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Saving Incentives for All Income Levels

Alex Marshall says that when he was young, saving money "was a discussion I never remember having with my parents." In college, he snapped up credit cards that banks freely offered, running up debts he ignored. "There was no excuse for it," he says.

FAMILY FINANCES Now, saving is a family affair for the 35-year-old St. Louis consultant, a single father of two.

Daughter Lauryn, 7, is in a program at school funded by major foundations to test whether low- and middle-income families will save, if given incentives and money-management classes. Each child got \$500 initially and receives matches for his or her own savings.

The children and their parents get financial counseling. Mr. Marshall, his credit restored, is building savings for himself and his children. When son Donovan turned 6 this month, he got Legos—and \$500 in a college account.

Changing the Thinking

The U.S., with its easy-credit consumer culture, has the lowest rate of personal savings among the world's developed nations. More than half of American households have few if any assets. But now a growing movement is challenging the idea that poor and middle-income workers can't or won't save.

"That the poor can save is a revolutionary idea," says Ray Boshara, a scholar at the nonprofit New America Foundation, a promoter of what's known as "asset building."

Beyond the financial benefits of saving and investing, advocates say recent research shows social gains for families as well. Foundations, universities, local nonprofit groups, private companies and many states are operating hundreds of demonstration projects, such as the "I Can Save" Club at Lauryn's school.

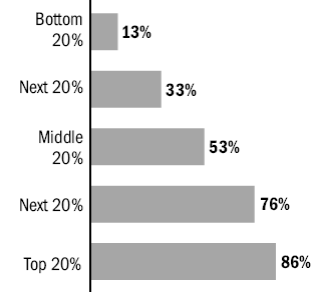
Some federal aid is available, though rising deficits are hindering advocates' hopes of winning a nationwide program anytime soon.

But the disparate and decentralized nature of the programs makes it difficult for would-be beneficiaries or supporters at the local level to know what's available in their communities, especially since few programs advertise. The New America Foundation is a sort of clearinghouse, along with the nonprofit CFED (originally the Corporation for Enterprise Development), both based in Washington.

Many of the programs are based on the concept of so-called individual development accounts. IDAs

Empty Coffers

Poor and working-class Americans are less likely to save. Percentage of families with retirement accounts by income level:



Source: Federal Reserve

generally are accounts structured to provide a publicly or privately subsidized match for workers' savings, for up to several years, with withdrawals limited to major goals such as a home purchase. Savers get some financial education.

With the help of the nonprofit Women's Opportunity Resource Center in Philadelphia, 26-year-old single mother Carrinnia Woodson opened an account in late 2003. She saved \$80 a month from her county job along with her annual tax refund, and in 13 months qualified for the full \$2,000 match. With her \$4,000, supplemented by local and state housing aid, last September Ms. Woodson got a mortgage for a small three-bedroom house.

Based on what she learned in her money-management classes, she also opened an individual retirement account, bought life insurance and plans to open a college-savings account for her son.

About 33 states have IDA programs of some kind. Pennsylvania's Family Savings Account Program is one of the first and largest statewide programs. To be eligible, a Pennsylvania household must have income less than double the federal poverty level, or about \$40,000 annually for a family of four. Participants must save at least \$10 a week and attend a series of personal-finance workshops. Their savings are matched up to \$2,000 a year, and must go toward college, home purchase or repair, or a business.

To spur savings, the federal government provides tax breaks of roughly \$150 billion a year, mostly for contributions to IRAs and 401(k) plans, and most of which go to the top half of income earners. Low-income workers don't benefit

Savings Sites

Two Web sites for more information on savings programs for low- and moderate-income workers.

www.assetbuilding.org – A "user's guide" for basic information about asset-building, by the New America Foundation, with links to the latest research, community initiatives and news articles.

www.cfed.org – The site of CFED, a nonprofit group that aims to expand economic opportunity. Under the Focus heading, the section on Individual Development Accounts includes a searchable directory of state and local projects. Also under Focus, read about the SEED initiative to encourage children's accounts, including specific "community partners."

because they don't earn enough to pay income taxes.

For the same reason, many aren't eligible for the one federal incentive that is aimed at low- and middle-income households: the 2001 Saver's Credit. It is supposed to reduce taxes on savings of up to \$2,000 for people who make up to \$50,000 a year. But the credit isn't refundable—meaning it isn't available to those without income-tax liability.

Also, the income limit for the credit isn't indexed for inflation, so each year fewer taxpayers qualify. According to a recent economic report, an estimated 59 million people will report 2005 incomes low enough to qualify for a maximum 50% Saver's Credit, but only one-seventh of them will have the tax liability required to claim it.

The Saver's Credit expires after this year, and President Bush isn't proposing to renew it. But members of both parties in Congress do support the credit. Some backers are pressing to index the credit for inflation and make it refundable, but Republican leaders in Congress are opposed.

Simpler Options

Given the costs of liberalizing the Saver's Credit or taking IDA-like programs national, some asset-building advocates have begun stressing simpler, low-cost options.

A prime example: Having employers enroll new hires in 401(k) plans automatically. Most plans require employees to opt in. Many employees don't, especially the lowest paid. In 2000, the first case study of automatic enrollment showed that for the lowest-paid new hires, participation spiked to 80% from 13%.

By Jackie Calmes