
Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block

common sense reforms
real world results

May 2005



Introduction

- Significant share of low- and middle-income families appear to be undersaving for retirement
 - Median value of 401(k)s+IRAs for households on verge of retirement only about \$10,000
- Traditional approach to encouraging saving: tax deductions
 - Deductions have modest value for vast majority of households

Alternative form of financial incentive: Matching contributions

- Match for contributions: Put \$1 into retirement account, get a matching contribution (e.g., 50 cents)
- Matches can be independent of marginal tax rate
- Previous research literature finds mixed effects from match rates

The study

- First large-scale experiment examining effect of match rates on contributions to retirement accounts
- *Randomized* assignment of match rates, overcoming major shortcoming of previous studies

Research project

- Research team:
 - Esther Duflo, MIT
 - William Gale, RSP and Brookings Institution
 - Jeffrey Liebman, Harvard University
 - Peter Orszag, RSP and Brookings Institution
 - Emmanuel Saez, UC Berkeley

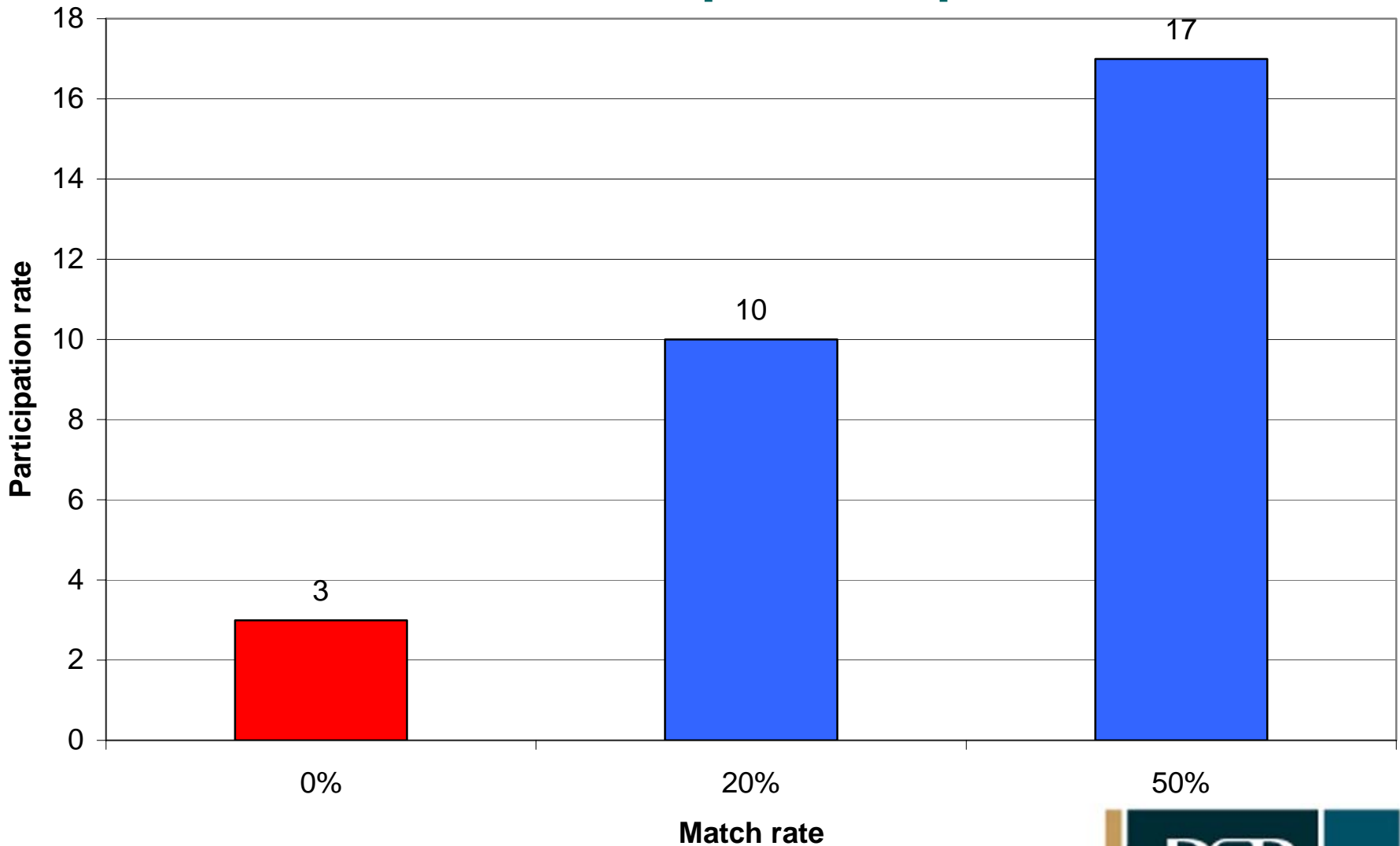
- Research undertaken in conjunction with H&R Block, nation's leading tax preparation firm

Research design

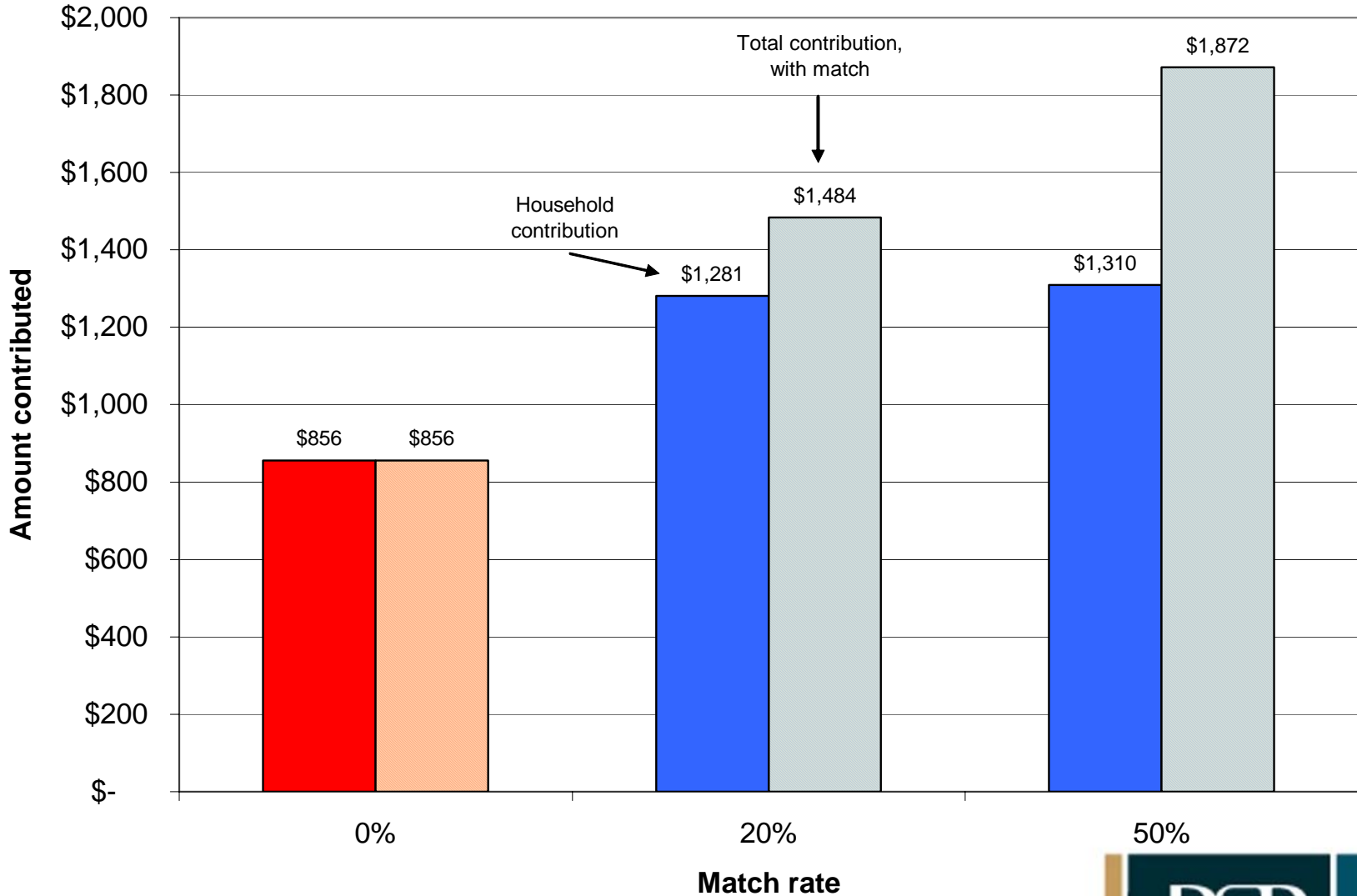
- Experiment run in 60 H&R tax preparation offices in St. Louis area, from March 5th to April 5th
 - 15,000 clients
- Each client was *randomly* assigned a match rate for IRA contributions of up to \$1,000
 - 0 match (control group)
 - 20 percent match
 - 50 percent match
- Contributions were easy and convenient to make
 - Effectively allowed refund to be “split” into retirement contribution and other uses
 - Easy IRA signup

Results

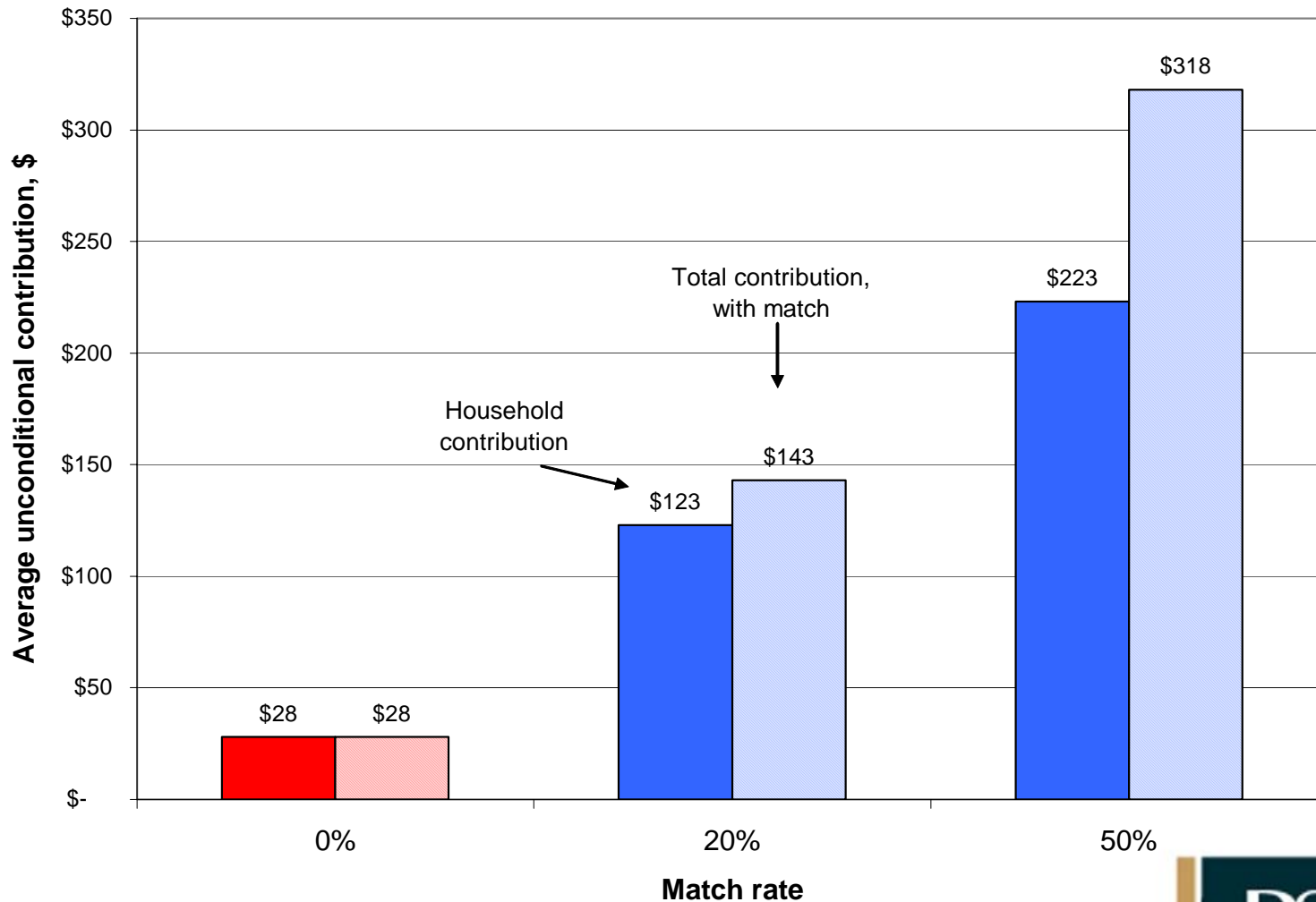
Matches boost participation...



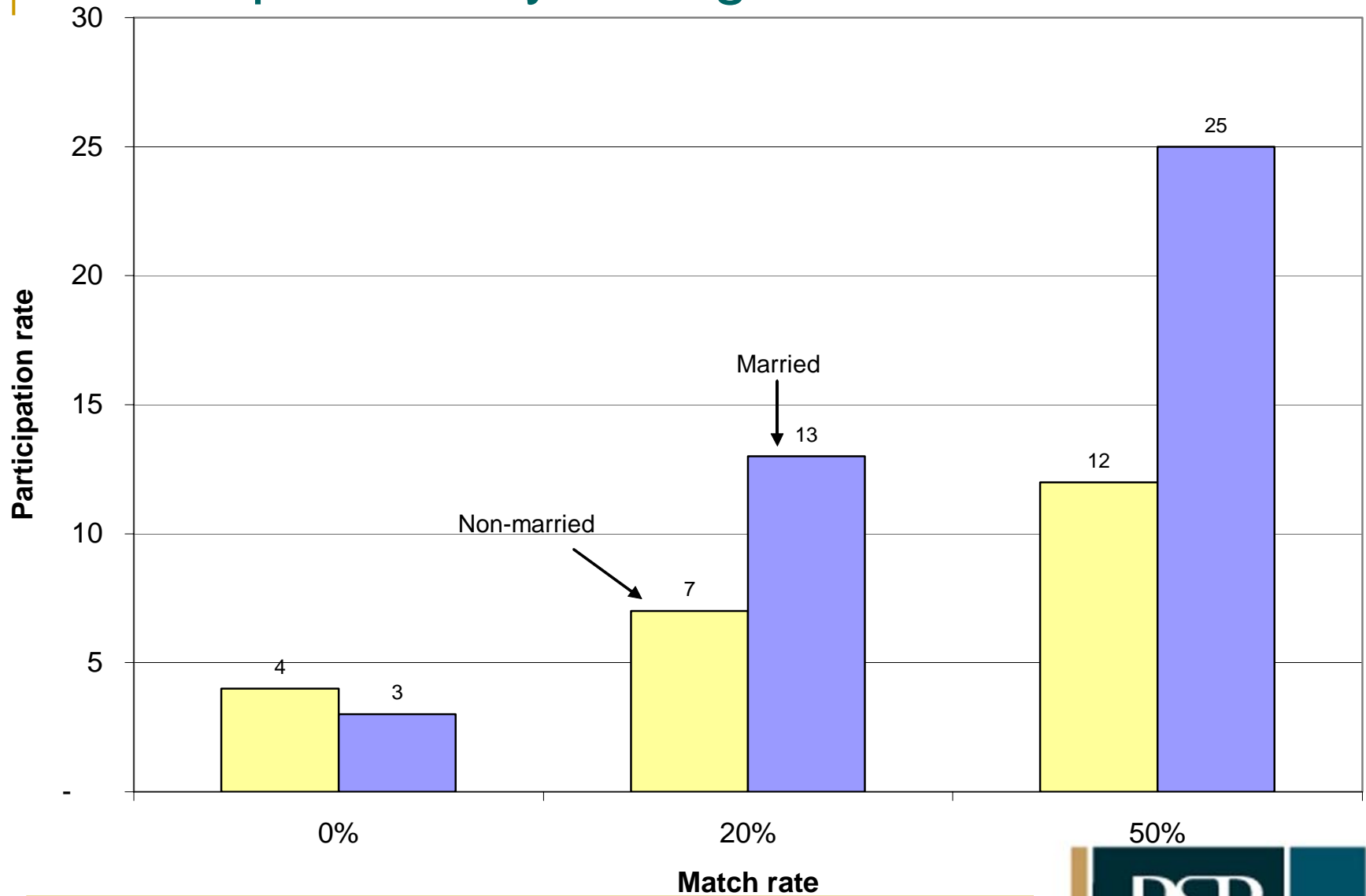
...and contributions for participants



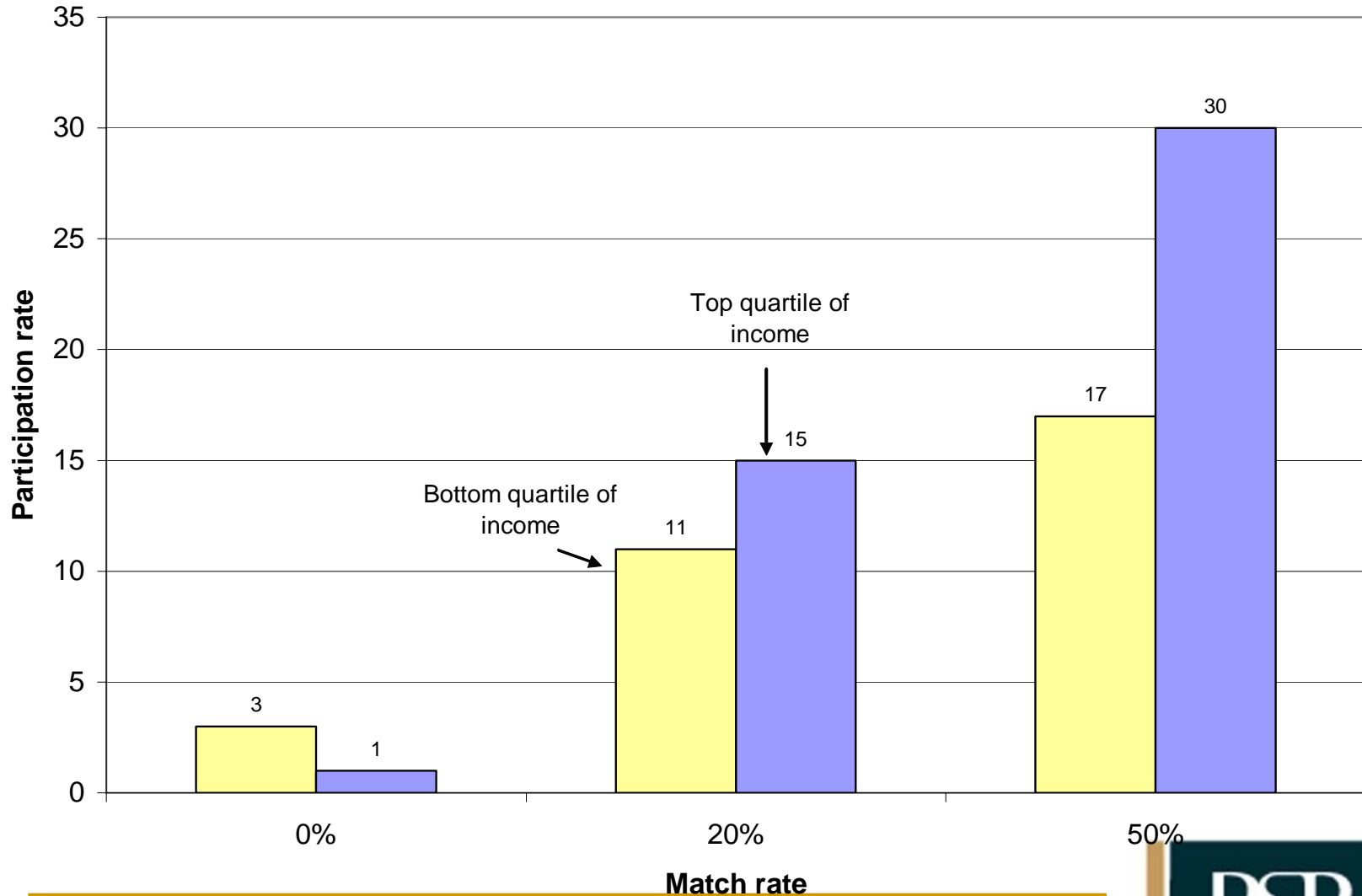
...both of which boost average contribution (including participants *and* non-participants)



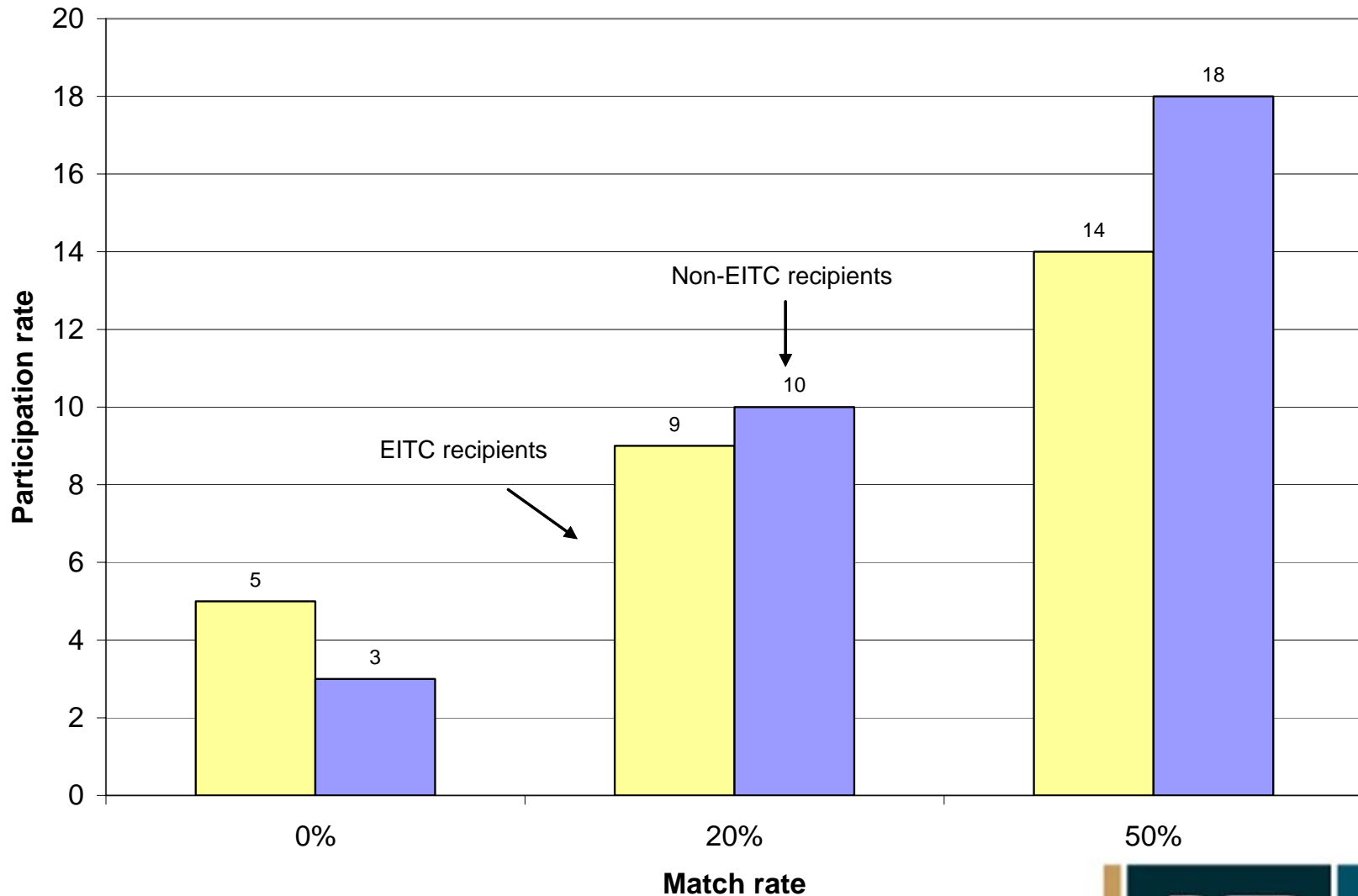
Effects particularly strong for married filers



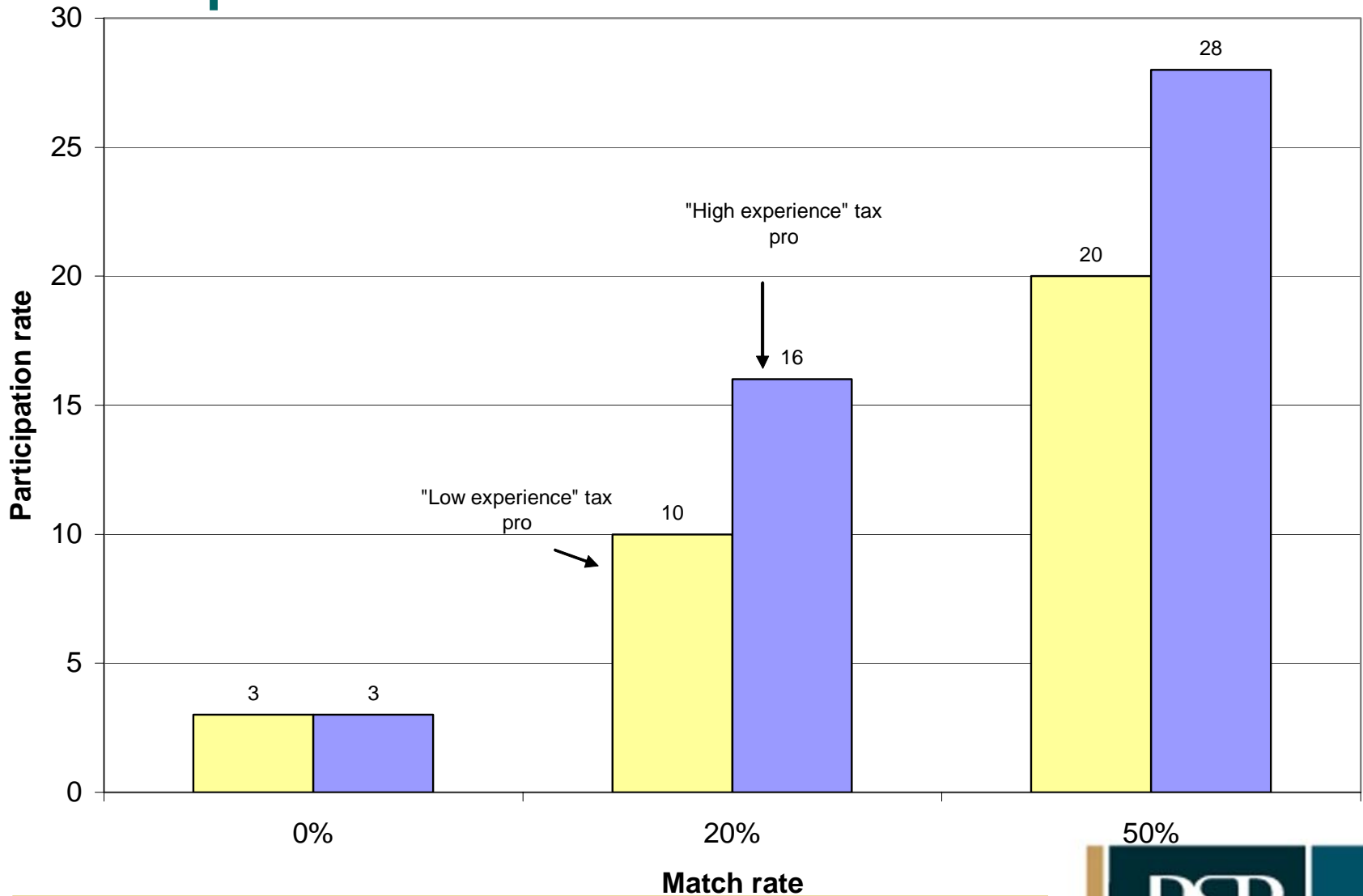
Effects stronger for high-income married couples, but still significant for low-income couples...



...and for EITC and non-EITC recipients



Tax pro effects for married filers



Cashing out

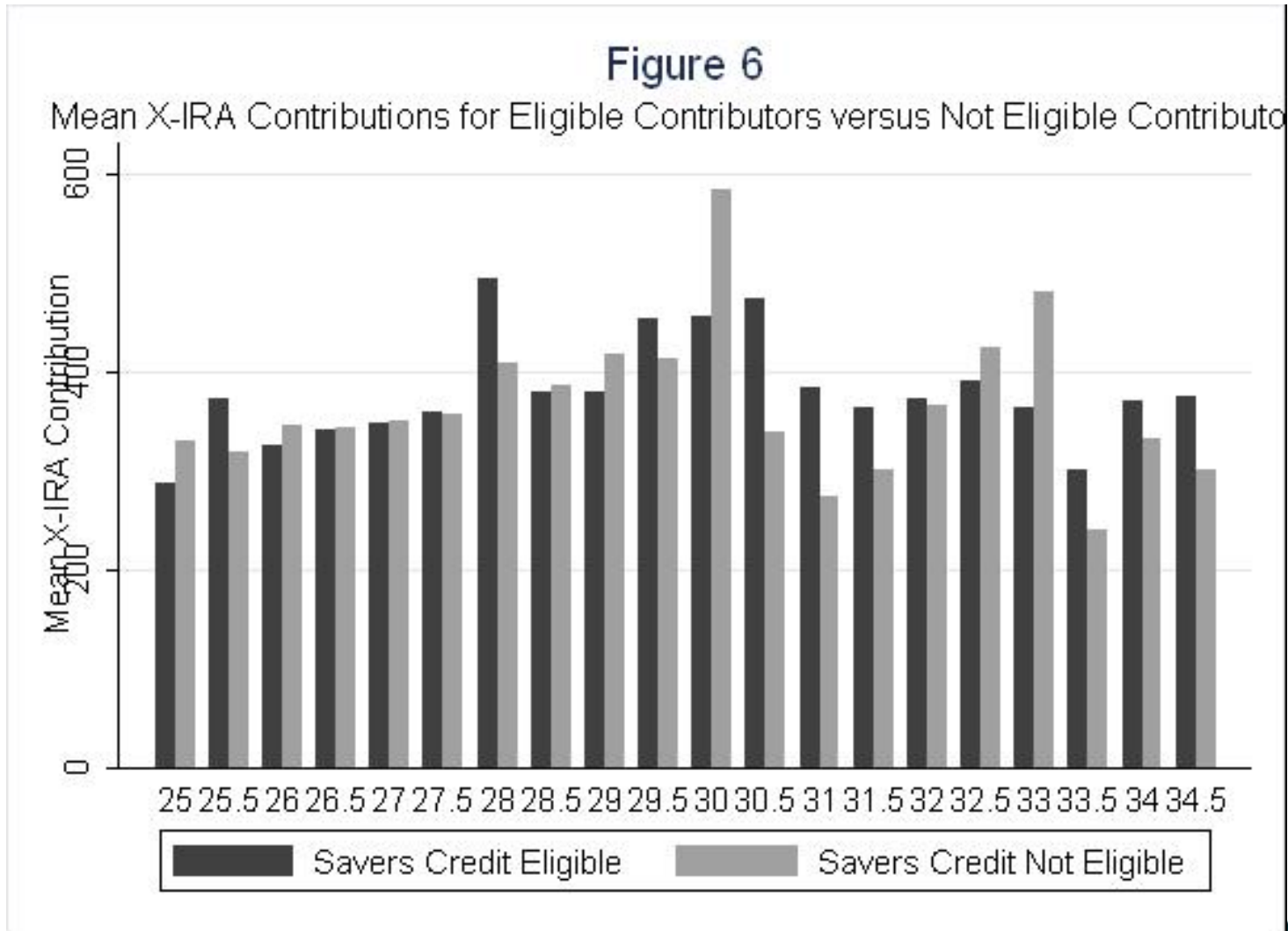
- Need to monitor withdrawals
 - Thus far, minimal
- Related issue: Why not contribute to Roth IRA, trigger match, and then withdraw funds?
 - Rational model would suggest near-universal participation in experiment
 - Only about 60 percent of contributors used Roth (which has more generous tax provisions for early withdrawals)

Saver's Credit effective matching rates by income

Adjusted Gross Income		Credit rate (percent)	Tax credit for \$2,000 contribution	After-tax cost of \$2,000 contribution	Effective after- tax match rate (percent)
Married filing jointly	Singles and married filing separately				
0-30,000	0-15,000	50	1,000	1,000	100
30,001-32,500	15,001-16,250	20	400	1,600	25
32,501-50,000	16,251-25,000	10	200	1,800	11

Calculations assume filer has sufficient federal tax liability to benefit from the nonrefundable credit shown, and exclude the effects of any tax deductions or exclusions associated with the contributions or with any employer matching contributions.

Effects of Saver's Credit



Conclusions

- Higher match rates significantly raise IRA participation and contributions
 - Take-up rates were 3 percent for the control group, 10 percent in the 20 percent match group, and 17 percent in the 50 percent match group.
 - Average IRA contributions (excluding the match) for the 20 percent and 50 percent match groups were 4 and 8 times higher than in the control group, respectively.
- Transparent and understandable financial incentives are more effective
 - For example, we find modest effects on take-up and amounts contributed from the existing Saver's Credit; differences may reflect complexity of the Saver's Credit as enacted and way in which its effective match is presented.

Conclusions

- **Bottom line: Significant increase in retirement contributions possible, even among low- and middle-income households, with:**
 - ❑ clear and understandable match for saving
 - ❑ easily accessible savings vehicles
 - ❑ opportunity to use part of income tax refund
 - ❑ professional assistance