INITIATIVE ON FINANCIAL SECURITY

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The Initiative on Financial Security at the Aspen Institute is a leading policy program focused on bold solutions to help all Americans at every stage of life to save, invest, and own.

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WALL STREET/MAIN STREET:

THE CHALLENGE OF BUILDING FINANCIAL SECURITY IN THE OBAMA ERA

Executive Summary

The last 18 months have dealt a devastating blow to Americans' sense of financial security. Few have been untouched by the financial crisis. For many, wealth accumulated over years of saving and investing has disappeared almost over night. For many more, the economic crisis has imperiled their jobs, their ability to provide for their families, and their optimism about the future.

These crises have revealed an American system for saving and investing that poorly serves many on Main Street. For decades, the United States has not been a nation of savers. Research has also documented a "wealth gap" that points to an extremely uneven distribution of assets in America today. A closer look at the data also reveals an "investment gap" between lower- and higher-income savers which adversely affects both the long-term financial security and financial opportunity of lower-income savers.

The financial crisis has prompted regulatory action with calls for systemic structural overhaul. Our financial system will soon be undergoing fundamental reform to rebuild confidence in capital markets and industry players. We argue that Congress must do much more than re-organize the alphabet soup of regulatory agencies or issue new rules on corporate governance. If we do not address Main Street's financial insecurity, the future economic health of the United States itself is in jeopardy. This is the time to seize the regulatory moment to build a system for saving and investing that is vibrant, fair and inclusive of all Americans.

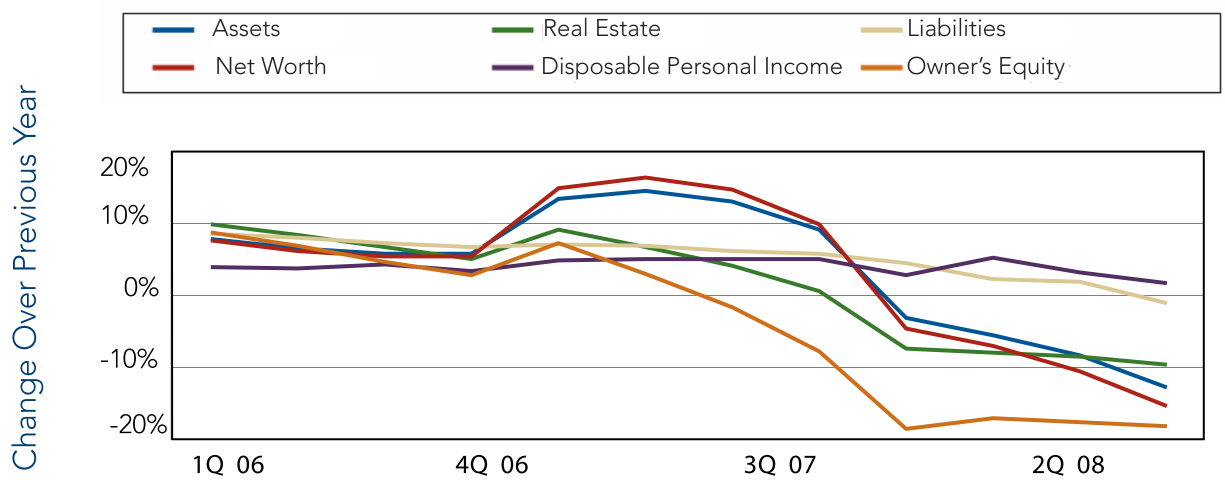
But building financial security for Americans in the Obama era will require more than legislative action. It will require the skills, expertise and creativity of the most unpopular industry in America today: Wall Street itself. Our experience argues that Wall Street can be the engine to serve Main Street with a better system of saving that builds long-term financial security. When Wall Street works with government to devise safe, easy products that can be offered in a variety of financial institutions or through their intermediaries, Main Street's interests are advanced. When government policy and industry products are aligned correctly, Main Street savers at all income levels can be part of the financial mainstream.

So we issue a challenge to Wall Street to take the initiative. Roll up your sleeves to build a new, first-class, saving system for the financial security of all Americans, guided by these three core questions. First, what are the core financial needs that anchor Main Street's financial security throughout the lifespan and what are the basic, simple accounts that would serve these needs? Second, what can we do to allocate the risks properly in our savings system among government, industry and individuals and restore the ability of saving and investment to achieve long-term financial security? Finally, what can we do about the adequacy and robustness of our savings efforts as a nation? Can a government matching policy to reward saving by lower-income households create a fairer system that also achieves greater financial security for all Americans?

The Sudden Onset of Financial Insecurity

The effects of the financial crisis have reverberated throughout America. Using newly-released Federal Reserve data, the Wall Street Journal recently reported that the wealth of American families fell nearly 18% in 2008. This decline reverses six years of growth in which, "not accounting for inflation, household wealth more than doubled from 1990 to 2000, and then, after a pause, rose nearly 50% before the bust of 2008."[1] The Federal Reserve data confirm that, in 2008, U.S. households lost $11 trillion in one year, which, according to the Journal, equals the combined annual output of Germany, Japan and the U.K.[2] Figure 1 below illustrates, in particular, how assets and net worth began a steep decline in the 4th quarter of 2007.

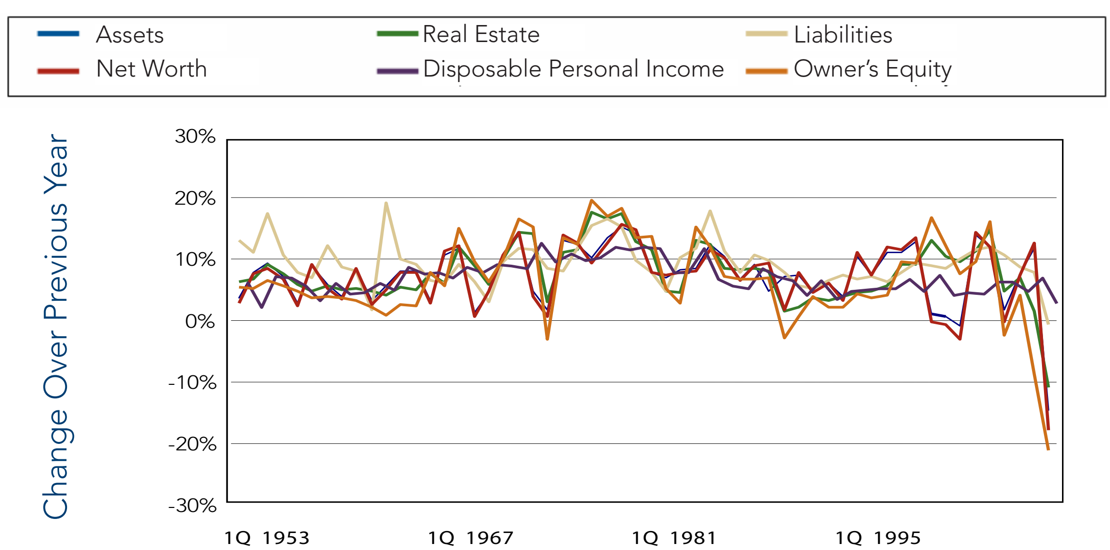
Figure 1: Change in Household Wealth Since 2006



Source: S. Mitra Kalita, "Americans See 18% of Wealth Vanish," The Wall Street Journal, March 13, 2009

Figure 2 documents the extraordinary nature of this decline by comparing it to trends over the past fifty-five years. In the post-World War II era, the American belief that hard work will be rewarded and saving and investing will bring financial security was largely confirmed. Although there were a few exceptions, the value of assets, disposable personal income, home equity and the net worth of households grew from year to year. These upward trends came to an end in 2007, however, and by the end of 2008 most were negative.

Figure 2: Change in Household Wealth Since 1953



Source: S. Mitra Kalita, "Americans See 18% of Wealth Vanish," The Wall Street Journal, March 13, 2009

So far, 2009 seems to be following in the footsteps of 2008. The unemployment rate increased to 8.1% in February, the widely-followed Dow Jones Industrial Average fell below 7000 for the first time since 1997, the federal government is struggling to restart the nation's financial system, and the housing crisis continues to unfold. Figures 1 and 2 indicate that the housing crisis is responsible for much of the loss of wealth in the past two years through declining values in real estate holdings and homeowner equity. A home is the largest asset that most U.S. households own, and the housing crisis negatively affected overall net worth.[3] For example, the median U.S. home value has declined by 18.1% - or $44,800 – between February 2008 and February 2009.[4] Western states have seen median home values fall by $74,000 since 2006.[5] Homeowners in metropolitan areas have been hit even harder, as home prices in many cities have fallen by over 25% since early 2007.[6] In addition to the widespread decrease in home values, many families lost their homes, as the number of foreclosure filings climbed above 3.1 million in 2008.[7]

"Financial assets held as retirement savings equaled almost $18 trillion at the end of 2007. These assets represent a significant portion of the US economy... Retirement assets are the lifeblood of the financial services industry."

For many households not directly affected by the housing crisis, the decline in housing prices is worrisome but its immediate impact on their finances is difficult to estimate. The effect of decline in the stock market, however, is all too apparent. For many households, the most visible evidence of loss of wealth is in the declining value of their accounts in 401(k)-type plans and IRAs. In 2007, over 70% of U.S. households held an IRA, a workplace saving plan such as a 401(k) account, or both.[8] Financial assets held as retirement savings equaled almost $18 trillion at the end of 2007. These assets represent a significant portion of the US economy. For comparison, at the end of 2006, the total worldwide market capitalization of operating companies on the US stock exchange was only $25 trillion. Retirement assets are the lifeblood of the financial services industry. Roughly one-third of retirement assets are held by insurance companies and two-thirds by securities companies and banks.[9]

The stock market decline has been sudden and shocking for retirement savers. The Urban Institute reports that "assets in retirement accounts (defined contribution plans and IRAs) reached $8.7 trillion on September 30, 2007. About 70 percent of these assets were invested in stocks. As of December 2, 2008, retirement accounts have lost $2.8 trillion, 32 percent of their value."[10] Fidelity Investments, administrator for more than 11 million 401(k) accounts, reports that the value of the average workplace saving plan account fell 27% from $69,200 in 2007 to $50,000 at the end of 2008.[11]

Few in America have been untouched by the financial crisis. Many Americans have seen wealth accumulated over years of saving and investing disappear almost over night. Many now question their ability to educate their children, to afford healthcare, to retire with dignity, or to preserve their largest asset – the family home. For the many losing their jobs, their financial futures are grim. For many others, the uncertain economic times and their loss in wealth have made financial insecurity a constant worry for perhaps the first time in their lives.

Financial Insecurity: A Chronic Condition

Although the recent onset of financial insecurity might seem sudden, it is not surprising. The apparent growth in wealth in preceding years masked an inconvenient truth. The financial security of many Americans was living on borrowed time – and borrowed money. In macroeconomic terms, without saving, there is no domestic money for domestic businesses to borrow and invest, to increase capital, and at the end of the day to increase productivity – all of which, in turn, lead to more job opportunities, higher wages, and higher standards of living. On the individual level, it is the accumulation of savings and assets that fosters household financial stability, creates economic mobility, and provides the ladders of opportunity for individuals to climb into and remain a part of the middle class. Research has shown that families with greater assets tend to own homes in better neighborhoods for longer periods of time, affording children better and more consistent educational opportunities and resources. Higher levels of assets have also been shown to promote self-confidence, self-sufficiency, and civic engagement.[12]

Put simply, from a macroeconomic perspective, the United States has not been a nation of savers for decades. The Bureau of Economic Analysis data on the personal savings rate show that, since 2001, Americans have saved on average less than one percent and, for a time, the rate was below zero.[13] Recently-released data from the 2007 wave of the Survey of Consumer Finances (SCF) show a more nuanced picture of saving in America.[*] In 2007, 6 percent of families reported that they spend more than their income, about 16 percent spent their entire income, an additional 35 percent saved just what was 'left over' while only about 40 percent saved regularly.[14] Yet, in spite of having low incomes, one-third of families in the bottom quintile and 45 percent of those in the second quintile did save. While we have witnessed a recent up-tick in the U.S. personal savings rates, it may be difficult to sustain this upward trend.[**] The SCF data suggest that contemporary savings behavior has been relatively unresponsive to economic trends. The current crisis may prompt greater habits of thrift but, even if it does, more saving alone will not solve the structural impediments to financial security that currently exist.

The root of the problem is an American system for saving and investing that poorly serves many on Main Street. This can be seen in the "wealth gap," the extremely uneven distribution of assets in America. Using data from the Survey of Consumer Finances between 1998 and 2004, Kennickell reports that one-third of net worth is owned by the wealthiest one percent of Americans.[15***] Many studies of the wealth distribution show that the disparity in wealth among Americans has been increasing in recent years. During the last two decades, for example, one study found that the mean net worth of households in 1999 dollars increased by $90,000. The lion's share of the gains went to the upper ends of the wealth distribution, as median net worth only increased by $14,000.[16] In 2007, households above the 90th percentile averaged almost $4 million of net worth, while the bottom 50 percent of households had an average net worth of only $27,800, and the bottom 25 percent actually owed over $2,000 more than they owned.[17]

A closer look at what individuals do with their savings illuminates what could be called an "investment gap" between lower- and moderate-income families and those in the higher income quintiles. The data provided in the 2007 wave of the SCF provide a good picture of what has been the status quo in investing behavior. Families were interviewed just as the current economic crisis was beginning to unfold, however, so the data do not reflect any crisis-related changes in behavior or loss of wealth. It is also important to note that, in order to depict the "wealth gap" accurately, the SCF has divided the top income quintile into two groups: those who could be called the very wealthy, those in the 80-90 percentile of income; and those who could be called the most wealthy, those in the 90+ percentile of income.

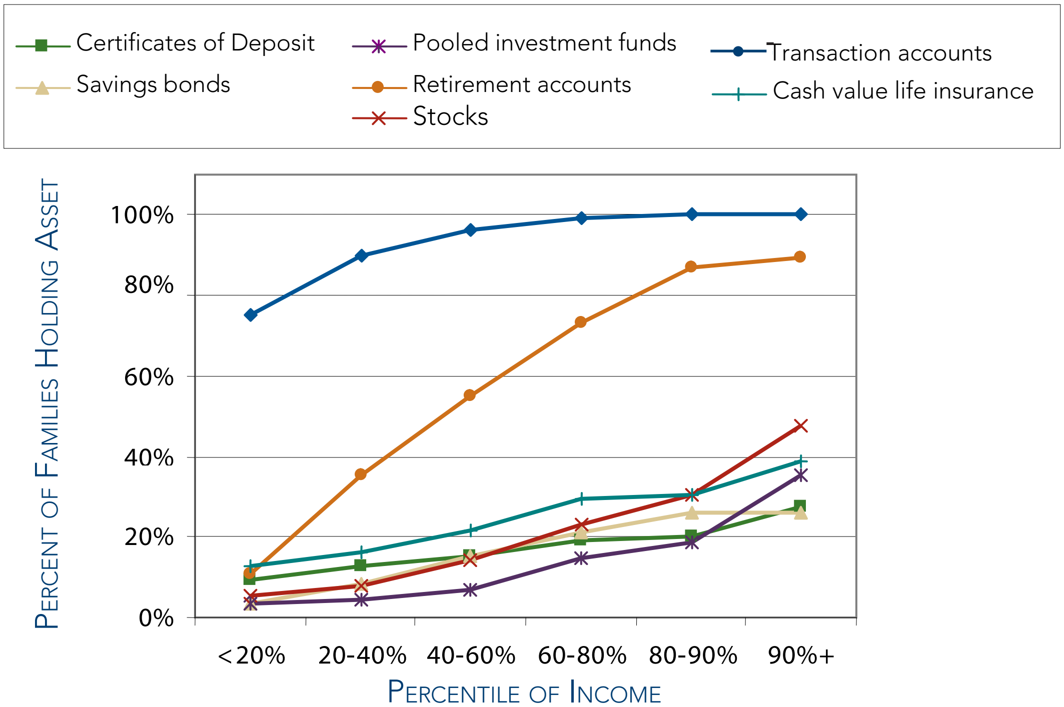
As seen in Figure 3, most families in the bottom two income quintiles hold their financial assets in 'transaction accounts' – checking or savings accounts. These holdings offer little to no potential for growth and are often subject to large overdraft or minimum balance fees. These families also hold certificates of deposit and savings bonds which have a guaranteed return but offer little upside potential in the recent low-interest rate environment. Figure 3 indicates that families in these income quintiles would primarily invest in equities, if they do so, through their retirement account holdings which are typically acquired through a sustained attachment to the workforce. Figure 3 also demonstrates that as income increases, so does investment in equities. Almost 50% of the most-wealthy group holds stocks and 35% hold pooled investment funds such as mutual funds outside of retirement accounts. This compared to the

* The Survey of Consumer Finances (SCF) is a triennial survey of the balance sheet, pension, income, and other demographic characteristics of U.S. families. The survey also gathers information on the use of financial institutions. The Bureau of Economic Analysis data are based upon national income and products account (NIPA) data while the Survey of Consumer Finance data are based upon questions about individual household spending and saving activity. In addition, the two surveys use different definitions of income and consumption.

** The most recent data on the personal savings rate from the BEA shows a 5 percent average for the month of January 2009. This historically large figure could be explained as "fear-saving" – or saving behavior that is elicited by uncertainty in the economy but which will change course once the economy begins to grow again. This phenomenon was witnessed in the Bureau of Economic Analysis's data on personal savings rate following the recession of 2001. While personal savings rate temporarily jumped close to 4 percent in late 2001, it had returned to historical averages by 2004, with little deviation.

*** This measure of net worth excludes retirement assets over which the family has no substantial control or direct interest.

Figure 3: Percent of Families Holding Various Financial Assets by Income (2007)



Source: Authors' calculations from Bucks et at. Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances, Federal Reserve Board, February 2009, p. A18

lowest three income quintiles, only about 20% of whom hold stocks and about 15% who hold mutual fund-type investments. In addition, about 90% of the most-wealthy group has a retirement account as compared to about 70% of the third income quintile.

The effects of both the wealth and the investment gaps can be seen in Figure 4. This graph depicts the median value of these different asset categories held by households with different income levels. By dollar value, the most-wealthy group held 20 times the value of stocks held by the lowest income quintile and 8 times the value held by the second income quintile. The story for mutual fund-type holdings was similar, the most-wealthy group held roughly 6 times the value held by the bottom two quintiles. In retirement accounts, the most-wealthy held 30 times the value of assets held by the bottom quintile and 16 times the value of assets held by the second quintile. These data reveal the high disparity of wealth in the U.S. not only in terms of the amount of assets held by households but also where those assets are held. Without equity-related investments, households experience less financial security – both in terms of income and wealth – and less financial opportunity to buy a home, finance education for themselves or their children or secure their income in retirement.

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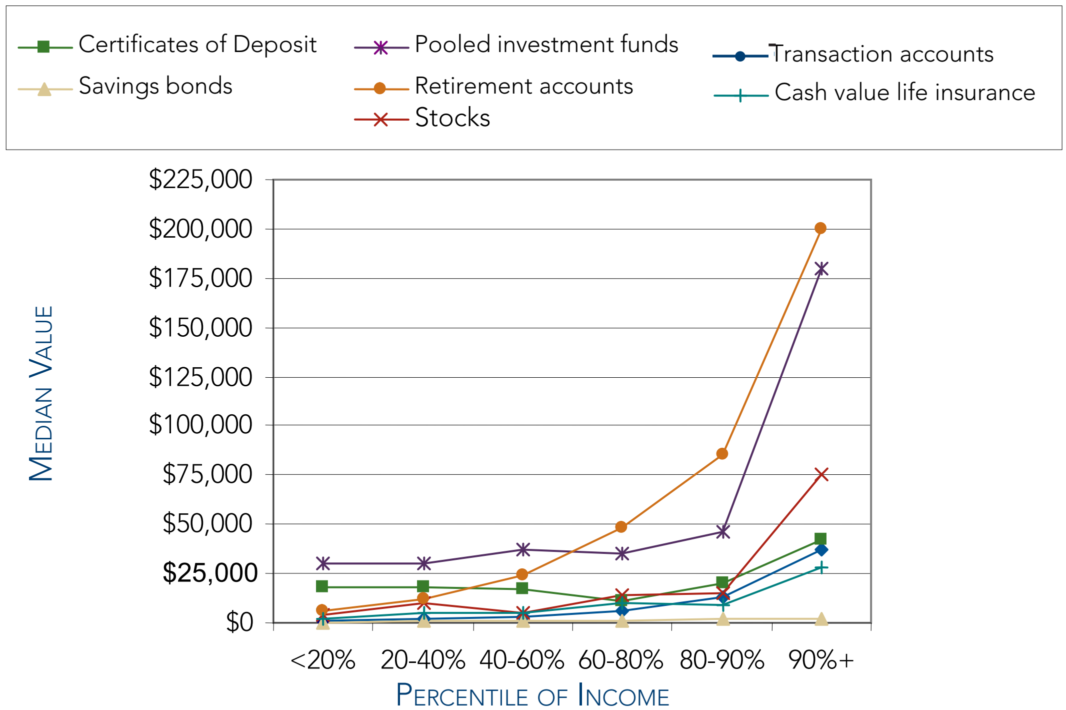
The investment gap can be explained, in part, by a lack of financial literacy among Americans. The 2008 Jump$tart surveys, completed before stocks had fallen very much, found that just 16.8 percent of high school seniors and 19.2 percent of college students felt that money placed in stocks would grow more than money in a checking account, a savings bond or a U.S. savings account over an 18 year period.[18] In fact, we have calculated that since 1926 there has never been an 18-year period when stocks did not grow faster than the other three, risk-free alternatives. Due to this general lack of financial sophistication, the composition of household savings or net worth is often suboptimal for building wealth.

Figure 4: Family Holdings of Various Financial Assets by Income (2007)



Source: Survey of Consumer Finances, 2007. Federal Reserve Board

But there are also structural barriers to investing in place. It is widely-acknowledged that the current American savings system is a patchwork of savings plans that are both redundant and far too complex for easy, universal use.[19] Less than 50% of the workforce has access to an employment-based retirement plan at any point in time.[20] Perverse tax policy plays a significant role, offering incentives to save that are more valuable to those who don't need them than to those who do.[21] Finally, the financial services industry is a large and complex entity. Accessing and navigating among a complex web of product offerings and investment strategies, at the very least, requires a rudimentary knowledge of finance – a skill few Americans possess. And, sadly, too many Americans are left entirely out of the mainstream financial system. It is estimated that 20% of the nation's population is entirely "unbanked" – meaning they have no formal linkage to the financial sector, whether that be a retirement account, a checking account, or even a simple savings account.[22]

Why does this all matter? Simply this. If we do not address Main Street's financial insecurity – both old and new – the future economic health of the United States is in jeopardy. Current market conditions run the risk of driving savers out of the capital markets for years. Assuring consumer confidence in investing again, structuring a universal, simple system of saving that is more inclusive, secure and fair, and creating the proper incentives to elicit better saving behavior has never been more important, both for individuals and the economic health of our country. Building financial security in America will require all relevant actors – government, Wall Street, and Main Street – to step up to the challenge. But first, Main Street needs Wall Street to take the initiative.

The Wall Street/Main Street Connection

Vilified by the public, the press and sometimes by Congress, "Wall Street" has become the poster child for all that has gone wrong in America's economy. This anger has resulted from the responsibility assigned to several firms for triggering the current economic downturn and the subsequent enormous bill taxpayers have had to foot. While the actions of some firms have been reprehensible, "Wall Street" is also short-hand for an industry that has provided wealth and financial security to many Americans for decades.

Wall Street got its start under the proverbial buttonwood tree which served as a meeting place for investors and their representatives who wanted to trade stock in 18th century corporations. Modern day Wall Street is still, at its essence, a (larger and more modern) market for investments. It is a market that enables people to invest in a single company or an index of companies comprising an industry, a country or the entire world. It is a market that enables farmers to lock in the price of wheat in their fields and airlines to guarantee that the price of aviation fuel will not increase for them. These days, it is a very efficient market, offering to buy and sell equities for pennies a share. It is made up of millions of investment professionals throughout the world who understand their piece of the market very well and who know how to interact with the overall system. In 2007, nearly 10.5 million Americans worked in financial services, comprising some 7.2 percent of the entire labor force, and the industry accounted for about 21 percent of the value of all companies in the S&P500.[23] It is impossible to imagine a return to financial stability and economic affluence in our modern, complex and inter-connected world without these players.

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Wall Street provides critical financial products and services to Main Street. It includes companies who create and package investments to meet a variety of the different needs of small investors. Life insurance companies use financial investments to help guarantee the survival of a family that loses a breadwinner. Mutual fund companies help families diversify their investments and change that investment mix as they age. Pension funds use investments to provide retirement income and annuities to help guarantee that older people will not outlive their sources of income. Banks provide a safe place to keep money for short-term needs and loans to businesses, homeowners and other consumers. Other financial service companies, which don't generally deal with the public, have been created to enable those that provide direct services to the public to become safer and more efficient. Reinsurance companies help insurance companies spread the risk from a highly-localized tragedy such as a hurricane in Florida. Investment banks help regional banks who make mortgages in their local areas spread their risk by buying mortgages from other parts of the country.

Wall Street's innovations have created new products, services and delivery systems that meet many needs and lower the costs for its services. Prior to 1975, regulated brokerage fees equaled about 2 percent of an equity transaction. Today, consumers can trade stock online for under $10. They can also shop online for insurance products of all types at great savings. Low-cost mutual fund companies such as Vanguard have made investments more affordable for many and have caused other fund companies to lower their rates as well. Exchange-traded funds (ETFs) now offer investors the opportunity to participate in almost any sector with super-low expense ratios. On-line banks use the absence of brick and mortar to offer higher rates and lower fees than traditional neighborhood financial institutions.

We also recognize that Wall Street needs improvements that extend beyond the current financial crisis. Many low- and middle-income consumers lack access to the products, services and delivery systems of Wall Street. Moreover, those with the fewest assets and greatest need for financial security can be preyed upon rather than helped by the industry. Low- and moderate-income depositors can be subject to unfair fees that generate an increasing proportion of bank operating income.[24] Some are sold expensive insurance policies that they don't need or can't afford, while others are charged unnecessary loads and expenses for mutual funds that can cut retirement accumulation by half or more.

These are not ordinary times, however, and we recognize the devastation wrought by the financial meltdown will result in significant regulatory reform. We expect that fraudulent and abusive tactics will be targeted as part of such industry reform. In fact, it is the low- and moderate-income worker who can benefit most from a reconfigured relationship with Wall Street. It is a sad fact that workers who must use up their "physical capital" to earn a living in the health care, construction, agriculture or hospitality industries earn far less than those who employ "intellectual capital" in the form of education or skills. When told that they must defer retirement and work more years to survive in retirement, those who have spent 40 years lifting people, lumber, hay or trays are far less able to comply than those who have lifted nothing heavier than a notebook computer. So we hope Congress will do much more than re-organize the alphabet soup of regulatory agencies in response to the current crisis. We hope it will seize this regulatory moment to rebuild our financial system to be more vibrant, fairer and more inclusive of all Americans. And we challenge the industry itself to take the initiative. We ask it to put its talent, resources and creativity to work to rebuild the financial security of all Americans.

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A Blueprint from Wall Street for Main Street

We issue this challenge to the financial services industry because we know its potential. When we began our work, we understood that a substantial percentage of the nation's families – mostly low- and moderate-income households – do not participate in the financial mainstream. We believed both data and experience proved that these families can save more, and they do – when offered the right opportunities. But we also recognized that, to be successful, savings plans need to contain the right incentives, both for consumers and for the industry. The renowned scholar, C.K. Prahalad, author of *The Fortune at the Bottom of the Pyramid*, challenged us to think beyond the status quo to serve the millions of working families who had been left out and left behind in our current saving and investment systems.

For nearly six years, we worked with Chief Executive Officers from every corner of the financial services industry and their design teams on the problem of helping working families save. Along with policy experts and economic development specialists, we led an intensive effort to design a better, safer, more inclusive system that would help more Americans save, invest, and own. The system we developed is guided by five principles:

- Savings plans should be targeted to meet needs at every point in the life cycle. Savings products should be available for saving for specific goals – education, homeownership, and retirement – that we each face in our lifetime.

- Savings plans should be universal. Savings plans should be available to all Americans at every income level.

- Savings plan should be simple. Many potential savers stay out of current savings plans because of their complexity. Better plans would be designed with simplicity and ease of participation in mind.

- Savings plans should include a government match. Current savings plans rely on tax subsidies which disproportionately favor high-income households. Better plans would include a government "match" for low- and moderate-income households to provide the right incentives for more Americans to save.

- Savings plans should be designed in cooperation with the private sector. The financial services industry has deep experience and knowledge about what does and doesn't work in the market. And they are the ones who must ultimately offer and administer the plans. The industry should play a central role in structuring new plans.

We researched industry practice and consumer needs, analyzed business models and considered different design alternatives for plans that would satisfy these principles. The result was a life-long system for saving to assist all Americans in meeting their major life goals and building financial security. Major players in the industry concluded that such a system was feasible, could be made available on a wide-scale, and, although low-cost, could be profitable in the marketplace in the long-run.

Beginning at the Beginning: Child Accounts to Expand Opportunity

Saving, like every other good habit, is best learned at the beginning of life. An earlier start on savings means more money in the account through the magic of compounding. And it instills a saving mindset that can persist throughout life.

SAVINGS FOR THE TRANSITION TO ADULTHOOD

- Giving every child at birth a $500 voucher to open an account at a financial institution, which would be saved in an fund structured for an 18-year investment horizon, have limits on account fees, be locked up until the child turned 18, and grow tax free.
- Allowing contributions to the accounts of up to $2,000 per year, with the government encouraging savings by providing, through the tax code, a dollar-for-dollar match for a family of four that makes under $43,000 a year.

The Foundation of the American Dream: Saving for a Home

Buying a home is an important milestone in adulthood. Beyond securing the basic human need for shelter, becoming a homeowner helps establish solid membership in the American middle class. And home equity, as a financial asset, can be a springboard to the acquisition of other important assets like a college education, a small business, and a secure retirement.

SAVINGS FOR A HOME

- Creating tax-preferred, FDIC-insured accounts dedicated to saving for the down payment and closing costs on a first home.
- Providing individuals with incomes up to $50,000 and couples with incomes up to $100,000 with a 50 percent match on the amount of their own money they save in the account, with a $5,000 cumulative lifetime cap on the match.

Build Retirement Security for Working Americans: Saving for Retirement

Building enough savings for a comfortable retirement is an essential part of the American dream. Congress has put considerable effort into crafting a better national system for retirement saving. And yet, despite decades of work, most working Americans will not have saved enough to enjoy a financially secure retirement.

SAVINGS FOR RETIREMENT

- Creating a new IRA for those workers who do not have access to a pension plan at work and encouraging the opening of such accounts with a "starter" contribution for individuals with incomes under $30,000 and couples with income under $60,000.
- Encouraging saving in those IRAs by providing a match of up $2,000 per year for workers making under $50,000 and married couples making under $100,000.

Secure, Supplemental Income for Life: Annuitizing Savings

Turning savings into income that will last throughout retirement is a difficult task. Savers don't know how long they will live or how much they can safely spend each year from the assets they have accumulated. Purchasing a life annuity with a portion of savings reserved for retirement is one solution to the problem.

ANNUITIZING THE SAVINGS

- Allowing retiring Americans to use up to $100,000 in savings and private pension funds to purchase an inflation-adjusted annuity with spousal benefits through the Social Security Administration, but underwritten by the private sector.

- Distributing the annuity payments by adding the benefit to an individual's monthly Social Security check.

Protecting the Principal: Restoring Confidence in Saving and Investing

General distrust of equities as a long-term investment is likely to be even greater among low– and moderate-income workers who have never before been exposed to these instruments. It would be useful to employ some type of "guarantee" to encourage workers to invest at least part of their long-term savings in equities to build greater financial security. Investing in equities over many decades has proven to yield far greater returns than those with lower risk in spite of the greater volatility of equities over shorter periods of time. A long-term (for perhaps as long as 18 years) investment option that protects principal for a cost as small as 50 basis points annually but also offers the upside potential of equity investments could be an attractive product for low- and moderate-income workers.

RESTORING CONFIDENCE IN SAVING

- Replacing the patchwork quilt of financial industry regulatory schemes with a more coherent regulatory structure that includes greater protections for consumers and makes the American system for saving more inclusive.

- Encouraging the private sector to develop features in traditional equity products that would provide some guarantees to individual investors; instituting, if necessary, government back-stops and insurance for low- and middle-income equity investors with modest account balances.

- Recognizing that the place where most Americans save - the private pension system – is a key component of the American financial system and that its needs and concerns must be included in any reform effort.

Today's Challenge to Wall Street: A Renewed Commitment to Building Long-Term Financial Security for Main Street

Times of calamity impel movements for reform and renewal. The financial crisis has prompted regulatory action with calls for systemic structural overhaul. Our financial system will soon be undergoing fundamental reform to restore lost value to those who have 401(k) plans and own homes. But should we not also use this moment to build on-ramps to the "financial superhighway" for all those who have been left out? If we are concerned about the millions who have lost wealth, can we not build better vehicles for saving that serve even first-time drivers? And why not seek better ways to invest to assure all savers they can reach their savings destinations?

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These questions are not merely theoretical. Our experience argues that Wall Street - the entire US financial industry - can again be the engine to serve Main Street through a better system of saving that builds long-term financial security. When Wall Street works with government to devise safe, simple products that can be offered in a variety of financial institutions or through their intermediaries, Main Street's interests are advanced. When government policy and industry products are aligned correctly, Main Street savers will have a strong and direct link to the financial institution of their choice, independent of their attachment to the workforce.

Imagine, for example, an IRA with robust matching dollars through public investment, a pre-programmed investment mix, a fee limit and a guarantee of principal. These are product features that could be built now and offered widely with a link to automatic payroll deductions. These are accounts that could allow more workers to save for retirement when and where they have resources – perhaps out of weekly paychecks, perhaps at tax time. Imagine, also, if your first investment account was not something you struggled to start in your 40's but owned in your own name from birth. Imagine, finally, a savings system that establishes thrift as a lifelong habit, helps every little bit saved grow on its own when it is left to work, and puts homeownership and retirement income safely within reach.

These are the kinds of savings structures that are already feasible today. Our experience shows that Wall Street is willing to drill into the details of what it would take to serve low-wealth households. With us, Wall Street rose to the challenge of designing accounts that could work in the marketplace. They analyzed the details of product design, distribution costs and legal issues to produce a set of basic saving vehicles, delivered through existing, widely-available channels, that could provide Main Street America with lifelong financial security in the modern era.

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Times of crisis and times of reform are also times where democracy requires dialogue to consider critical issues and vital concerns in the interests of the population as a whole. If our debate over necessary reform is limited to industry governance, it will fail. We must also explore the needs of Main Street and how they can be met. We pose three core questions to the industry at this critical time of financial sector reform.

1) What are the core financial needs that anchor Main Street's financial security throughout life and what are the basic, simple accounts that would serve these needs?

2) What can we do to allocate the risks properly in our savings system among government, industry and individuals and restore the ability of long-term savings and investments to achieve long-term financial security?

3) What can we do about the adequacy and robustness of our savings efforts as a nation? Can a government matching policy to reward saving by lower-income households create a fairer system that also achieves greater financial security for all Americans?

The dialogue we start now, we hope and expect, will bring from Wall Street a renewed commitment to rebuild and sustain the future financial security of all Americans.

Endnotes

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