New America Foundation

Asset Building Program

The Saver's Bonus

A Proposal to Support Savings by Working Families at Tax Time

Reid Cramer, New America Foundation

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The Saver's Bonus proposal creates an incentive for low- and moderate-income individuals and families to save at tax time. Research has demonstrated that savings outcomes increase when the savings process is made easier and supported by incentives, such as matching deposits. The dollar-for-dollar match of the Saver's Bonus, available right on the tax form, can motivate individuals to both save and save more than they otherwise would.

Benefits of the Tax Time Moment

The Saver's Bonus takes advantage of several unique aspects of tax time to both encourage and facilitate saving by low- and moderate-income individuals and families. One is the ubiquity of tax time since the vast majority of working Americans must file their federal income tax forms every year. The Saver's Bonus is also able to tap into the extensive infrastructure that is behind the tax filing process to relatively quickly and easily open accounts and/or direct monies into them.

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Tax time also represents for many low- and moderate-income working tax filers the receipt of the largest check that they receive all year. For tax year 2009, the average refund size was just under $3,000, and over 24 million EITC recipients received refunds as large as $5,657. This presents them with one of the best opportunities during the year to set aside a meaningful amount of savings. For all of these reasons, tax time represents an ideal time and place to encourage and help most low- and moderate-income Americans to save.

Mechanics of the Saver's Bonus

Every dollar deposited in an eligible savings account would be matched by an additional dollar, up to a maximum of $500 annually. Each year eligible low- and moderate-income individuals and families could receive the bonus in two different ways. They could either report contributions to an eligible account made in the previous year or make a contribution through their federal income tax return using the IRS split refund form, Form 8888.

The bonus would then be transferred directly to the designated account by the Internal Revenue Service (IRS). Those filers without an existing account could open one through the federal income tax form and deposit their refund into this newly-opened account.

Savings products that would be eligible for the Saver's Bonus include IRAs, 401(k)s, 529 College Savings Plans, Coverdell Education Accounts, U.S. Savings Bonds and certificates of deposit (minimum 6 month term). Households with incomes of up to 120 percent of eligibility for the Earned Income Tax Credit (approximately $46,000 for a family of four) would be eligible for the Saver's Bonus.

Differences between the Saver's Bonus and the Saver's Credit

The Saver's Credit is an existing tax credit designed to support contributions by lower income families to tax-preferred accounts associated with retirement. President Obama has proposed several improvements to the Saver's Credit that would make it similar to the Saver's Bonus, including "refundability" which would make it accessible to households without tax liabilities. However, other key distinctions remain.

Greater Flexibility through More Savings Product Choices

The Saver's Bonus allows tax filers to receive matching funds for savings in a variety of different restricted access savings products. Only retirement savings products such as 401(k)s and IRAs are eligible for the Saver's Credit. Households have savings needs beyond retirement and a larger array of savings options should increase the likelihood that they will make the choice to save.

Encourages New Accounts and Savers

The Saver's Bonus would allow tax filers to use their tax refund to open a new account directly on the federal income tax form, as opposed to the Saver's Credit which is only available to tax filers who already have an existing account. The Saver's Bonus would facilitate the entry of new savers into the marketplace by making it easier to start the savings habit.

Targeted to Those Who Need the Most Help Saving

The Saver's Bonus would be available to low- and moderate-income households, those with incomes below approximately $46,000. These households need greater assistance saving given their lower incomes and are the ones who are most likely to see the largest benefits. These tax filers would also be eligible for the reformed Saver's Credit, but it would also apply to households with annual incomes that reach up to $55,500. As a result, the total cost of implementing the Saver's Bonus would likely be less than that of the reformed Saver's Credit.

The Saver's Bonus would provide an accessible savings incentive specifically targeted to the low- and moderate-income families excluded by existing policy, creating a path toward greater savings and financial security.

Policy Rationale

The primary policy rationale for the Saver's Bonus proposal is to create an accessible savings incentive specifically targeted to the low- and moderate-income families excluded by current policy. Savings is an essential element of financial stability, providing a valuable safety net when there is a job loss, a drop in income, or an unanticipated expense. Additionally, savings can facilitate families moving up the economic ladder through productive investments, such as accessing training or educational opportunities, making a downpayment of a home, or seeding an entrepreneurial activity.

Despite the relevance of savings for ensuring economic security and opportunity, many Americans are not saving enough for their future needs, particularly those with lower incomes and fewer resources. According to the Federal

Reserve's 2007 Survey of Consumer Finances, 77 percent of American families are carrying debt with a median value of $67,300. Furthermore, the poorest fifth of American families are carrying a median debt value of $9,000, with a median income of only $12,300. The impact of the Great Recession has further undercut family balance sheets. When savings are not available, families often turn to alternative and more expensive sources of funding, such as payday loans and credit cards that potentially lock families in a cycle of debt rather than savings.

The federal government has a long history of encouraging savings and building assets for families. Each year it provides hundreds of billions of dollars in incentives through the tax system to support a range of wealth building activities, including retirement savings and homeownership. Households with incomes over $50,000 a year receive 90% of these tax benefits. Those with lower incomes and fewer resources are not offered the same array of savings incentives and may need the most assistance getting started on the pathway toward greater savings and financial security. By taking advantage of the tax filing moment when many families receive their largest check of the year, the Saver's Bonus can jumpstart a savings habit. A legislative proposal modeled on this innovative approach (The Saver's Bonus Act of 2008, S.3372) was introduced by Senator Menendez (D-NJ) in the 110th Congress and will be re-introduced in the new Congress.

By simplifying the savings process and offering meaningful incentives at a windfall moment, the Saver's Bonus proposal co-opts the tax filing process into a savings opportunity for low- and moderate- income households, and in doing so, fills a critical gap in current policy.

Additional Resources

Cramer, Reid, Alejandra Lopez-Fernandini, Lindsay Guge, Justin King, and Jamie M. Zimmerman (2010). "The Assets Agenda 2011: Policy Options to Promote Savings and Asset Development." Washington, DC: New America Foundation.

Internal Revenue Service (2009). "Frequently Asked Questions about Splitting Federal Income Tax Refunds." Washington, DC: Department of the Treasury, Internal Revenue Service.

Internal Revenue Service (2010). "Using Your Income Tax Refund to Save by Buying U.S. Savings Bonds." Washington, DC: Department of the Treasury, Internal Revenue Service.

U.S. Congress. *Saver's Bonus Act of 2007.* S.3372. 110th Cong., 2nd Sess. *Congressional Record* (July 31, 2008): S 7904.

MAIN OFFICE
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

CALIFORNIA OFFICE
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

NEW AMERICA FOUNDATION
WWW.NEWAMERICA.NET