HOW THE HOME OWNERSHIP PLAN CAN ENABLE YOUNG PEOPLE TO BUY A HOME, JUMP-START HOUSING CONSTRUCTION, AND EMPLOY MILLIONS OF PEOPLE WHILE REDUCING THE NATIONAL DEFICIT

By Duane E. Fleming

We have in our hands the way to jump-start the housing and related industries, with simple changes to federal tax law. As we will see, this can be achieved at *no cost* to the federal government. *In fact, this proposed legislation will pump up the economy and provide new tax revenues to reduce the national deficit.* The housing and housing related industries drive 25% of the entire economy, according to the Harvard Joint Center for Housing Studies. Based on these numbers, jump starting the housing and housing related industries can create 10-15 million new jobs, over the next few years.

HOW THE HOME OWNERSHIP PLAN WORKS

The Home Ownership Plan (HOP) involves a simple redirection of fringe benefits. Young employees can either enroll in a retirement plan, during the early years of employment, or enroll in a HOP to save for a large down payment on a home. Employers can voluntarily contribute into the HOP the same amount that they would have contributed into a 401(k) or other retirement plan. The HOP account is a tax-free savings account. The employer and the employee never pay taxes on the HOP account contributions or withdrawals as long as the funds are used to purchase a home. With the HOP, a person starting at $30,000 per year can save $36,000 to $42,000 in seven years, for a large down payment as shown in Tables 1 and 2.

Table 1

		Employee Contribution	Employer Contribution		Total Annual Contribution	Interest APR	Account Balance
Year	Salary	8.0%	5.0%			5%	
1	$ 30,000	$ 2,400	$ 1,500	=	$ 3,900	$ 195	$ 4,095
2	$ 30,900	$ 2,472	$ 1,545	=	$ 4,017	$ 201	$ 8,518
3	$ 31,827	$ 2,546	$ 1,591	=	$ 4,138	$ 207	$ 13,288
4	$ 32,782	$ 2,623	$ 1,639	=	$ 4,262	$ 213	$ 18,427
5	$ 33,765	$ 2,701	$ 1,688	=	$ 4,389	$ 219	$ 23,957
6	$ 34,778	$ 2,782	$ 1,739	=	$ 4,521	$ 226	$ 29,902
7	$ 35,822	$ 2,866	$ 1,791	=	$ 4,657	$ 233	$ 36,287
8	$ 36,896	$ 2,952	$ 1,845	=	$ 4,797	$ 240	$ 43,138
9	$ 38,003	$ 3,040	$ 1,900	=	$ 4,940	$ 247	$ 50,482

Table 2

Year	Salary	Employee Contribution	Employer Contribution		Total Annual Contribution	Interest APR	Account Balance
		8.0%	5.0%			5%	
1	$35,000	$ 2,800	$ 1,750	=	$ 4,550	$ 228	$ 4,778
2	$36,050	$ 2,884	$ 1,803	=	$ 4,687	$ 234	$ 9,937
3	$37,132	$ 2,971	$ 1,857	=	$ 4,827	$ 241	$15,503
4	$38,245	$ 3,060	$ 1,912	=	$ 4,972	$ 249	$21,498
5	$39,393	$ 3,151	$ 1,970	=	$ 5,121	$ 256	$27,950
6	$40,575	$ 3,246	$ 2,029	=	$ 5,275	$ 264	$34,886
7	$41,792	$ 3,343	$ 2,090	=	$ 5,433	$ 272	$42,335
8	$43,046	$ 3,444	$ 2,152	=	$ 5,596	$ 280	$50,327
9	$44,337	$ 3,547	$ 2,217	=	$ 5,764	$ 288	$58,896

Two working spouses can merge HOP accounts and buy a home with $70,000 to $100,000 for a down payment. People who save in the HOP until they are 37 will still have 30 years to save in a retirement plan before they can collect full Social Security and be mortgage free. Working families will be able to take out a 15-20 year mortgage to set them up for a comfortable retirement.

This large scale job creation program can be done in a two-step process, with small changes to U.S. tax law:

The first step will be to establish the Home Ownership Plan, which is to be a tax exempt savings account for first time home buyers. This legislation, “Restore the American Dream Act” has already been drafted, as H.R. 3557, by Rep. Robert Wexler who has retired. This bill has been taken up by Rep. Ted Deutch, Wexler’s replacement.

The second step will be a simple change in tax law that will allow young people who have already saved $30,000 to $45,000 in their 401(k) or other retirement plan to transfer the funds, with no penalty into the tax free, Home Ownership Plan, so that they can make a 20% down payment on a home *immediately*.

There are almost 7 million young people in their 30’s that have saved an average of $42,000 in their 401k accounts, according to the Employee Benefits Research Institute (EBRI), which analyzed 21.8 million 401(k) accounts in 2007. They found that

32% of the 21.8 million, in their 30's, had 5-10 years of tenure which indicates relatively secure employment. If only 15% of those 7 million young people bought a home, it would result in 1,050,000 home sales, over the next 2-3 years, after enactment of the HOP.

JUMP-STARTING THE HOUSING AND RELATED INDUSTRIES

In order to jump-start the housing and housing related industries in a rapid and robust manner the current draft legislation (formerly H.R. 3557) needs the following relatively minor additions that could sunset within five years of passage:

(1) General employees, up to age 37, may immediately transfer their existing savings from a 401(k) account, up to $50,000, to a Home Ownership Plan account, with no penalty and with no taxation, if it is used to purchase a home.

(2) Federal employees, up to age 37, may immediately transfer their existing retirement savings, up to $50,000, to a Home Ownership Plan account with no penalty and no taxation, if it is used to purchase a home.

HOW THE HOME OWNERSHIP PLAN MORE THAT PAYS FOR ITSELF AND PROVIDES A NET GAIN IN TAX REVENUES

The Home Ownership Plan (HOP) more than pays for itself through taxes generated by the housing and related industries, manufacturing and service sector jobs created through the multiplier effect. As we will see, these new tax revenues far exceed the tax exemptions for the HOP.

This analysis is structured to: (1) determine the average tax exemption for the HOP, (2) determine the amount of tax revenue generated by the construction of a new home, and (3) to determine that the amount of the net revenue gain to the U.S. Treasury generated by the Home Ownership Plan exceeds the amount of the tax exemptions.

The Average Tax Exemption for the Home Ownership Plan

Table 1 shows combined contributions to a HOP account by the employer and employee totaling 15% of gross salary. It is assumed that people will save an average of seven years in the HOP in order to take advantage of the tax-free savings benefit. At the savings rate of 15% of gross salary, this would result in an average tax exemption of $8,169 per HOP account as shown in Table 2. Currently, most employers will only provide a 3% to 5% employer contribution to the HOP, rather than 7.0%, which is among the highest in government and the private sector. Employees would need to make up the difference to reach 15% of salary until employers see how it pays them to build the economy and their own specific business by increasing their contribution to 7.5%. This cost/benefit analysis is based on the assumption that many HOP accounts would result in the construction of new homes for purchase by a HOP buyer, or it would enable a move up home buyer to purchase a new home when a HOP buyer purchases their existing home.

Table 2

TAX EXEMPTIONS FOR THE HOME OWNERSHIP PLAN

Year	Gross Salary	Combined Employer and Employee Contribution 15%	IRS Marginal Tax Rate in 2010	Annual Tax Exemptions	Total Tax Exemption
1	30,000	4,500	15%	675	$ 675
2	30,900	4,635	25%	1,158	$1,833
3	31,827	4,774	25%	1,194	$3,027
4	32,782	4,917	25%	1,229	$4,256
5	33,765	5,065	25%	1,266	$5,522
6	34,778	5,217	25%	1,304	$6,826
7	35,822	5,373	25%	1,343	$8,169

The federal taxes paid by employers and employees for the construction of one single family home total $37,814, according to the National Association of Home Builders based on data from the Bureau of Economic Analysis. The author has confirmed, independently, that the amount of federal taxes paid by employees in 29 housing and related industries, listed in the North American Industrial Classification System exceeds the tax exemptions for the HOP. This data is available in the 1997 Economic Census, which was a stable year in the housing industry.

Tax exemptions for a person starting at $30,000 per year totals $8,169 after saving for seven years in the HOP. In this example, tax exemptions for a couple could reach $16,338. The U.S. Treasury would be enriched by $21,476 after subtracting the tax exemptions ($37,814 - $16,338 = $21,476) for each average new home.

As young people choose to enroll in the HOP each year, there will be a market demand for over one million homes per year.

BANKERS CAN LEND AGAIN WITH SECURITY

Bankers can start lending again when borrowers can make a 20% down payment of $40,000 on a new $200,000 home, just like they did in the 50's, and 60's. The banks won't need the secondary debt market when the loan is backed by 20% cash in hand. Once the HOP is well established, bankers can bundle these secure fixed rate loans and restart a new, *sustainable private securitization market,* which is now dead. This will allow investors to expand the number of mortgage loans needed to meet the newly created demand for homes. Retirement account managers will have millions of new accounts to manage as more young people develop a "savings ethic", to buy a home and save for retirement.

ALL TAX REVENUE GAINS NEED TO BE CALCULATED

The total additional gains in tax revenues generated by the Home Ownership Plan need to be estimated by the Congressional Budget Office. The "multiplier effect" should be included in the calculations because when additional employees in the housing and related industries spend their checks they create millions of additional tax-paying jobs that provide goods and services to them. This represents a major expansion in job creation in the consumer sector. Also, the billions of dollars paid out in unemployment checks will be dramatically reduced when the housing and housing related industries are brought up to full employment. Home values will rise enough to save state and municipal governments from further layoffs. Home construction will increase pick-up sales by over 1.8 million per year, according to Autodata, and revive the auto industry, generating millions of additional tax revenues to the U.S. Treasury. All of these tax revenue gains can reduce the federal deficit because it pumps up the economy and tax revenues on an on-going, sustainable basis.

RAPID IMPLEMENTATION

Home Ownership Plan accounts can quickly be established in all federal government workplaces, by Executive Order of the President. HOP accounts would also be rapidly established in the private sector workplaces and be administered by the same firms which currently administer 401(k) accounts or other retirement plans across the nation, in both the public and private sectors.

REBUILDING FAMILY LIFE WITH FINANCIAL SECURITY, IN A CIVILIZED SOCIETY

Most importantly, the HOP will provide long term financial stability for the family, which is the basic unit of society, and this is a primary purpose of the HOP. Working parents will have new hope for their future and their children's future after the implementation of the Home Ownership Plan.

The Home Ownership Plan will enable people to have far more economic security by purchasing a home with a large down payment, which will reduce the monthly payments on the mortgage and overall housing costs. If used wisely, people can take out a 15-20 year mortgage, pay off the mortgage earlier and be able to save more for retirement. It is one way to bring us home to treasuring our loved ones in a far more secure family life. The HOP is a perpetual job creation machine, which will be a stabilizing force in the economy. The economic system certainly needs far more sustainable livelihood systems for all working Americans, especially in housing and in the manufacturing sectors.

The HOP is essential to nation building at home and the truest form of national security. For economists, it is a new awakening to what is really important: an economic system that supports the family with sustainable employment, and affordable homes, earlier in life, when young people need it most for family formation.

Duane E. Fleming holds a Masters Degree in Community Planning from the University of Cincinnati. The Home Ownership Plan idea for legislation, originated by Fleming, was one of 21 finalists out of 22,000 submissions in the national "Since Sliced Bread.com" contest, sponsored by the Service Employees International Union.

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