 other states are offshoots of similar legislation that President Obama has introduced repeatedly at the federal level. All of these proposals share the common features that employers above a certain size would be required to offer a workplace savings program with payroll deduction IRA, workers would be automatically enrolled into the program, and money would be deducted from workers' paychecks, typically at 3% of pay. None of the proposals includes employer contributions. States would provide investment options or small business owners can select other private sector vendors to provide plans to their employees. Graff added that "the reality is that of all the legislative innovation that is happening, more and more is happening in the states." Graff shared that people are 15 times more likely to save when they have access to some type of savings program in the workplace. "That's how most middle-class Americans save," Graff remarked. "This is not just a lower-income issue. This is an all-income worker issue."

Deb Whitman voiced support for the Automatic IRA proposals and stated that "being able to save at the workplace makes all of the difference." However, Deb pointed out that federal ERISA rules limit state plans in important ways: such plans, if approved, would not be allowed to include important policy features like automatic contribution escalation and employer matches.

Whitman suggested that policymakers also consider the benefits of policies like the Automatic IRA in a broader budgetary sense. If the labor force builds assets, when they reach Medicaid eligibility age and need long-term services supports they may be able to pay for some themselves and may not need other programs. "The ability to save in one way can have positive benefits on financial decisions outside of those accounts."

Damon Silvers acknowledged that in general, state efforts to address deteriorating retirement security are positive developments, ones that we have struggled to solve since the creation of Social Security: "We've never in the history of the United States had a private sector retirement solution that included more than 50% of the workforce," Silvers stated. He noted that the problem has grown worse with the shift from traditional to defined contribution pensions. Citing research from Boston College's Center for Retirement Research, Silvers stated that in 1983, 33% of American households approaching retirement were at risk of serious financial hardship. Today that number stands at 55%. Expanding coverage is just one part of a larger puzzle, which must also include efforts to increase mandatory contributions, offer low-cost administration, ensure portability, provide insurance against outliving benefits, and include effective protections against capital risk.

With broad consensus that Automatic IRA policies are a step in the right direction toward providing workers with tools to build up retirement security, featured participants turned to the challenges of passing this legislation. Graff detailed two camps of opposition. Graff first cited the small business community, which is highly sensitive to mandates coming in the wake of the Affordable Care Act, and fears that the Automatic IRA would open the door to further requirements like mandatory employer contributions.

Graff noted that opposition from the financial services community centered on concerns about having to compete with a public plan on what might not be a level playing field.

Biss added that "the true energy opposing this bill comes from the financial services industry."

Bringing up the challenge of building savings safely given current low returns on bonds and other safer investments, Josh Barro acknowledged that individual retirees are bearing higher levels of investment risk. Biss responded that California's legislation attempts to address this challenge by creating a pooled investment model and by offering a modest but guaranteed rate of return. The guarantee would be provided through private insurance rather than a public guarantee. Currently, California is conducting a market analysis of the feasibility of this feature to evaluate whether it would be affordable. The Illinois bill retains the option to add a similar feature pending the outcome of the California feasibility study.

Responding to Barro's point, Silvers affirmed that higher return requires incurring risk. Reflecting on the trend away from defined benefit plans to defined contribution plans, Silvers described that "one of the reasons why the move from pooled investments and pooled risk management was so destructive is because each of us as individuals are poorly suited to bear significant financial risk or longevity risk." Silvers elaborated that large public pension funds have produced sustained above-market rates of return for lower fees and are good risk pools. "One of the promises of these type of state initiatives is to let private-sector employees in on these aspects of large public pension plans."

Whitman concluded Session 4 on a positive note, remarking that "what is great about the idea of enhancing savings is that it should be embraced by both sides of the aisle."

STRENGTHENING RETIREMENT SECURITY

"What's great about the idea of enhancing savings is that it should be embraced by both sides of the aisle.

–Deb Whitman

Employers ought to give some thought about what consumer demand looks like for their customers 20-30 years from now.

–Damon Silvers

Regardless of context in America, in every retirement area there is a significant gap between what we claim to want to have and what we set aside."

–Daniel Biss

This is not just a lower-income issue. This is an all-income worker issue."

–Brian Graff

SESSION 5

Enrique Lopezlira, NCLR; and Karen Elinski, TIAA-CREF

Strengthening Retirement Security: Federal Policy Options for Automating, Matching Savings and Ensuring Lifetime Income

Will action at the state level serve as a catalyst to advance Federal reform? How do we move forward to expand access, increase savings, and improve lifetime income options in today's divided climate?

Sticking with the theme of retirement security, Josh Barro moderated Session 5 with a focus on federal policies to enhance retirement security. Barro highlighted the vast scope of federal policies and programs that promote financial security throughout retirement, including: Social Security, Medicare, major funding for Medicaid, ERISA rules that shape private retirement plans, and the vast amount of tax expenditures that incentive retirement savings and homeownership (which for many families represents the major source of wealth in retirement.) Barro also noted that the federal government has a number of important advantages over the states to create

Jamie Kalamarides, Prudential Retirement policies to promote lifetime retirement security—among them the ability to create universal plans, far greater resources, and the flexibility to amend federal ERISA rules that limit state options.

Barro remarked that it is surprising that, given this suite of facts, states are leading the way on retirement policy. Turning to featured discussants, Barro asked, "Why is the focus with the federal government on things that frankly look very small like the MyRA initiative, which I think is a positive development but one that is not likely to move the needle very much on retirement saving?

Focusing on policymakers and leaders at the federal level, Jamie Kalamarides responded that strong consensus exists among retirement experts. The top areas of consensus are that "workplace-based savings are by far the most effective way to build retirement savings, [and] the 401(k) system is working fairly well for large- and medium-sized employers, but it is not working well at all for small employers."

Kalamarides noted that small employers predominantly hire women and people of color, have lower-income employees, and have more part-time and transient employees. Therefore, the lack of a good retirement savings plan for employees of small businesses contributes to rising wealth inequality and to important ethnic and racial disparities.

Kalamarides recognized that Congress has put together several bills around workplace retirement savings coverage to respond to this challenge—the Automatic IRA, which was covered in more depth in Session 4, and Multiple Employer Plans. Kalamarides explained that there is not a lack of competitive supply for retirement plans for small employers, and not a lack of demand from employees. However, friction caused by fiduciary rules, administrative costs, and lack of purchasing power for small businesses inhibits employers from offering retirement plans. Multiple Employer Plans would address this friction by allowing participating employers to achieve economies of scale.

Multiple Employer Plans also provide additional benefits of portability, professional management,

WORKPLACE SAVINGS

"The 401(k) system is currently working fairly well for large- and medium-sized employers, and it is not working well at all for small employers. Twenty million American workers don't have access to a retirement plan at the workplace.

–Jamie Kalamarides

Controlling for income, blacks save more than whites, and so do Latinos.

–Enrique Lopezlira

The research bears out that the more people understand what their likely income stream will be at retirement, the more they think about saving more and take action to save."

–Karen Elinski

and inclusion of lifetime income solutions, but Kalamarides acknowledged that there is no Congressional appetite to advance proposals. Political challenges exist particularly after the Affordable Care Act regarding the requirement for employers to offer payroll deduction plans in the Automatic IRA policy.

Kalamarides added that either fundamental tax reform or increased state-level policy action will jumpstart federal action around strengthening retirement policies. Comprehensive tax reform is less likely, but an uptick in state action could prompt a federal response to avoid a patchwork of policy solutions around the country.

Jason Fichtner remarked that there is no silver-bullet policy to promote retirement security, and that a more holistic approach is needed that looks at policy changes to address income inequality, wealth accumulation, education, and other related issues. Additionally, Fichtner remarked that a house is often a family's biggest financial asset, but upside-down incentives for homeownership provide the biggest tax breaks for the people in the highest tax bracket, who need the incentive the least. The opportunity to reform some of these incentives can contribute to strengthening household retirement security as well.

Fichtner called on policymakers to make necessary reforms within broad but specific sections of the budget, so that policy changes do not divert revenue needed to promote savings to highways or other priorities on the domestic agenda. "If we want to reform savings incentives, let's find where the money is going in the retirement sphere that we can reallocate to pay for something else like the expansion of a Saver's Credit," Fichtner suggested. "This would go back to the original intent for what the policy was originally meant for," such as encouraging lower-income people to save for secure retirements.

Enrique Lopezlira discussed how the employer-based retirement system serve Latinos poorly. Lopezlira elaborated that 69% of Latinos have no assets for retirement, and that Latinos are 42% less likely than whites to have access to a workplace retirement plan in the private sector.

"It's not that Latinos or blacks don't save," expressed Lopezlira. In fact, "controlling for income, blacks save more than whites, and so do Latinos." Lopezlira discussed that these minority populations disproportionately held their wealth in the value of their house, and the housing crisis took a painful toll on retirement security.

Lopezlira echoed Fichtner's recommendation to think holistically and include policies related to other wealth drivers, such as housing, in conversations when discussing enhancing household retirement security. Adding to this recommendation, Artur Davis brought up the continuously increasing student debt burden and how reforms in the education sphere can affect household finances to save for retirement.

Karen Elinski emphasized the importance of offering solutions not just around covering more workers with retirement savings plans, but also around building up adequate savings balances for retirement and stretching savings to last throughout lifetimes. Kalamarides agreed that "defined contribution plans should not be just accumulation plans; they should be around creating lifetime income similar to that of a defined benefit plan."

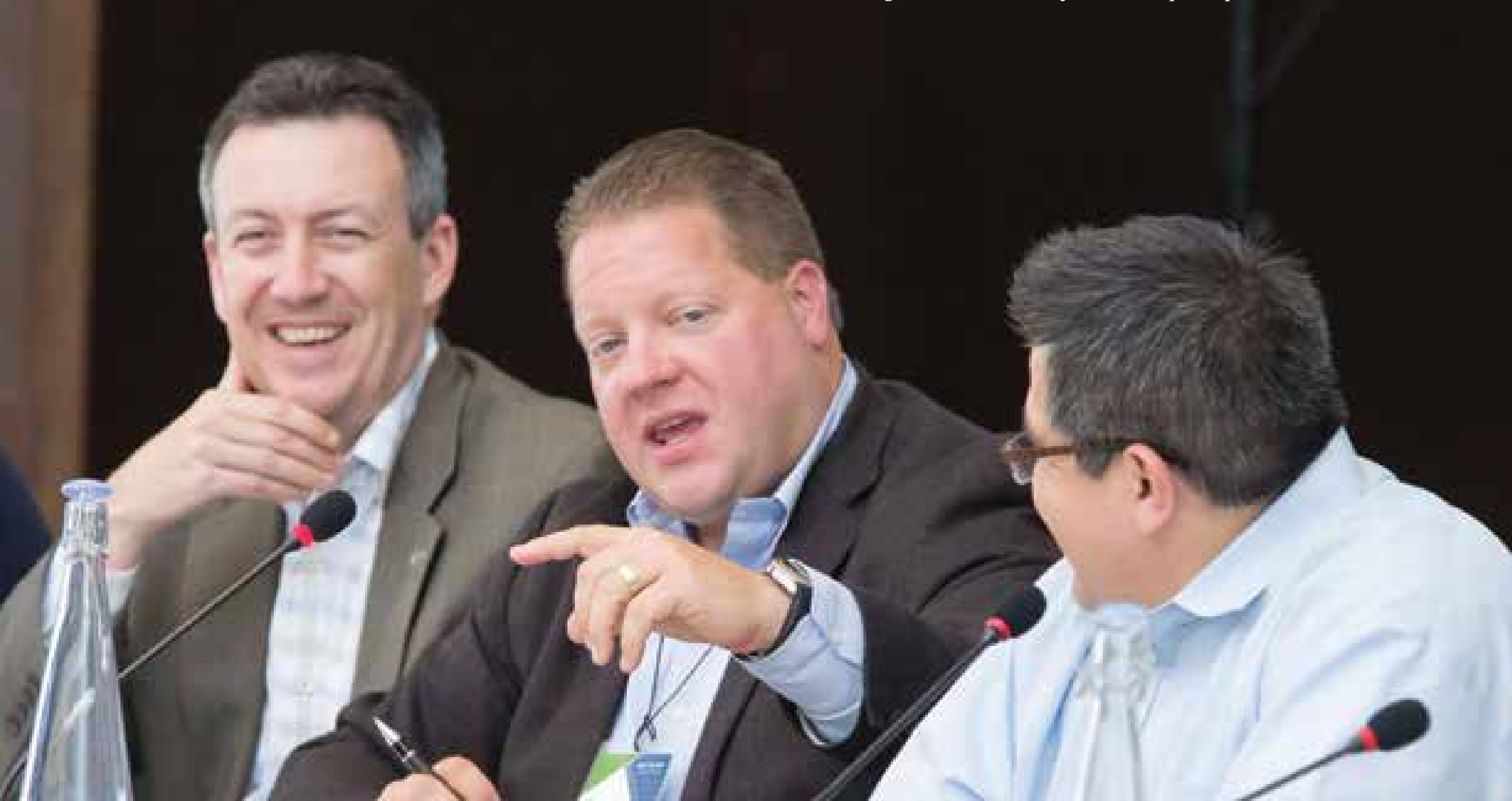
Elinski described policy enhancements to encourage greater adoption of lifetime income products that enable workers to stretch their savings balances over an increasingly longer period of time due to increasing longevity. First, Elinski endorsed requiring benefit statements to include an illustration of how an individual's current savings accumulation will translate into retirement income. "If people can see 'if I save at this level this is where I'll end up,'" Elinski mentioned, "the research bears out that the more people understand what their likely income stream will be at retirement, the more they think about saving more and take action to save."

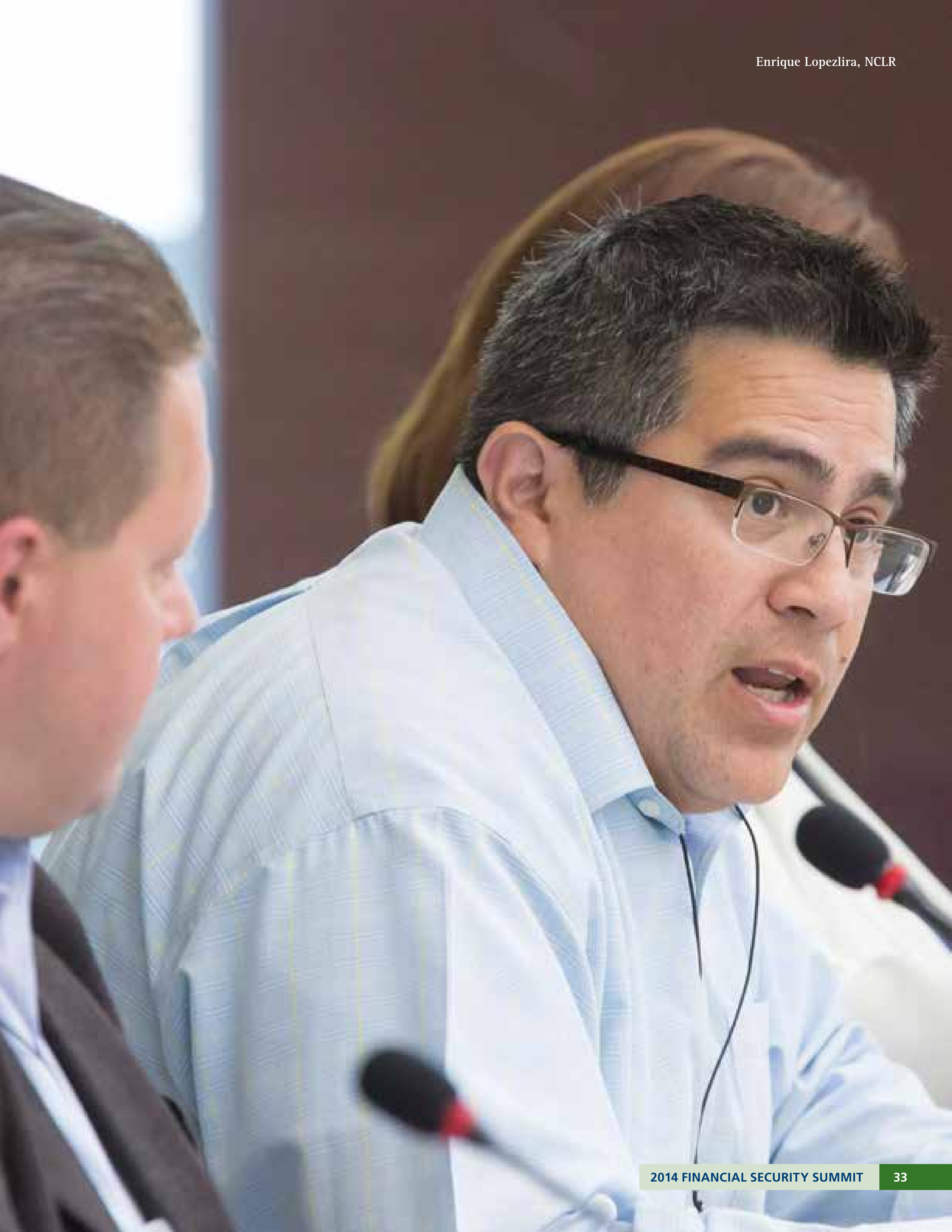
Elinski also called for policymakers to provide a safe harbor for plan fiduciaries so that they can include annuities into their product offerings and still confidently meet their fiduciary duties. In addition, Elinski recommended that policymakers encourage the use of annuities as Qualified Default Investment Alternatives (QDIAs) in retirement plans so that more workers can build retirement security through products that offer lifetime income, rather than lump-sum, payouts.

The issue of retirement tax expenditures came up repeatedly, and Brian Graff emphasized that retirement savings incentives are different than all other tax incentives because they are a tax deferral rather than a deduction. In addition, retirement expenditures are subject to nondiscrimination rules so that all levels of employees are covered by plans. Graff cautioned that because of these features, reducing retirement savings incentives will not raise as much revenue as it may seem and risks discouraging from contributing savings matches to their employees. Lenny Glynn agreed and added that "if you cut incentives at the higher end, you can end up cutting the propensity of small businesses to even offer plans at all."

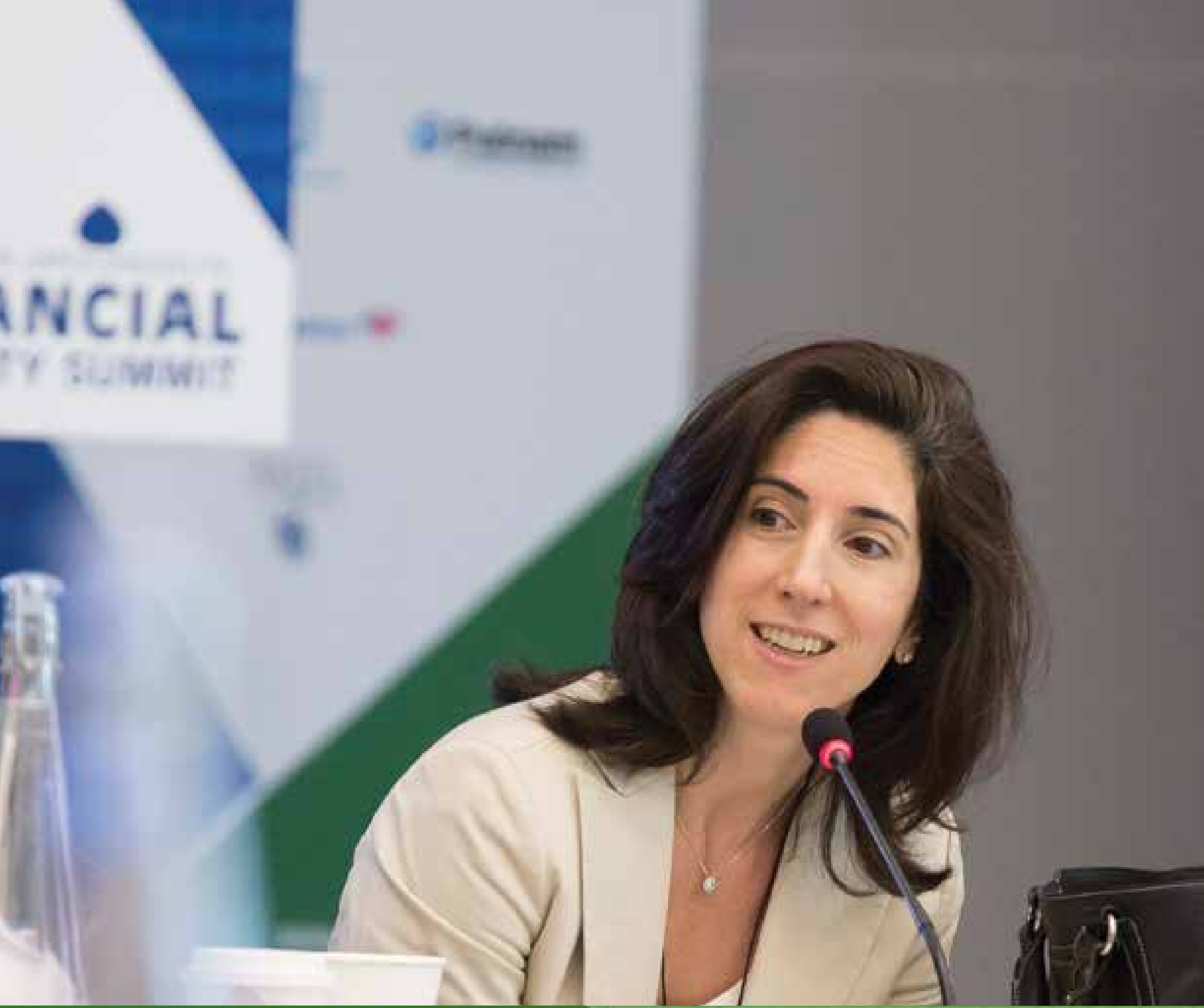
Two full sessions on retirement policy illuminated some political challenges that exist to advance retirement policies that strengthen financial security for American households. Yet compared to previous Financial Security Summits, participants developed the strongest consensus yet that policies such as the Automatic IRA, the expanded Saver's Credit, and improving life time income options represent critical steps to begin to improve our current system and encourage American workers to build secure retirements.

Jamie Kalamarides, Prudential Retirement; Jason Fichtner, Mercatus Center, George Mason University; and Enrique Lopezlira, NCLR





Enrique Lopezlira, NCLR



SESSION 6

Rana Foroohar, TIME Magazine

Building a Financial Industry that Works for All Americans

How should the financial industry evolve over the next two decades to ensure that all Americans have access to affordable financial services and tools to build wealth?

Opening the last day of discussions, Rana Foroohar moderated a conversation with financial industry leaders and other experts to take a closer look at what the industry should look like if it is going to meets the needs of all its customers in the next 25-30 years.

Foroohar asked featured discussants to reflect on how households have fared since the financial crisis. Yvette Butler described a bifurcated recovery where, on one hand, households who had their wealth in financial markets are doing well, while other households continue to struggle even as the unemployment rate goes down and the economy starts to improve. Travis Plunkett agreed that American households have experienced a split recovery. Butler acknowledged that this crisis differs from past economic downturns regarding the transformative effect that it has had on consumers' drop in trust of financial institutions.

Yvette Butler, Capital One; and Artur Davis, Former Member, US House of Representatives

Building off of Butler's remarks, Artur Davis added that "for a lot of people in this society there is no relationship between how hard they work and how secure they feel." Davis suggested that political gridlock exists at the federal level because a significant number of Americans feel alienated and feel like they have no significant control over their financial security. Therefore, Davis urged the financial industry and policymakers to focus on restoring a sense of personal empowerment as a key way to begin to break down the gridlock that has stalled so many important policy debates.

Jamie Kalamarides stated that policymakers have been focused on preventing the 2008 crisis from happening again rather than thinking about the desired societal outcomes moving forward. This has created the unintended consequence of a two- or three-tiered labor system with regards to education, debt, financial services, living wages, access to health-care funding, and other issues, that prevents mobility.

SOLVING FOR INEQUALITY

For a lot of people in this society there is no relationship between how hard they work and how secure they feel.

–Artur Davis

The wealth gap results from policies that are simultaneously creating incentives for some to create wealth while creating barriers for others.

–Kilolo Kijakazi

One thing that is necessary within the financial services industry is an attitude of intentional inclusion.

–Jamie Kalamarides

The real opportunity is in transparency and in digital...in providing information to consumers... empowering the consumer and giving them the power to be their own manager if desired.

–Yvette Butler

"Our challenge," Kalamarides asserted, "is to align markets and legislation and social policy towards a vision rather than towards solving last time's challenges."

Responding to Foroohar's question around how households have gotten by since the financial crisis, Dedrick Muhammad recognized that financial insecurity, particularly for African American populations, dates well before 2008. Muhammad expressed that African Americans have had twice the unemployment of whites for 50 years and had 10% of the wealth—some people would argue just 5%—of white households. "The economy has been going in the wrong direction for a long time," explained Muhammad. "It wasn't the Great Recession, and so are we going to deal with these structural issues and thus far the answer has been no."

Turning to solutions, Foroohar asked discussants how the financial system should change to make people feel that the system is fair. Davis replied that better financial education that relates to people's daily routes, for example teaching people how much money they would save on gas if they travel to a nearby town, would provide households with better information needed to make a range of financial decisions. Plunkett added that transparent markets are necessary in order for financial education to matter.

Kalamarides submitted that another challenge is human behavior, especially as it relates to evaluating risks in the distant future. "You don't think about risk in the right way," Kalamarides affirmed, "and emotions get in the way." To solve this challenge, Kalamarides touched on behavioral nudges such as automation to steer people towards certain behaviors.

Muhammad granted that financial education is important, but the fundamental issue is wealth inequality, which warrants a set of structural solutions to address. Muhammad also recognized that policy analysis often misses some of the challenges certain communities face. For instance, minority populations are more likely to come from asset-poor communities and devote a portion of their income to subsidizing their families and community members.

Kalamarides added, "I don't think the financial services industry alone can solve this. I think it does have to be government policies. I think the one thing that is necessary within the financial services industry is an attitude of intentional inclusion." Plunkett agreed, stating that the government should lead the way but a vibrant partnership with the financial industry is also necessary.

Daniel Biss noted that the people who are making decisions in our society not only exist exclusively on one side of the aforementioned bifurcated split, but they also interact almost exclusively on that side of the split.

"There is nobody in the U.S. Senate whose child is poor, and there never will be," Biss declared. "This is baked into our institutions."

Building on Biss' point, Davis described the best policymakers as those who understand the ideal of reciprocity in this society. "We do have a sense of compassion to people who are struggling, and people who are struggling owe a responsibility that they are going to work as hard as they can and optimize their work ethic to take advantage of the opportunities that exist." However, Davis proposed that "we have entered this phase in our politics where a significant number of people feel comfortable overtly saying that they don't care about the consequences of their policies."

Discussants reached consensus that an uneven recovery has created a bifurcated economy with gains not evenly shared, but some real and interesting policy and product solutions exist that could help change this reality. Davis noted that it is in everyone's interest to encourage households to build wealth. "A stronger market is almost always a more inclusive market," Davis proclaimed. "And a stronger society is a more inclusive society."

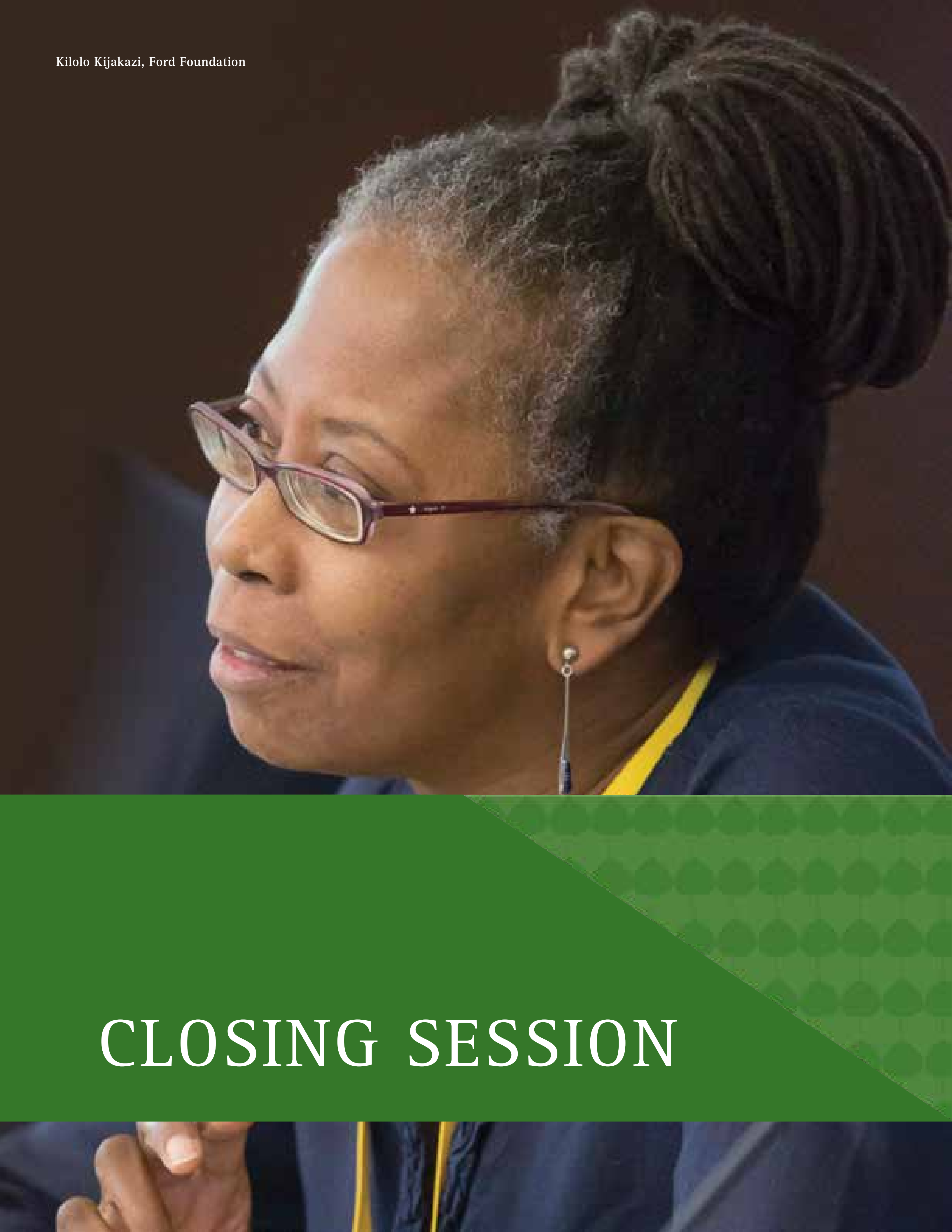
SOLVING FOR INEQUALITY

"I haven't seen anything that shows that financial education is the main problem in the racial wealth divide. (The main problem) is coming from a community that is asset poor. The fundamental piece is wealth inequality: those with wealth are rewarded, while those without are not as much. And that is why we have growing economic inequality.

—Dedrick Muhammad

We can all agree there is a bifurcated recovery and there is a bifurcated system. But there are also some real and interesting policy solutions to this, and some institutions in business and in the non-profit sphere and elsewhere that really care about this issues."

—Rana Foroohar



Kilolo Kijakazi, Ford Foundation

CLOSING SESSION

Moving Forward with Financial Security

What are the priority policies that are ripe for action, and what advice would you give the Aspen Institute for working on Financial Security in the future?

The 2014 Financial Summit concluded with participants giving their best advice to the Aspen Institute on the issues worthy of focus for future discussion and on the future work of the Initiative. The discussion praised Aspen's leadership on issues of retirement security not only at the Summit but in years of work in Washington D.C. with various levels of leadership from policy and private sector. Once again, participants valued the inclusion of state leaders in the retirement policy discussion and commended the remarks of State Representative Daniel Biss of Illinois. Clearly there is continued interest in the Aspen Institute's focus on retirement security as a key bedrock of overall financial security. In moving forward, however, the group indicated other thematic areas that they felt were ripe for additional future focus by the Aspen Institute.

Srinivas Reddy, Prudential Retirement

A Savings Match We Can All Support

Several participants signaled the area of broad consensus around the policy of matching savings of lower income Americans through a refundable savers' credit. The group offered a better name for the policy: the "U Save America" Match program—or USA Match. Several participants saw this as one policy where a diverse set of summit participants from business, consumer, and policy organizations could agree and demonstrate this in a joint op-ed.

Housing Wealth

Participants welcomed a future focus on housing and homeownership—not as a silo but by including housing as part of the household balance sheet. As Enrique Lopezlira said, "I don't like compartmentalizing retirement versus housing…for Latinos especially, housing has been a huge part of wealth building…housing is retirement in many ways."

Rana Foroohar added that since housing is where a majority of Americans still keep their wealth then housing is part of the "growing bifurcation in wealth" and that Aspen discussions would do well to focus in the future on the ways in which policy has supported capital and stock markets but not the housing market. Jamie Kalamarides suggested that Aspen might look to the other side of the housing market to ask the question of how to "get the equity out of the house" when one is aging. He noted that reverse mortgages have the opportunity for abuse and improvement and could be part of a future Aspen dialogue. George Hermann added that the challenge of first time homeownership is been made more difficult not only because of traditional issues such as down payment savings, but also because of properties being purchased by hedge funds and other investors.

Wealth Ladders—Kids Accounts and College

There is a clear appreciation for Aspen's focus on the wealth ladders that begin earlier in life. Kilolo Kijakazi suggested Aspen as continue its focus on Children's Savings Accounts especially now that there is new bipartisan interest at the federal level. She also called for a new future focus on tax policies that would encourage more people to go to college. Former Congressman Artur Davis suggested that college affordability should be a bigger focus of a summit on Financial Security. Davis also argued for more focus on financial accounts that don't require parental sign up for youth who are over 16.

Financial Security and the National Economy

Participants in the 2014 Summit praised its simultaneous focus on income, jobs, and the drivers of macroeconomic health that must accompany a successful strategy to build the financial security of American Households. John Tippets and Jared Bernstein argued that Aspen keep a strong focus on growth strategies for the overall economy. Bernstein encouraged Aspen to invite more discussion on how to return the economy back to full employment; in addition he suggested discussion on how to prevent the next financial bubble by focusing on macro financial stability and the ongoing systemic risk in the financial sector. Josh Barro encouraged Aspen to focus on the implications of the weak economic outlook for the nation. In his view, weak economic prospects affect not only the overall context of the policy discussion of financial security, but also the investment prospects for those savers nearing retirement who cannot afford investment risk and will likely experience inadequate growth of the nest eggs they are counting on.

The Initiative on Financial Security's Table—Preserving Rare Space for Dialogue and Consensus

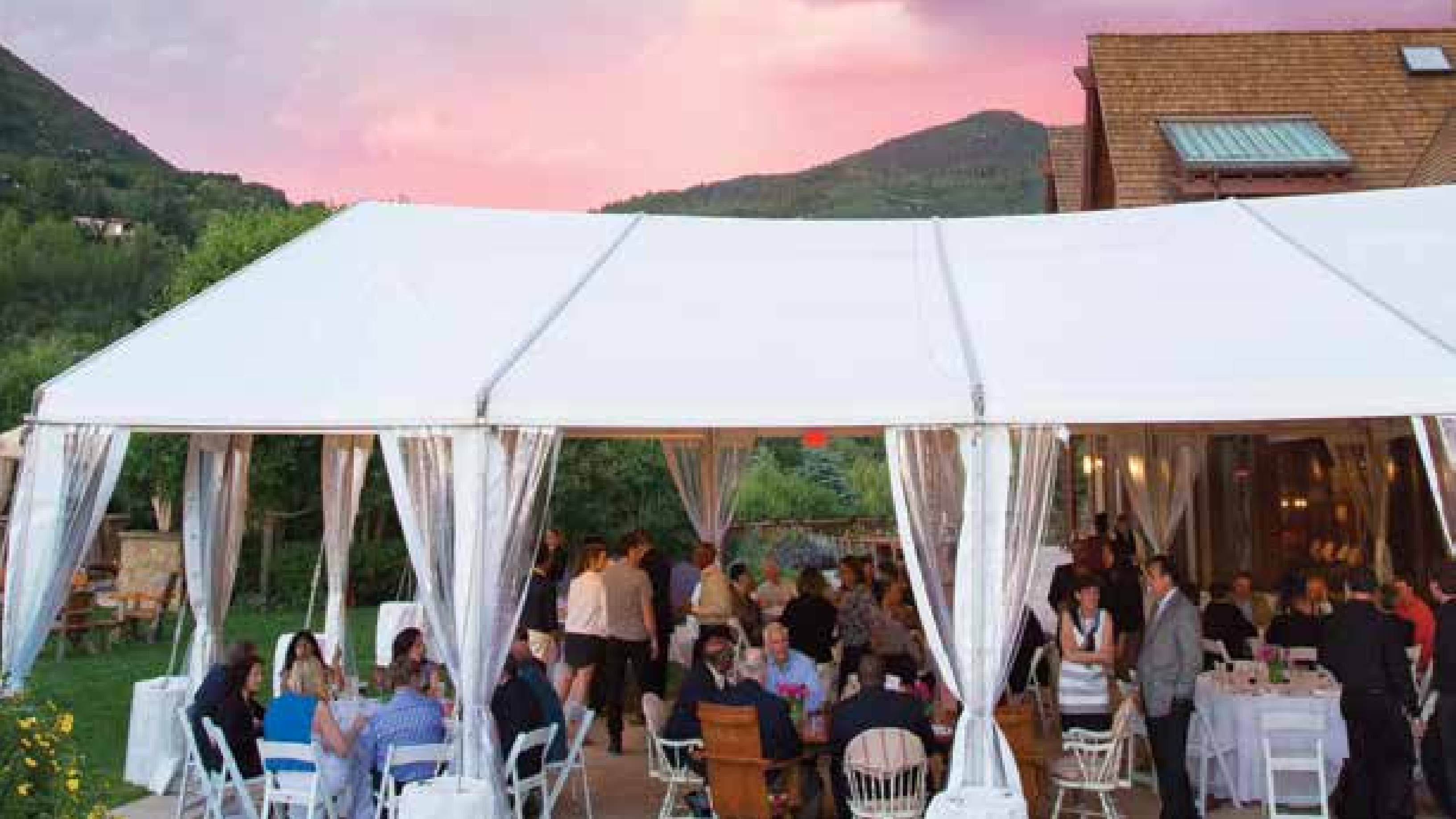
A theme emerged with great frequency and strength over the Summit—namely that the Aspen Initiative on Financial Security has in over 11 years of work and through three Summits established a virtual "table" both in Aspen and in Washington D.C. that is distinct from all other efforts making it rare and powerful. Participants signaled the unique nature of the diverse dialogue at the Summit and recognized Aspen as having convened a rare national table where both the ideological left and right camps can not only find common ground, but also can trust that the dialogue is respectful and intellectually deep. On such thorny issues as the future of America's retirement savings policy, Aspen IFS has charted a path that respects the financial industry's role for delivering profitable investment services all the while championing the needs of millions of consumers who need a safe and adequate way to save, invest and own. As the Aspen IFS prepares for new leadership, the message is clear: move forward, continue to guide dialogue among a diverse table of leaders, and shine new light on areas of consensus in the policies that will make a difference for Americans who need greater financial security.

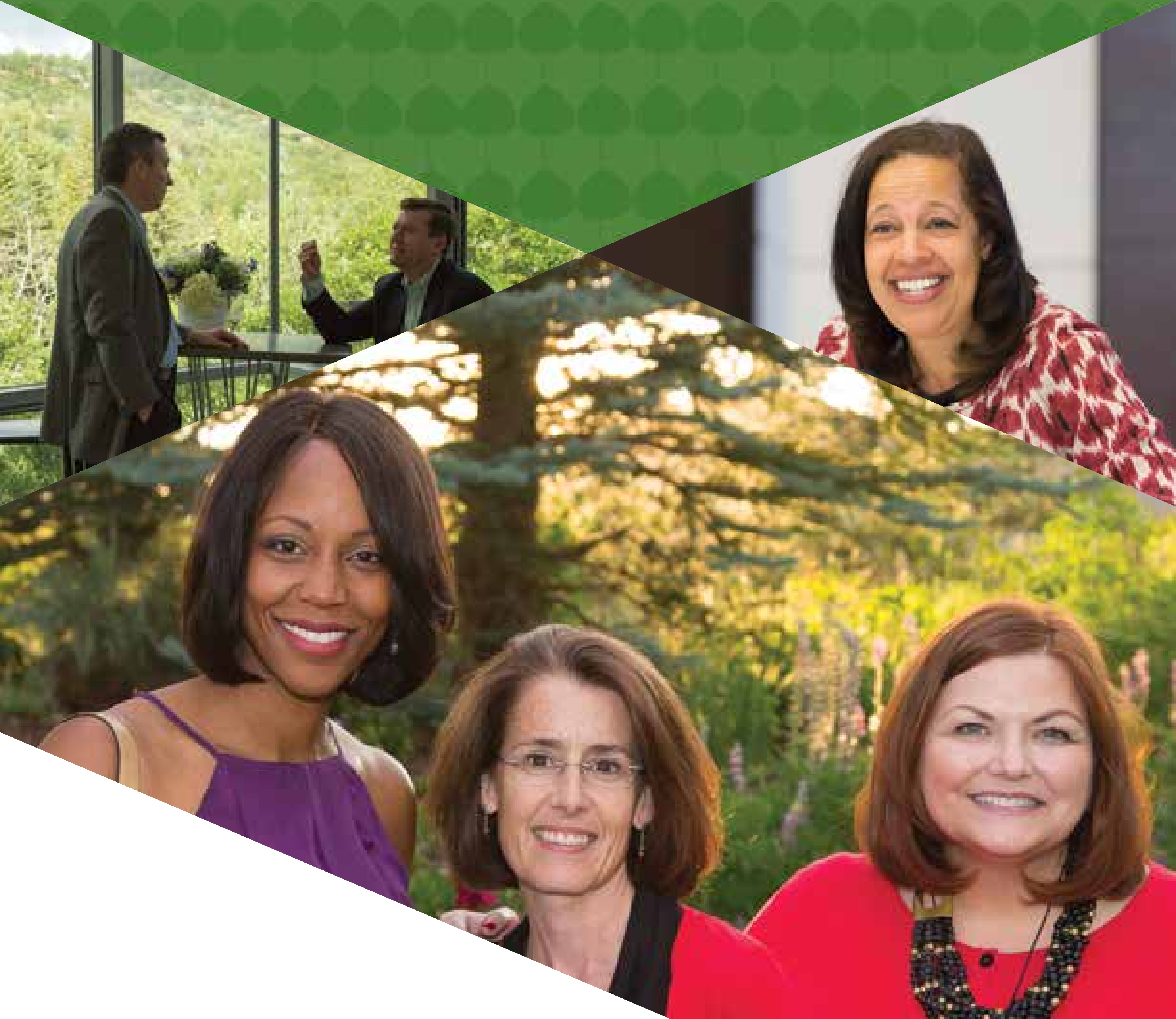
A COMPREHENSIVE VIEW

> *I think we are going to be having this same conversation in 20 years unless we solidify the linkage between the micro economy, macro economy, quantity and quality of jobs, and the ability to save.*
>
> *–Jared Bernstein*

As the Aspen IFS prepares for new leadership, the message is clear: move forward, continue to guide dialogue among a diverse table of leaders, and shine new light on areas of consensus in the policies that will make a difference for Americans who need greater financial security.

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 education 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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Top Left: Jamie Kalamarides and Brian Graff; *Top Right:* Lisa Mensah; *Bottom:* Maya Rockeymoore, Maureen Conway and Karen Elinski
Opposite Page, Top: Lisa Mensah, Michael Steele, Ellen-Blair Chube, and John Rogers

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