

Savings and the poor

Sugar-coating the piggy bank

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Even then, many poorer Americans can't be persuaded to save

AMERICANS save too little. The personal saving rate, currently running at around 0.5% of post-tax disposable income, is at a record low. Poorer people, in particular, have too few financial assets. Fewer than one in three families earning below \$40,000 have any retirement savings. And the typical family in this income group has only around \$2,000 in non-retirement savings.

Both Republican and Democratic politicians are keen to boost saving among poorer Americans. The problem, however, is how.

Politicians' main method for boosting thrift is a swathe of tax-advantaged retirement accounts. This year these accounts will cost some \$150 billion in foregone tax revenue. Most of this subsidy goes to richer Americans, who have higher marginal tax rates and who are more likely to save anyway. Only one saving incentive the Saver's Credit is targeted at poorer Americans. It is worth only about \$1 billion in foregone tax revenue and is due to expire in 2006. And even that offers no incentive to the 50m households who pay no income tax.

A new study suggests there may be a better way. With help from H&R Block, America's biggest tax-preparation firm, economists at the Retirement Security Project, a bipartisan research group set up by Georgetown University and the Brookings Institution, studied the impact of offering poorer households saving accounts with various levels of matching contribution.

Unlike tax credits, matching contributions give poor people an incentive to save, regardless of how much tax they pay. During this year's tax-filing season, 15,000 of Block's clients in poorer parts of St Louis were offered the chance to open an Individual Retirement Account. As a carrot, they were offered, by the generous accountants, up to \$1,000 at various matching rates.

The incentives seem to have worked. The higher the match, the more people saved. Without any inducement from Block, only 3% of its clients contributed to an IRA. With a 20% match (ie, if you saved \$2,000, Block gave \$400), one in ten put some money in. And with a 50% match, the figure was better than one in six. Those offered a 50% match put in eight times more money (excluding the match) than those offered no cash. And, so far at least, they have not rushed to cash in those bribes.

So far so good. But it is also noticeable that, even at a 50% match, the vast majority of Block's poor clients chose not to save. This may have been because they had no advance notice and had to make up their minds quickly. They may also have been suspicious of the experiment. Over time, the take-up rate would presumably increase. Nonetheless, this study suggests that the road to thrift in poor America is still uphill.