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A PENNY SAVED IS MOBILITY EARNED:

ADVANCING ECONOMIC MOBILITY THROUGH SAVINGS

EXECUTIVE SUMMARY

As the saying goes, "A penny saved is a penny earned," but does that penny saved translate into greater economic mobility? Movement up the income ladder is fairly limited for children of low-income parents—42 percent of children born to parents on the bottom rung of the income ladder remain on the bottom rung a generation later.[i] To date, however, there has been less analysis that shows clearly how income mobility differs based on one's own or one's parents' level of savings. This paper clearly demonstrates the relationship between savings and economic mobility.

Using data from the Panel Study of Income Dynamics (PSID), the paper first explores whether having parents with high savings (i.e., above median savings) or having high savings oneself, improves one's chances of making the climb up the income ladder, or prevents one from falling down it. Second, it examines federal incentives and disincentives to savings in the federal tax code and public assistance programs. And third, consistent with the project's recently released nonpartisan policy road map to enhance mobility, it makes recommendations on ways public policy can be improved to encourage savings, especially among low- and moderate-income families.

Children of low-income, high-saving parents are more likely to experience upward income mobility.

- Children of low-saving (i.e., below median), low-income parents are significantly less likely to be upwardly mobile than children of high-saving, low-income parents.
- Seventy-one percent of children born to high-saving, low-income parents move up from the bottom income quartile over a generation, compared to only 50 percent of children of low-saving, low-income parents.

Higher personal savings also promotes greater upward mobility of individuals within their own lifetimes.

- Among adults who were in the bottom income quartile from 1984-1989, 34 percent left the bottom by 2003-2005 if their initial savings were low, compared with 55 percent who left the bottom if their initial savings were high.

At the top of the income ladder, savings rates are not necessarily a good predictor of downward mobility.

- Children of high-saving, high-income parents are no less likely to move down the income ladder than children of low-saving, high-income parents.
  - Forty-five percent whose parents had high savings remained on the top income rung as adults versus 39 percent whose parents had low savings.
- Similarly, adults who started out with incomes in the top quartile were equally likely to remain in the top income quartile 15 to 20 years later regardless of whether they had high savings (63 percent still at the top) or low savings (60 percent still at the top).

The federal government has in place a suite of tax policies and specially-designated accounts that promote savings.

- It is estimated that the federal government will devote almost $130 billion in FY 2010 to incentivize contributions to retirement, health, and education savings vehicles, the overwhelming majority of which ($126 billion) are associated with retirement.

Very little of the benefits from federal savings vehicles go to low-income households.

- As an example, in 2004, among those participating in retirement plans, those in the lowest income quintile received just 0.2 percent of the federal tax benefits (an average of $6 per tax filer), while those in the highest income quintile received 70 percent of the benefits (an average of $1,838 per tax filer).

Asset limits in public assistance programs discourage savings among low- and moderate-income families—those whose economic mobility is most likely to benefit from personal savings.

- Asset limits vary widely across programs and, in some cases, within programs, especially for those that allow states to set their own eligibility criteria.

Consistent with the Economic Mobility Project's nonpartisan policy road map, the paper encourages policymakers to **remove disincentives to savings in public assistance programs and to encourage savings via the tax code particularly for low-income Americans.**

[i] Isaacs, Haskins, and Sawhill, 2007.