

Early Concept Document

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R~Bond

Executive Summary

Recently the Doorways to Dreams Fund, Incorporated was the driving force in the execution of altering IRS forms to offer a portion of a tax refund to be directed to a savings bond. This solution provides a way for low income taxpayers to feel the reward of saving, the convenience of saving, and to have an opportunity to save with an instrument that has little or no barrier to entry.

The next step is to address the retirement savings needs of low to moderate income individuals working for small businesses. Often small businesses such as daycare providers and others (businesses with less than 15 employees) do not provide company-sponsored retirement plans, or savings options. Employees of these businesses find themselves facing a dilemma. They know they should be saving, they want to save, but the barriers to entry can be steep. With no access to a company retirement plan, no other option offered by an employer, and an inability to meet the opening deposit minimums with traditional financial institutions offering retirement savings instruments, individuals are left out in the cold.

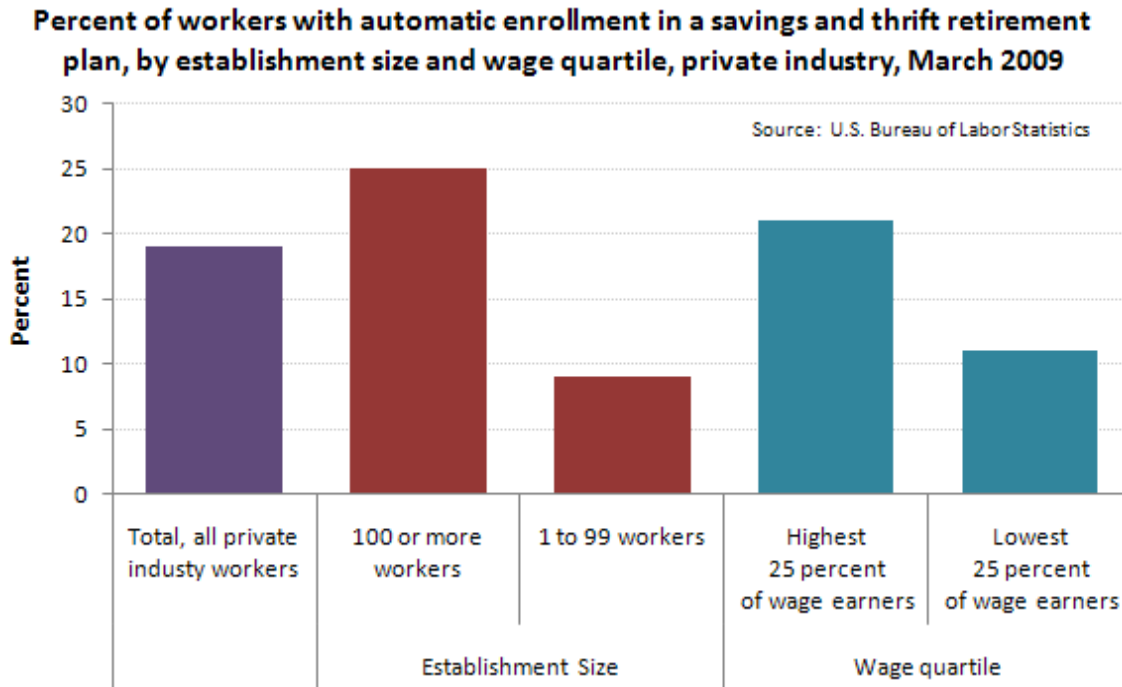
The R-bond (proposed name) is a form of an I Bond, which is a US Treasury issued inflation indexed bond. These bonds can be offered online through Treasury Direct, along with the other savings bond options. Credit Unions can provide the process, including a checking account, to make access to the proposed R-bond a reality for low to moderate income individuals. With an incentive from the Credit Union to reward consistent direct deposit, individuals can grow savings easily and conveniently. In process is the granting of the Saver's Tax Credit to this proposed new retirement savings product, by the US Government.

Some roadblocks and barriers were encountered. The Treasury Direct website is cumbersome and the process to open the first savings bond online can be daunting due to numerous pieces of information required and the need to receive information in the mail, and then returning to the website to complete the process.

We believe the benefits of the proposed R-bond greatly outweigh the roadblocks encountered with the Treasury Direct website. Minor revisions to the website and Bond-opening procedure would correct the problem. The proposed R-bond would serve as a much-needed savings instrument that fills a market niche not currently being addressed.

Opportunity

Current retirement savings programs are inadequately serving low to moderate income households. The following chart from the Bureau of Labor Statistics illustrates how people working for small employers and people in the lowest wage quartile are participating in retirement plans at a rate of roughly 10%. This is nearly half of the total average.



Two independent surveys confirm the data above. The first survey was completed by the Iron Works Filene i3 Team and the second was conducted by the WISER Rural Retirement Project. Highlights of the results:

Iron Works Survey (114 respondents)

- 19% do not have access to a 401(k) through their employer
- 28% do not regularly contribute to a 401(k)
- 47% do not believe they are saving enough for retirement
- 43% are unsure how much they should be saving for retirement
- 86% agreed or strongly agreed that they could save at least \$25/month for retirement

WISER Survey (285 respondents)

- 17% have a company based retirement savings program that they are utilizing
- 44% use savings or certificate accounts for retirement savings
- 59% contribute electronically

The underlying causes of this demographic group’s lower retirement savings rate are varied:

- Lack of company sponsored retirement savings
- Other financial priorities: living expenses, mortgage, college savings, medical
- Distrust in or lack of convenient banking products

There is an opportunity to address the retirement savings needs of this underserved demographic through the US Treasury I Bond.

Environmental Scan

Financial institution issued IRA investments are the primary alternatives to the I Bond. Equity based IRAs are not as comparable because they lack the government guarantee of principal.

Product	Yield	Last week	Comments
6 Mo CD	0.78%	0.80%	
1 Yr CD	1.18%	1.21%	
5 Yr CD	2.44%	2.47%	
I Bond	1.74%	1.74%	5 year, variable rate indexed to CPI

Source: bankrate.com, September 30, 2010

I Bond Advantages over traditional IRA certificate:

- Attractive to consumers who do not want banking relationships
- Government guarantee of principal (IRAs only up to \$250,000)
- Can utilize direct deposit and add funds monthly
- Inflation indexed variable rate

IRA Advantages:

- Ease of opening
- Tax deductibility
- Higher fixed rates

Solution

An I Bond is a US Treasury issued inflation indexed bond. The Credit Union will assist members in purchasing the bonds and encourage use of an active checking account for the periodic direct deposits to the bond. The initiative will focus on igniting membership interest in and providing information for savings bonds as a low-cost entry point for longer-term savings. The participating financial institutions will provide financial literacy material regarding retirement savings.

Potential enhancements include:

-Periodic statements covering current and projected savings
-Matching program: if the member meets the criteria listed below, he/she will receive a \$5 matching direct deposit contribution to the I Bond for those months that he/she qualifies.

- o 12 consecutive months of direct deposit of at least \$25 to the R Bond
- o Ongoing monthly direct deposit of at least \$25 to the R Bond
- o Active checking account with credit union

Member Benefits

- Higher rate, inflation adjusted product
- Automated Savings: Take advantage of direct deposit through credit union
- Government backed investment
- Tax benefits

Credit Union Benefits

- Member creates an established retirement savings program
- Credit Union increases member loyalty and active checking accounts
- Checking profitability (excluding overhead) ranges between \$7 and \$10 per month, so with the matching program, the account would still be profitable
- This provides the Credit Union with an effective alternative to growing shares. They can serve the members' savings needs without growing the balance sheet

Target Market

Low to moderate income individuals employed by small business are the primary target market. Small businesses, such as a daycare provider, usually do not provide retirement options for employees. As a result, many employees find they do not have access to company-sponsored retirement savings and may lack access to other retirement savings options. A barrier to entry may also include an inability to meet minimum deposits to open an account or to keep an account at a traditional financial institution. In this target market, individuals want to save for long-term retirement but just don't know how. Information distributed through employers, community spaces, community and social services partnerships, and word-of-mouth can have an impact on raising the level of awareness for the benefits of the R-bond.

Operations and Other Considerations

The I Bond is available for purchase and redemption through Treasury Direct. Treasury Direct is the website administered by the US Department of Treasury which allows for paperless electronic transactions. For credit unions that do not issue bonds, they can direct members toward Treasury Direct. The member is able to then independently purchase and redeem bonds on their own with an online connection.

To track bond purchases made from funds within your credit union, create a report that filters transaction descriptions that contain the text, "TREASURY DIRECT".

Proof of Concept

Nikkei Credit Union was able to pilot the I Bond immediately with the Treasury Direct online option. Without Treasury Direct, the Credit Union would need to invest in the initial set-up for systems and training to support purchases and redemptions on site.

To introduce the I Savings Bond to members, Nikkei Credit Union's first objective was to train the employees. Training material is available off of the Treasury Direct website. The website provides the details regarding the I Bond such as rates, terms and purchasing instructions.

Unlike most offerings at the Credit Union, any I Bond purchases would not be initiated through the Credit Union core system. This is both helpful and detrimental. It is helpful because the employees aren't required to learn any new processing steps within the core system. They only need to learn the basic features of the I Bond in order to discuss it with members. The difficulty lies in tracking the members' I Bond purchases. Unlike other deposits and loans which employees would initiate and process on the core system, the I Bonds are handled completely independently online by the members.

Findings from Proof of Concept

The employees reacted positively to learning about an alternative savings solution for members in the low interest rate environment. In addition, the savings bonds were a good option since the Credit Union does not offer IRA accounts.

In terms of implementation, the credit union does not have to add any technologies or invest in software to accommodate the bond purchase. On the other hand, the credit union cannot monitor the acceptance rate for Savings Bonds readily. The only way to see if members are participating is to produce a report that shows the ACH withdrawal data that includes the TREASURY DIRECT text. Also, the Treasury Direct option is not suitable for all members because it requires some competency in online transactions.

The I Savings Bond purchase procedure is very secure but rather lengthy and cumbersome. The initial set-up to have a Treasury Direct account cannot be completed in one sitting. After requesting a login username and password, the member must wait for a USPS mail piece that includes an access card with a decoder piece. The login and password data is sent by e-mail in separate communications which can create a little bit of confusion. Then, with all three pieces, the member uses the access card to determine the code that corresponds with the coordinates shown on the screen. Members need to be web savvy and also organized in order to open their Treasury Direct accounts.

A disadvantage of offering the I Savings Bond through Treasury Direct is that the employees do not have access to the login process or account screens for training purposes. For example, with Online Banking or Bill Pay, employees can access demo screens to assist members. With Treasury Direct, the employee must have an account in order to see the account screens. Treasury Direct does offer an 800 number for inquires and account holders have commented that the service is helpful. Online customer service is strong and swift.