A PENNY SAVED IS MOBILITY EARNED:

ADVANCING ECONOMIC MOBILITY THROUGH SAVINGS

BY REID CRAMER, ROURKE O'BRIEN, DANIEL COOPER, AND MARIA LUENGO-PRADO

ECONOMIC MOBILITY PROJECT
An Initiative of The Pew Charitable Trusts

By forging a broad and nonpartisan agreement on the facts, figures and trends in mobility, the Economic Mobility Project is generating an active policy debate about how best to improve economic opportunity in the United States and to ensure that the American Dream is kept alive for generations that follow.

PEW'S ECONOMIC MOBILITY PROJECT TEAM

John Morton, Managing Director
Ianna Kachoris, Project Manager
Scott Winship, Ph.D. Research Manager
Jeremy Ratner, Communications Officer
Samantha Lasky, Communications Manager
Erin Currier, Senior Associate
Colleen Allen, Specialist
Lindsay Nelson, Administrative Assistant

ACKNOWLEDGEMENTS

Reid Cramer is Director of the Asset Building Program at the New America Foundation.

Rourke O'Brien is a Research Fellow with the Asset Building Program at the New America Foundation and a doctoral student in sociology and social policy at Princeton University.

Daniel Cooper is an Economist in the Research Department at the Federal Reserve Bank of Boston.

Maria Luengo-Prado is an Associate Professor at Northeastern University Department of Economics.

The analysis in Chapter 1 was completed independently of the rest of this report, and the views and opinions expressed there are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System. Cooper and Prado do not necessarily endorse the views expressed in Chapters 2, 3, and 4.

All Economic Mobility Project (EMP) materials are reviewed by and guided with input from the project's Advisory Board (see back cover). The views expressed in this report are those of the authors, and not necessarily those of the institutions they represent, of EMP's Advisory Board or of The Pew Charitable Trusts.

www.economicmobility.org

© November 2009

A PENNY SAVED IS MOBILITY EARNED:

ADVANCING ECONOMIC MOBILITY THROUGH SAVINGS

BY REID CRAMER, ROURKE O'BRIEN, DANIEL COOPER, AND MARIA LUENGO-PRADO

CONTENTS

2 EXECUTIVE SUMMARY

4 INTRODUCTION

6 CHAPTER 1
SAVINGS AND ECONOMIC MOBILITY
Daniel Cooper and Maria Luengo-Prado

11 CHAPTER 2
SAVINGS POLICY AND THE TAX CODE
Reid Cramer

23 CHAPTER 3
SAVINGS POLICY AND ELIGIBILITY RULES FOR PUBLIC ASSISTANCE
Rourke O'Brien

30 CHAPTER 4
ENCOURAGING SAVINGS TO ADVANCE MOBILITY
Reid Cramer and Rourke O'Brien

37 APPENDIX

58 NOTES

63 REFERENCES

ECONOMIC MOBILITY PROJECT
An Initiative of The Pew Charitable Trusts

BY REID CRAMER, ROURKE O'BRIEN, DANIEL COOPER, AND MARIA LUENGO-PRADO

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.

A PENNY SAVED IS MOBILITY EARNED:

ADVANCING ECONOMIC MOBILITY THROUGH SAVINGS

INTRODUCTION

A previous Economic Mobility Project report, *Pathways to Economic Mobility*, noted that "one of the keys to economic mobility is saving and creating wealth that can be used during one's working life to advance up the economic ladder or be given to children to improve their economic prospects." Through savings, parents can help children pay for higher education and other mobility-enhancing investments and also may be able to prevent their children from experiencing downward mobility when unexpected problems arise. Similarly, adults who save may be better situated to improve their own upward mobility. In other words, not only is a penny saved a penny earned, a penny saved is mobility earned.

Despite the importance of savings, most Americans, particularly those with lower incomes, appear not to be saving a lot. A recent survey by the Consumer Federation of America found that 64 percent of households with incomes under $25,000 have less than $500 in emergency savings; for households with incomes between $25,000 and $50,000, 38 percent have less than $500 available.[1] Furthermore, data collected by the Federal Reserve indicate that for households in the bottom two income quintiles, the median value of savings held in a transaction account in 2007 was reported to be $800 and $1,600, respectively, essentially unchanged from 2004 and down from 2001 levels ($1,000 and $2,100 respectively).[2] The recent economic downturn has depleted the savings of many families even further, necessitating a closer look at the ways in which federal policies create obstacles to increased savings that must be overcome.

A Penny Saved is Mobility Earned describes how savings and mobility are related and ways in which public policy can be improved to encourage Americans to save more and, thereby, improve their prospects for upward mobility. To examine households' economic mobility and the extent to which savings facilitates it, Chapter 1 presents analysis by Daniel Cooper and Maria Luengo-Prado drawing on data from the Panel Study of Income Dynamics (PSID).[3] Chapters 2 and 3, by Reid Cramer and

Rourke O'Brien, explore the ways in which the federal tax code and means-tested public assistance programs do or do not promote savings. Given their analysis, in Chapter 4, Cramer and O'Brien present a range of recommendations for policymakers to consider that will encourage Americans to save and build assets, thereby improving their ability to climb the income ladder.

The report argues that savings are particularly important for those at the bottom of the ladder and there are important ways that public policies fail to encourage these families to save. While the federal government spends hundreds of billions of dollars every year to promote savings, these outlays are heavily skewed toward moderate- and upper-income households—families that are able to accumulate relatively large savings regardless of such programs. Programs such as employer-sponsored savings plans and complex systems of savings options are often inaccessible to low-income Americans and, therefore, this population fails to benefit from the existing tax incentives. Further, the rules that govern federally supported, means-tested programs impose limits on the amount of savings or assets a family can hold and still qualify for benefits. These rules and their implementation at the state and local level have served to discourage savings among those who would benefit the most, making the path to self-sufficiency and economic mobility more difficult. Considering this data, the report suggests a number of policy changes that would help more Americans, and their children, climb the income ladder through savings.

CHAPTER 1

SAVINGS AND ECONOMIC MOBILITY

Daniel Cooper and Maria Luengo-Prado

The Economic Mobility Project has previously established the strong role that parental *income* plays in influencing one's prospects for 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.[4] To date, there has been less analysis of savings and income data that shows clearly how income mobility differs based on one's own or one's parents' level of *savings*. In other words, does having parents with greater savings, or having greater savings oneself, improve one's chances of making the climb up the income ladder or prevent one from falling down the income ladder?

Using the Panel Study of Income Dynamics (PSID), this chapter explores the relationship of savings to income mobility in greater detail, tracking over generations whether parents having relatively high or low savings impacts where in the income distribution their children will end up as adults. It also explores this question for individuals over a twenty-year period (i.e., intragenerationally). The analyses show that both having parents with a higher level of savings and having a higher level of savings oneself significantly increases one's chances of making the climb up the income ladder, particularly for low-income individuals and families. However, it appears that a higher level of savings does not have a substantial impact on the chances of experiencing downward mobility.

MEASURING SAVINGS AND INCOME MOBILITY

The PSID is advantageous for this research because it tracks households and their offspring starting in 1968. The analysis in this chapter includes data through 2005.[5] The PSID contains detailed information on households' financial asset holdings as part of wealth supplements in 1984, 1989, 1994, and 1999 onwards. The financial assets and liabilities surveyed include cash and bond holdings, stock holdings, real estate assets, other real estate holdings, individual retirement accounts (IRAs) and pension accounts, farms and businesses, vehicles, and non-collateralized debt (which is viewed as dis-saving).[6] The measure of "savings" used in this report includes households' financial wealth, but excludes any housing equity in a household's primary residence. In other words, "savings" can be thought of as non-housing wealth. Housing is a unique asset because it both satisfies families' need for shelter and serves as an investment vehicle.[7] A future report from the Economic Mobility Project will examine the particular role of homeownership and housing wealth in facilitating economic mobility.

This chapter compares households' income in the second half of the 1980s with their income in the first half of the current decade. Given the representative nature of the PSID, the age of the household heads in the sample varies greatly. As a result, household income is adjusted to control for differences based solely on head of household's age before ranking households within the income distribution.[8] Households are then ranked based on the average of their 1984 and 1989 incomes and divided into four equally sized groups, or quartiles.[9] The same approach is followed for households' 2003 and 2005 incomes. The *intergenerational* results compare parents' income in the earlier period with that of their adult children in the more recent period. To maximize the number of households in the analyses, all available adult children are examined, regardless of whether they lived with a parent in 1984–1989. The *intragenerational* analyses compare a given household's economic status in 1984–1989 with its status in 2003–2005. Because the wealth supplements began only in 1984, the analyses are confined to these years.

To determine whether income mobility is related to initial savings levels, these analyses were also conducted after splitting families into "low-savings" and "high-savings" groups. The low-savings group has savings in the bottom half of all families (i.e., below median savings); the high-savings group has savings that put them in the top half of families (i.e., above median savings). The cut-off separating the bottom and top halves is equal to roughly $38,000 in the intergenerational mobility analyses and $30,700 in the intragenerational mobility analyses (in 2000 dollars).

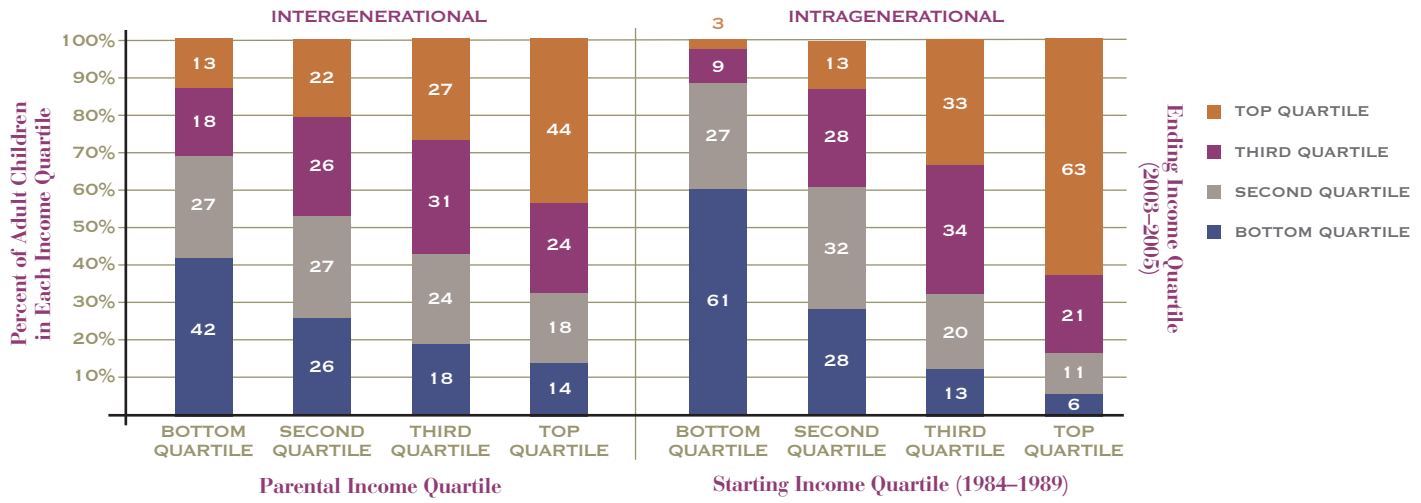
Consistent with previous research by the Economic Mobility Project, we find limited income mobility from the bottom and top rungs of the income ladder. The left panel of Figure 1 shows where adults who started out in different quartiles based on their parents' income ended up as adults. The right panel shows how adults' positions changed from the 1984–1989 period to the 2003–2005 period. Among those whose parents were in the bottom quartile (who had about $23,700 in 2000 dollars average), 42 percent remained in the bottom as adults (earning an average income of about $18,400 in 2000 dollars). Similarly, 44 percent of those who started out in the top quartile (whose parents earned $116,800 on average) were also themselves at the top as adults (earning $125,200 on average). In contrast, the chances of rising from the bottom to the top or falling from the top to the bottom were low, with just 13 and 14 percent respectively, experiencing such a large change in income. These patterns typify a phenomenon previously identified in research by EMP and others—"stickiness" at the bottom and top of the income distribution that limits mobility.

Intragenerational mobility is characterized by even more stickiness. Looking at incomes over 15 to 20 years of a person's adulthood, we find that mobility is even more limited than it is across generations. Fully 61 percent of those whose own income put them in

the bottom quartile from 1984–1989 ($22,300 average income) remained there from 2003–2005 ($21,100 on average). About the same proportion (63 percent) of those whose own income put them in the top quartile ($110,700 on average) were still there in 2003–2005 ($139,800 on average). In contrast, very few households fell from the top income quartile to the bottom quartile or rose from the bottom to the top.

FIGURE 1

Income Mobility is Limited at the Top and Bottom of the Income Ladder



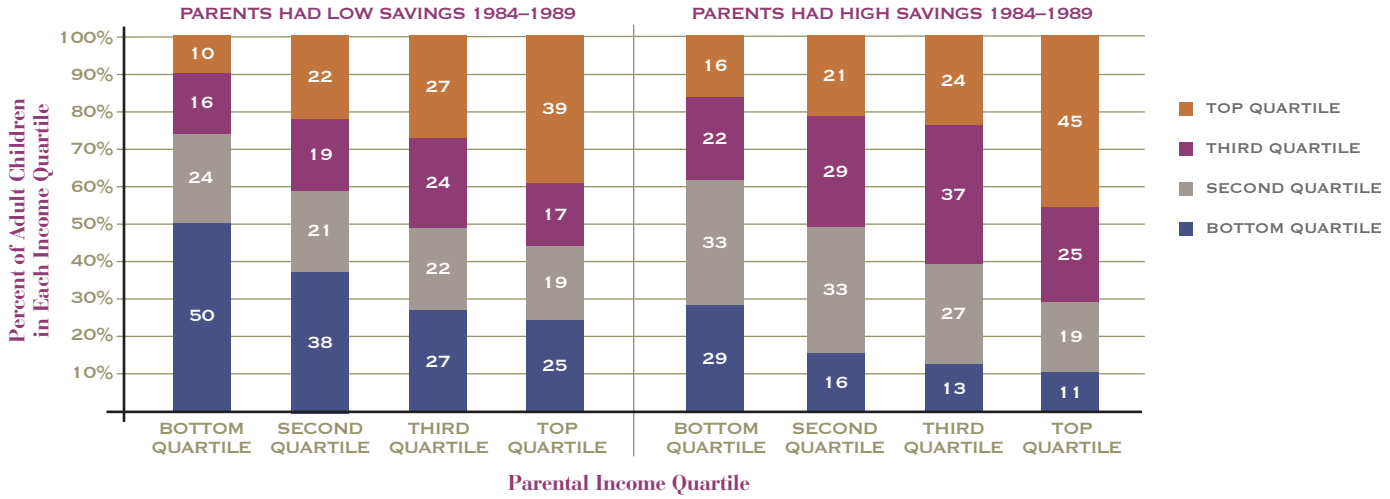
Note: Columns may not add to 100 due to rounding.

Across generations having greater savings increases the chances one will experience upward income mobility from the bottom of the income ladder, but does not necessarily decrease downward mobility from the top. Intergenerational income mobility varies depending on how much savings parents have. Fully 50 percent of Americans starting out in the bottom income quartile remained there as adults if their parents had low savings levels (see Figure 2). However, if their parents had high savings levels, just 29 percent of children remained in the bottom income quartile as adults. Since 25 percent would remain in the bottom if there was perfect income mobility, this difference is fairly sizable.

On the other hand, parental saving is not necessarily associated with downward income mobility from the top. Among those whose parents had high savings, 45 percent of children who started in the top income quartile remained there as adults; 39 percent did if their parents had low savings. This stickiness at the top regardless of parental savings is not surprising. Parents in the top income quartile are more likely than parents in the bottom to have other assets aside from savings that they can leverage to support their children's upward income mobility.

FIGURE 2

Parental Savings are Associated with Greater Upward Income Mobility but Not Less Downward Mobility

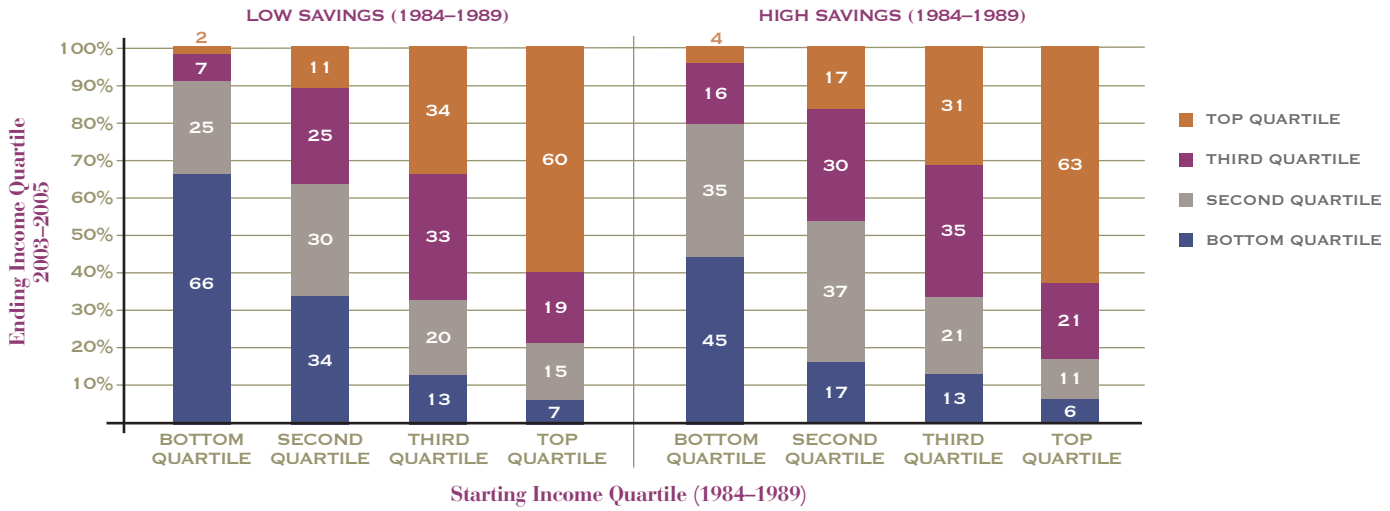


Note: The low-savings group has savings in the bottom half of all families (i.e., below median savings); the high-savings group has savings that put them in the top half of families (i.e., above median savings). Columns may not add to 100 due to rounding.

Within one's lifetime, having greater savings also increases the chances of experiencing upward income mobility from the bottom of the income ladder. Figure 3 shows that among adults who were in the bottom income quartile in 1984–1989, 66 percent remained there in 2003–2005 if their initial savings were low, compared with 45 percent who remained at the bottom if their initial savings were high. Once again, however, initial savings appear unrelated to downward income mobility from the top. While 63 percent of those who started out with incomes in the top quartile and with high savings remained in the top income quartile 15 to 20 years later, 60 percent of those who started out with incomes in the top quartile and low savings did as well.

FIGURE 3

A Person's Own Initial Savings are Associated with Greater Upward Income Mobility but Not Less Downward Mobility



Note: The low-savings group has savings in the bottom half of all families (i.e., below median savings); the high-savings group has savings that put them in the top half of families (i.e., above median savings). Columns may not add to 100 due to rounding.

CONCLUSION

It is clear from the analysis presented here that people who have higher savings experience greater upward mobility. In particular, the results show that savings is potentially an important factor in advancing one's children and oneself up the income ladder, especially for those households who start at the bottom of the income distribution. By facilitating investment in children, for example, families that save can boost their human capital and promote their economic success.

Savings appear to be less important in preventing downward mobility from the top, either across generations or over the span of a person's own working years, possibly because other assets take the place of savings to serve as a buffer against downward mobility.

Using public policy to promote savings, then, would appear to be a potentially beneficial strategy for enhancing upward economic mobility, especially among low-income families and households. The remaining chapters discuss ways in which existing policy fails to do so and how it could be improved to open up the American Dream to more people.

CHAPTER 2

SAVINGS POLICY AND THE TAX CODE

Reid Cramer

The vast majority of federal incentives to increase ownership and savings, estimated to exceed $360 billion in 2010, are delivered though the tax code as tax expenditures, and mostly claimed by wealthier households.[10] This chapter scrutinizes the use of tax incentives to encourage savings, both in general and for households with lower incomes and fewer resources. Even though this population has diverse characteristics in terms of age, family structure, and relationship to the workforce, as a group their economic security and potential for economic mobility would benefit from increased savings. Without access to supportive policies to promote savings, many households miss out on the potential boost that savings can supply to their mobility.

Over time, the U.S. tax code has been amended with the explicit purpose of increasing personal savings. Beginning in 1974, Congress created IRAs, which allow individuals to defer paying taxes on any capital gains and dividends that build up in their accounts until after they retire. In 1978, Congress followed through with the creation of the first 401(k) plans, which also offer tax-deferred retirement savings but are established by employers on behalf of their employees. The two programs did not attract much attention until the Economic Recovery Tax Act of 1981 which expanded the tax-saving benefits associated with participation. Between the mid-1990s and early 2000s, additional tax advantages were offered to those saving for education and health care costs.

Collectively, this suite of tax policies and specially designated accounts constitutes the primary means by which the federal government offers support to savers. With favorable tax treatment of deposits, significant resources are at stake through foregone revenue.[11]

In fact, it is estimated that the federal government will devote almost $130 billion in FY 2010 to incentivize contributions to these savings vehicles, the overwhelming majority of which are associated with retirement (see Table 1). The scale of these resources reflects the public commitment to a set of objectives related to long-term savings, but it raises the question of whether the public is getting its money's worth.

Previous research has sought to address the degree of uncertainty in determining how effective these incentives are in promoting savings.[12] From this work, one thing is clear: how these policies treat different kinds of savers varies enormously. Those who have little or no tax liability receive little or no incentive to save. Meanwhile those with the highest incomes receive the highest benefits, which they may use simply to shelter

TABLE 1

Budget Cost of Tax-Favored Savings Vehicles (in millions of dollars)

	FY 2008	FY 2009	FY 2010
RETIREMENT			
Net Exclusion of Pension Contributions: Employer Plans	46,120	45,670	44,370
Net Exclusion of Pension Contributions: 401(k) Plans	47,000	50,000	53,000
Net Exclusion of Pension Contributions: IRAs	11,700	12,700	13,500
Net Exclusion of Pension Contributions: Saver's Credit	890	980	1,050
Net Exclusion of Pension Contributions: Keough Plans	12,000	13,000	14,000
Subtotal	***117,710***	***122,350***	***125,920***
EDUCATION			
Coverdell Education Savings Account (Education IRA)	30	40	60
529 College Savings and State Prepaid Tuition Plans	1,030	1,250	1,480
Subtotal	***1,060***	***1,290***	***1,540***
HEALTH			
Medical Savings Accounts/Health Savings Accounts	1,830	1,930	2,030
Subtotal	***1,830***	***1,930***	***2,030***
TOTAL	**120,600**	**125,570**	**129,490**

Source: Office of Management and Budget, 2009. Table 19-1.

Notes: Budget costs are estimates of foregone revenue that would otherwise be collected by the U.S. Treasury. They are commonly referred to as tax expenditures.

money that they would have saved anyway. The flip side of this is that the current policy structure leaves out those that might benefit from savings the most.

These policies also come with rules governing eligibility, contributions, and withdrawals. Such restrictions may coerce some individuals into patterns of savings that are not appropriate to their circumstances or deter them from participating at all. A lower-income household, for example, may wind up with savings locked into an IRA that would bring them higher benefits if the money were invested instead in purchasing a car to get to work, buying a home, or accessing additional education. If current policy does not recognize this diversity of savings needs, it may unintentionally serve as a barrier to increased saving.

Additionally, the complexity of rules creates administrative costs and compliance burdens that discourage some employers from offering savings plans to their workers, undermining the policy objective of increased personal savings and undercutting the opportunity to promote economic mobility.[13]

There are a wide variety of federal savings vehicles. For the most part, tax incentives to induce savings come from a common mold. They involve making deposits into specially designated financial products that are afforded special

tax treatment, which increase the effective rate of return on savings. The tax code identifies the specific set of rules that govern these special accounts and savings plans. If resources are withdrawn for qualified purposes, this treatment is favorable; if the withdrawals are for other purposes, penalties may be applied. (Table A1, which appears in the Appendix, presents a description of 15 distinct savings accounts and plans that have been created for the explicit purpose of increasing the amount of resources households save for the future.[14]) The financial resources held in these accounts can take a variety of forms such as individual securities, savings bonds, and investment funds, but always require cash deposits to be put aside for a future event, such as hospitalization, home purchase, postsecondary education, or retirement.[15] The policy goal of inducing savings for specific purposes distinguishes these vehicles from other holdings of personal savings and investments.[16]

The various accounts and savings plans differ from one another in many ways, including who opens the account, when tax benefits are delivered, who is eligible to participate, the rules that determine how contributions to the account are made, and the rules that govern how withdrawals from the account are made. All of these issues collectively determine the level of tax benefits that can accrue to each participant. (For more information on the differences between savings plans, see the box, "Variations in Tax-Favored Savings Vehicles.") Ultimately, it is these benefits that create the incentive which entices or compels individuals to participate in these savings products.

The fact that each vehicle has a unique definition of qualified uses and unique exemptions from penalty sends a range of mixed messages about what the policy intends to accomplish. For example, accounts and plans that are often described as retirement vehicles have a number of other uses, such as to help pay for a first-time home purchase, that are permissible without penalty. Although some of the public may view the list of qualified uses as clear policy signals that define the purposes of each account, others object that withdrawals used for other than the main or most distant purpose divert resources and deprive the account holder of long-term investment growth.

Limiting the qualified uses of savings accounts and plans is especially relevant for households with fewer resources, who may need increased flexibility, both in times of hardship and as a means to save for other assets that can pay off over the life course. It is constructive to consider how the collective set of tax rules serve as a foundation for our national savings policy, and whether they are effective at achieving their goals. To do so, we need to examine the savings opportunities created by these tax incentives by asking three questions: Who is participating? How much are they contributing? How are the tax benefits distributed among the population?

VARIATIONS IN TAX-FAVORED SAVINGS VEHICLES

Account Opening: Individual or Employer-Sponsored

Tax-favored savings vehicles may be opened by either an employer or by the individual account holder. The most recognized employer-sponsored plan is the 401(k) saving plan, but there are others such as the 403(b) offered by nonprofit organizations and Keough Plans for the self-employed. With these vehicles, employers are offered tax benefits to open and contribute to these plans as part of their compensation benefits package to employees. Most individuals also are able to open tax-favored savings accounts, such as IRAs and Health Savings Accounts (HSAs). Individuals who open IRAs can access tax benefits based on the amount of their contributions and their incomes.

Tax Treatment: Front-Loaded or Back-Loaded

Tax-favored accounts and savings plans have benefits that are either front-loaded or back-loaded. Benefits are front-loaded when contributions are not taxed and earnings grow tax-free until the funds are withdrawn or distributed. At that time, both the contributions and earnings are taxed. Traditional IRA and 401(k) plans are examples of front-loaded savings accounts. Benefits are back-loaded when contributions are made with income that has already been taxed, but are allowed to grow tax-free. Neither the contributions nor earnings are taxed for qualified withdrawals. The Roth IRA is an example of a back-loaded plan.[17] The one savings account that has benefits on both ends is the HSA—pre-tax dollars can be contributed to HSAs and untaxed withdrawals can be made for qualified medical purposes.

Income and Contribution Limits

Tax-favored accounts and savings plans have rules that determine how much money can be contributed during a given period of time. These rules seek to limit the use of these accounts as tax shelters and vary by account type. For example, contributions to Roth IRAs are capped at $5,000 per person and at $6,000 if the person is 50 or over. There also are income limits that determine if a person is eligible to make a tax-advantaged contribution to these accounts.[18]

Qualified Uses

To ensure that the resources that are deposited and accumulated within these tax-favored savings accounts and plans are used for sanctioned purposes, all programs have rules that determine the tax treatment of withdrawals. Withdrawals for qualified purposes receive the most beneficial tax treatment, while non-qualified withdrawals are penalized with higher taxes. The qualified purposes are related to the policy objectives conveyed by the tax rules and some accounts restrict the qualified purpose to one specific objective. For example, a Coverdell Educational Savings Account only allows tax-free withdrawals when the funds are used for qualified education expenses. Accounts generally focus the tax benefits on withdrawals for purposes specified in the tax code, such as retirement security, home purchases, or postsecondary educational expenses.

Participation in savings vehicles varies with age, income, and marital status.[19] All persons are eligible to participate in federal savings vehicles and almost all people are eligible to participate in savings vehicles that are afforded beneficial treatment by the tax code.[20] Still, rates of participation vary widely across the population.

Examining data from individual tax returns, the Congressional Budget Office (CBO) assessed who contributes and how much to a variety of tax-favored savings vehicles, including employment-based plans, self-employed plans, and IRAs as well as traditional defined-benefit pension plans that receive favorable tax treatment for employer contributions.[21] Because this work included data from multiple years (1997, 2000, and 2003), the analysis considered both recent trends over time and the impact of legislation that changed the rules for contributions.[22]

The primary finding of the CBO analysis is that while almost all workers are eligible to participate by saving in a tax-favored account or saving plan, only half actually do, as described in Table 2.[23] The breakdown among the various vehicles is revealing. In 2003, 29 percent of tax filers participated in a 401(k)-type plan, 17 percent participated in a defined-benefit (non-contributory) plan and 7 percent participated in an IRA (4 percent had a traditional IRA and 4 percent had a Roth IRA).

TABLE 2 **Participation in Tax-Favored Savings Vehicles Associated with Retirement, 2003, by Account or Plan Type**

	Number of Workers (in thousands)	Percentage Actively Participating in Any Plan
401(k) Plan	40,257	29
Traditional Defined-Benefit Pension	23,937	17
Traditional IRA or Roth IRA	10,045	7
Self-Employed Plan	1,274	1
Any Pension Plan	75,513	**50**

Source: Congressional Budget Office, 2007.
Notes: Unit of analysis is existing tax filing workers, totaling 140.8 million in 2003.

The likelihood of participation was found to vary by age, income, and marital status, as described in Table 3. Only one-third of workers under the age of 30 participated compared to 63 percent age 45 to 59. Participation rates for earners making over $80,000 exceeded 80 percent, but were closer to 50 percent for those with incomes between $20,000 and $40,000 and were 20 percent for those earning less than $20,000.[24]

Alternatively, participation rates in defined-benefit plans (not shown) were lowest for those making more than $80,000 (under 17 percent), with higher rates for those earning between $40,000 and $80,000 (21 percent) and between $20,000 and $40,000

(22 percent). Higher-income workers were more than twice as likely as lower-income workers to participate in a 401(k) type plan and in IRAs. Participation rates in IRAs also rose with income (also not shown).[25]

While the participation rate was near 50 percent for all workers in 2003, according to data from the Employee Benefit Research Institute (EBRI), the sponsorship rate was substantially higher (67 percent).[26] This refers to the fraction of workers whose employer or union sponsors a plan for any of the employees at the worker's place of employment. When plans are offered, EBRI found that the participation rate was

TABLE 3 **Participation in Tax-Favored Savings Vehicles Associated with Retirement, 1997, 2000, 2003, by income, age cohort, and marital status**

	Percentage Actively Participating in Any Plan		
Category	1997	2000	2003
By Income Group			
Under $20,000	21	20	20
$20,000 to $40,000	55	51	52
$40,000 to $80,000	70	67	68
$80,000 to $120,000	79	79	80
$120,000 to $160,000	81	83	82
$160,000 and over	77	79	79
All Income Groups	**51**	**50**	**50**
By Age Cohort			
Under 30	35	33	32
30 to 44	58	56	56
45 to 59	64	63	63
60 and over	42	40	44
All Cohorts	**51**	**50**	**50**
By Marital Status/Earner Role			
Unmarried Earners	41	39	40
Married Earners			
Sole	53	46	52
Primary	72	75	72
Secondary	54	59	57
All Earners	**51**	**50**	**50**
Nonearning Spouse	6	7	9

Source: Congressional Budget Office, 2007. Tabulations of a sample of 1997, 2000, and 2003 individual income tax returns and tax information returns.

Notes: Participation consists of making a contribution to a 401(k)-type plan or being enrolled in a noncontributory plan during the given year. Workers participating in both types of plan are counted only in the 401(k)-type, so summing the percentages yields participation in all employment-based plans. The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts.

also higher, exceeding 75 percent in 2003.[27] Their analysis shows how these rates are affected by a range of factors, including firm size, union status, firm sector (private or public), education level, and income of the workforce. Employers that are larger in size, unionized, or in the public sector have much higher sponsorship and participation rates.

Contributions to savings vehicles increase with income. For those that participated in savings plans, CBO was able to report employee contributions for 401(k)-type plans, IRAs and self-employed plans.[28]

TABLE 4

Average Contributions to 401(k)-Type Plans, 2003, by income, age cohort, and marital status, in 2003 dollars

CATEGORY	2003 Average Contribution (2003 dollars)
By Income Group (1997 dollars)	
Under $20,000	726
$20,000 to $40,000	1,583
$40,000 to $80,000	3,162
$80,000 to $120,000	5,287
$120,000 to $160,000	7,476
$160,000 and over	9,503
All Income Groups	**3,716**
By Age Cohort	
Under 30	1,951
30 to 44	3,519
45 to 59	4,469
60 and over	4,337
All Cohorts	**3,716**
By Marital Status/Earner Role	
Unmarried Earners	2,891
Married Earners	
Sole	4,787
Primary	4,550
Secondary	3,105
All Earners	**3,716**
Nonearning Spouse	n.a.

Source: Congressional Budget Office, 2007. Tabulations of a sample of 1997, 2000, and 2003 individual income tax returns and tax information returns.

Notes: The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts. Income group bands calculated in 1997 dollars.

n.a. = not applicable.

For 401(k)-type plans, higher-income earners made substantially higher contributions (see Table 4). The average contribution of workers with incomes between $120,000 and $160,000 was $7,476 in 2003, which was more than double that of workers earning between $40,000 and $80,000, who made contributions of $3,162 on average. Those earning between $20,000 and $40,000 had contributions of $1,583.

Most benefits from federal savings vehicles go to upper-income households. As previous research for the Economic Mobility Project has found, the federal government spent $746 billion in 2006 on mobility expenditures, but only 1.6 percent ($205 billion) of these expenditures went to lower-income households.[29] Further, while the government invested $104 billion on savings and investment incentives, virtually the entire amount was distributed to higher-income households. In another study, researchers from the Tax Policy Center at the Urban Institute and Brookings Institution deployed a micro-simulation model using real tax data to estimate the distribution of benefits associated with actual contributions to specific savings accounts and plans.[30] Their groundbreaking analysis reported that contributions made to 401(k)-type plans and IRAs reduced the present value of income taxes by an average of $528 per tax filing unit in 2004. This amounts to 1.2 percent of after-tax income (see Table 5).

TABLE 5

Tax Benefits of Contributions to Savings Vehicles Associated with Retirement,* 2004

	Defined Contribution Plans and IRAs			IRAs		Saver's Credit	
Cash Income Percentile**	Benefit as Percent of After-Tax Income***	Share of Total Benefits	Average Benefit ($)	Share of Total Benefits	Average Benefit ($)	Share of Total Benefits	Average Benefit ($)
Lowest Quintile	0.1	0.2	-6	0.2	0	2.6	-2
Second Quintile	0.4	2.9	-77	3.5	-7	28.4	-20
Middle Quintile	0.7	7.9	-208	11.5	-24	36.4	-26
Fourth Quintile	1.1	19.3	-509	26.8	-56	31.2	-22
Top Quintile	1.4	69.7	-1,838	58.0	-121	1.1	-1
All	**1.2**	**100**	**-528**	**100.0**	**-42**	**100.0**	**-14**
Addendum							
Top 10 Percent	1.4	48.6	-2,566	34.9	-145	0.6	-1
Top 5 Percent	1.2	30.4	-3,211	15.2	-126	0.1	0
Top 1 Percent	0.6	7.8	-4,111	2.0	-83	0.0	0
Top 0.5 Percent	0.4	4	-4,252	1.0	-84	0.0	0
Top 0.1 Percent	0.2	0.9	-4,645	0.1	-59	0.0	0

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

**Distribution of the present value of lifetime tax benefits for new contributions made in 2004.*

***Tax units with negative cash income are excluded from the lowest income class but are included in the totals. See http://taxpolicycenter.org/TaxModel/income.cfm for a description of cash income.*

****After-tax income is cash income less individual income tax net of refundable credits, payroll and estate tax liability, and imputed burden from corporate taxes.*

Significantly, however, they found that the distribution of these benefits is skewed, concentrated among those with higher incomes. According to this simulation, about 70 percent of tax benefits from new contributions accrue to the highest 20 percent of tax filers by income, roughly half of the benefits go to the top 10 percent, and 90 percent go to the top 40 percent of the income distribution.[31] (See box, "The Distribution of Benefits Varies by Savings Vehicle Type.")

The bottom 20 percent of households get virtually no benefit from the income tax exclusion of savings plans. Few make contributions, and those that do contribute smaller shares of their income. For these households, the tax benefit per dollar of contribution is smaller, and in many cases has little or no value because the participant has a low or zero marginal tax rate. This is why the bottom 60 percent receives only 11 percent of the total benefits associated with these policies. In contrast, the highest-income taxpayers receive the largest benefit in dollar amounts, estimated to be $4,111 on average for the top 1 percent. For those in the top 5 percent, their average benefit is $3,211, which accounts for over 30 percent of the total share.

Another way to describe the data is in terms of income bands. The largest benefits, calculated as a share of income, go to households with cash income between $75,000 and $500,000. This group, which is roughly in the 80th to 99th percentile of the income distribution, receives about 66 percent of the benefits. The small group with incomes above $500,000 receives 4.4 percent of the benefits. In contrast, those with incomes below $50,000 receive 15 percent of the benefits even though they make up 65 percent of households.[32]

ASSESSING THE DELIVERY OF SAVINGS POLICY THROUGH THE TAX CODE

How efficient is this complex system of savings incentives delivered through the tax code? That is a question easier asked than answered. There is a dearth of information on savings behavior generally. The assessment of participation, contributions, and tax benefits leaves many questions unanswered about why people save and how they go about deciding to do it. For instance, although economists can distinguish between various tax credits, deductions and deferrals, it is less clear how different individuals respond to these incentives.

What can be examined is whether or not there has been an impact on the ultimate goal of these policy efforts: to bring new net savings.[35] Unfortunately, the total amount of savings in the economy has declined in recent years even as tax subsidies have increased.[36] Of particular concern is the reality that individuals, particularly those with high incomes and existing resources, can and do move assets around between various accounts to maximize the tax benefits. This behavior raises the question of whether there is a more effective allocation of these public resources.

THE DISTRIBUTION OF BENEFITS VARIES BY SAVINGS VEHICLE TYPE

401(k)-type plans

The Tax Policy Center analysis of married households shows that the likelihood of participation and of making contributions to 401(k)-type plans grew steadily with income.[33] Approximately 41 percent of household heads in the top 20 percent of income participated in a savings plan, compared with 4 percent in the bottom 20 percent. For spouses, the probability of participating and benefiting also grew with income, until the top quintile group, where spousal participation declined.

IRAs

Few low- and moderate-income households contribute to IRAs even when they are eligible to receive tax benefits. Among the participants in IRAs, average contributions increase with income until the very top. As a result, the vast majority of tax benefits (83 percent) associated with IRAs are concentrated between the 60th and 99th percentiles of the income distribution. Sixty percent of benefits accrue to the top 20 percent of households.[34] Because eligibility for IRAs is subject to income limits, the tax benefits are less skewed by income than benefits associated with employer-sponsored plans.

Saver's Credit

As a point of comparison, the Saver's Credit has a very distinct distribution of benefits. Although the credit is not associated with a particular savings account vehicle, it is designed to benefit low- and moderate income households. The Tax Policy Center analysis estimates that the Saver's Credit is used by roughly 5 percent of tax filing units overall and between 7 to 9 percent of the tax units that file in the middle three quintiles (between the 20th percentile and 80th percentile). The benefits are considered modest as a share of after-tax income, evenly distributed across these beneficiaries. Because the credit is not refundable, it is unavailable to households in the bottom quintile, who generally have no tax liability.

To help achieve the policy goals of the tax incentives, policymakers should determine where new savings are more likely to occur. Lower-income households, with currently lower levels of savings, have significant potential to increase net new savings. Existing evidence indicates that moderate-income households are more likely than higher-income households to reduce their consumption when they make deposits to savings vehicles.[37] Other work has found that 401(k) plans may have raised the savings of low-income households though they have not raised the overall asset levels of relatively high-income households.[38]

Despite the potential to generate additional savings, federal tax policy savings incentives are not working for lower-income households. A search for alternative policies to support savings was a prime motivation for

a national demonstration project of matched savings accounts, called the American Dream Demonstration. Evaluation of this experience showed that even program participants with low incomes responded positively to savings incentives, overcoming doubts among policymakers as to whether the poor could save.[39] Key findings included the observation that the majority of people in the demonstration were successfully able to save during their participation in the program; and program characteristics, such as match rate, financial education, and use of direct deposit, are linked to savings performance.[40] The delivery of a direct match to savings deposits and support from sponsoring organizations represented an alternative savings incentive and infrastructure than what is offered to typical families with lower incomes and fewer resources.

Without such supports, savings will remain difficult. This will particularly be the case if policy continues to rely on delivery mechanisms that are complex and poorly understood. Consider the choice a prospective participant must make in deciding between a traditional IRA and a Roth IRA. If all future contributions, earnings, and tax rates are equal, there should be no difference in the value of front-loaded or back-loaded benefits. But if any of these factors vary, maximizing benefits depends on being able to predict answers to such questions as how long one will live and what the marginal income tax rate will be 20 or 30 years from now. Another source of uncertainty is the mixed messages associated with saving in accounts labeled as "retirement" vehicles but which have permissible uses that include non-retirement purposes. Taken together, there is a relatively high degree of uncertainty that is likely to depress participation rates.

There are also more tangible barriers blocking the flow of benefits to lower-income households. The majority of workers (over 60 percent) do not access defined-contribution plans through their employers.[41] In some cases, particularly for workers in low-income jobs, employers do not offer the tax-favored accounts in employee compensation plans. In other cases, the employer may offer the tax-favored account as a compensation benefit, but research shows that many will not take advantage of opportunities to participate in employer-sponsored plans if they have to affirmatively elect to do so; take-up is higher if it happens automatically.[42]

Moreover, the uneven distribution of benefits is a prominent feature of the current paradigm. Unequivocally, contributions and tax benefits rise with income, possibly because for many lower-income families, the tax rules create incentives with little or no value. The regressive distribution of tax benefits associated with these savings accounts is particularly troubling because it misses an opportunity to assist families that could benefit from increased savings.

CONCLUSION

The current structure of savings incentives as delivered through the tax code discourages savings by households with lower incomes and fewer resources. Not only do low-income individuals often work for employers that do not offer access to savings plans, but they have lower marginal tax rates and have less interest in sheltering income from taxation. This population has savings needs as well that are not met through existing policy, which remains difficult to navigate and filled with uncertainty.

The complexity of rules that govern the range of accounts and low benefit levels associated with contributing to them is a poor combination. It undercuts the potential for low-income families to participate in savings and deprives them of access to an important pathway to economic mobility. It is an area of public policy in need of reform.

CHAPTER 3

SAVINGS POLICY AND ELIGIBILITY RULES FOR PUBLIC ASSISTANCE

Rourke O'Brien

The very systems set up to provide a safety net and eventually help families move up the economic ladder, such as cash welfare and food support, are discouraging them from getting ahead through their own asset development. There are two fundamental goals to the provision of public assistance in the United States. First, to ensure households have access to base levels of income, food, housing and medical assistance and, second, to help families achieve financial independence. To qualify for public assistance, families must demonstrate they are both income and asset poor. These eligibility rules are designed to ensure that scarce public resources only go to families that are truly in need of assistance. Yet certain eligibility rules, specifically restrictions on the amount of assets a household can own, are actually counterproductive, directly undermining a family's ability to achieve economic security by discouraging saving.

These "asset limits" actively discourage low-income households from saving for short-term emergency needs, investing in productive assets such as a car, or planning for mobility-enhancing steps such as higher education, home ownership, or business ownership. By penalizing prudence with a reduction or loss of benefits, asset limits send the wrong message. In doing so, they encourage families to avoid saving or hide their finances by using expensive alternative financial service providers instead of banks and credit unions. This behavior blocks potential pathways to economic mobility that depend on savings.

Recently, policymakers at the state and federal level from both sides of the aisle have begun to recognize the merit in removing these obstacles to savings and have taken steps to reform asset limits in public assistance programs. Since welfare reform empowered states to set their own criteria for eligibility, dozens of states have liberalized the asset limit in the Temporary Assistance for Needy Families (TANF) program. President George W. Bush recommended the exclusion of all education and retirement savings accounts when determining eligibility for food stamps, a proposal ultimately embraced by both Democrats and Republicans as part of the 2008 Food, Conservation and Energy Act. In the first budget of his administration, President Barack Obama signaled his interest in broadly reforming asset limits in public assistance programs.[43]

Yet while progress has been made, reform efforts have been uneven. Policy changes in isolated programs or individual states have resulted in a confusing and sometimes contradictory patchwork of rules that vary across programs and states.

Asset limits vary widely across federal programs and states. An asset limit, or asset test, is a threshold on the amount of resources a family can own and still be eligible for assistance. The asset limit in major public assistance programs includes specific rules for the treatment of all household assets in determining eligibility, including vehicles, "restricted" accounts such as retirement (401(k), IRA) and education (529, Coverdell) accounts, and "unrestricted" assets including money in checking and savings accounts and cash on hand. The owner-occupied home is the only asset that is uniformly excluded from consideration when determining eligibility for these major public assistance programs.[44]

Asset limits vary widely across programs and, in some cases, within programs, especially where states are authorized to set their own eligibility criteria. The asset limit for TANF eligibility, for example, varies remarkably across states. As of July 2007,

- Fifteen states exclude all vehicles in the household, 18 exclude one vehicle per household or per driver, and the rest only exclude a portion of any vehicle's equity or fair market value;
- Eleven states employ an asset limit of $1,000, whereas two states—Ohio and Virginia—employ no limit;
- Some states exclude assets in restricted accounts such as 401(k)s and IRAs whereas other states count moneys in these accounts.[45]

By contrast, the asset limit for the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) is set by the federal government at $2,000 (or $3,000 for households with elderly or disabled persons); although states do have some flexibility, including the ability to streamline the treatment of specific assets, such as vehicles, across programs.[46] Virtually every public assistance program, including TANF, SNAP, Medicaid, and Supplemental Security Income (SSI), employs an asset limit. A summary of the asset limit rules in major public assistance programs are provided in Table A8 in the Appendix.

Asset limits discourage savings. The theoretical connection between asset limits and low levels of asset accumulation is clear: by limiting eligibility and assistance to those who have little or no assets, asset limits discourage saving.[47] A number of researchers have attempted to test this claim empirically, using both quantitative and qualitative methods.

Quantitative studies using observational data from major household surveys appear to yield mixed results; some researchers have found that higher asset limits translate into higher asset holdings and others have failed to find such effects. However, studies that found no effect failed to account for the fact that many low-income families receive assistance from multiple public programs; liberalizing the asset limit in one program

may have no effect if families are still subject to the restrictive limits of another program. This "program layering" of eligibility rules makes it difficult to successfully isolate the effect of a single rule in a specific program on the asset holdings of a family subject to multiple rules in multiple programs. Studies that were able to look at households governed by a single program, notably Medicaid, did find that increasing or eliminating the asset limit resulted in increased household assets. In addition, studies agree the asset limit on vehicles undermines car ownership. A more detailed discussion and critique of existing quantitative studies is presented in the Appendix.

The only existing qualitative study to date investigated the impact of eliminating the asset limit in TANF on the savings attitudes, behaviors, and perceptions of welfare recipients.[48] The study's author, O'Brien, interviewed current TANF recipients on the border of two states with remarkably different asset limits for TANF: Maryland, which at the time employed a limit of $2,000 on assets, and Virginia, which at the time was one of only two states that did not employ an asset test. Despite the difference in policy, O'Brien found no difference in the savings perceptions, attitudes and reported behaviors of TANF recipients—welfare recipients in both states indicated they were less likely to save for fear of failing the asset test and being denied assistance. In addition, TANF recipients in both states described how the asset limit led them to avoid formal financial institutions such as banks or credit unions, afraid that using a checking or savings account may jeopardize their eligibility. The author speculates that there was no difference between the states because the policy change in change in Virginia had not been sufficiently articulated to current welfare recipients. Although this may be true, it is also likely that the TANF recipients interviewed were also receiving SNAP, a program that employs a limit of $2,000 and does not vary by state. Therefore, despite the lack of an asset test in TANF, recipients in Virginia were subject to the same de facto asset limit of $2,000 as TANF recipients in Maryland.

This is not to deny the fact that many low-income households *report* asset holdings so low that the asset test should theoretically have no affect on their behavior. And this is not to imply that asset tests are singularly responsible for the very low levels of savings reported by low-income families—to be sure, eliminating asset limits in public assistance programs is unlikely to result in a dramatic increase in the asset holdings of low-income families. It is instructive, however, to consider how the existence of asset limits may affect how and to what extent people save and build assets. O'Brien found asset limits encourage TANF recipients to save money at home instead of a bank account or avoid saving entirely for fear of losing benefits. These are the same families who in quantitative studies such as those reviewed above are likely to be seen as having too little wealth to be affected by asset tests. Conversations with actual welfare recipients reveal that these tests do in fact have significant, perverse affects on savings and economic behavior even for very low-income families. Analysis of survey data on

savings that is limited to formal account holdings would wrongly conclude that these individuals do not save and are not affected by asset limits. The very existence of asset limits may actually, in part, account for why we see very low-income households report very little in savings.

ASSESSING SAVINGS POLICIES IN PUBLIC ASSISTANCE PROGRAMS

Beyond obscuring the ability of quantitative research to directly study the impact of asset limits on the asset accumulation of low-income households, the "layering" of public assistance complicates proposals for reform. Previous efforts to reform asset limits at both the federal and state level have focused on changing the asset limit rules in a specific program. Yet reforming the asset limit in one program may have little effect on the ground as many families are covered by multiple programs and multiple rules. Therefore, any reform of asset limits must be standardized across programs to the largest extent possible.

In addition, public assistance programs serve different functions for different populations. Eligibility rules therefore should be tailored to reflect the needs of specific populations. To reform asset limits so that they can continue to serve as a useful determinant of eligibility without undermining the ability of low-income families to achieve financial security and economic independence, it is instructive to consider the assets and public assistance needs of two distinct populations: working-age families (both disabled and non-disabled) and the non-institutionalized elderly.[49] (See box, "Why Different Rules for Working-Age Families and the Elderly?")

For the working-age population, the goal of public assistance is to provide both a safety net "consumption floor" and ongoing work supports for low-income families. Programs such as TANF are designed to provide temporary, targeted cash assistance to very low-income families who are required to actively pursue employment as a means to self-sufficiency. SNAP, Medicaid, and SSI assistance can act as a temporary safety net for families faced with unexpected income shocks as well as provide ongoing support for families whose incomes are insufficient to cover basic consumption needs. Each of these programs is designed to help low-income families maintain a base level of consumption while encouraging self-sufficiency. Asset limits serve to undermine that goal by inhibiting families from accessing reliable transportation, preventing families from saving for short- and long-term needs, and discouraging the use of formal financial institutions such as banks and credit unions.

Asset limits also affect the economic security of low-income individuals over the age of 65 by requiring that elderly individuals spend down nearly all of their assets before qualifying for assistance. However, removing asset limits or excluding specific assets, such as retirement accounts, would allow elderly households to retain significant assets

WHY DIFFERENT RULES FOR WORKING-AGE FAMILIES AND THE ELDERLY?

Consider the SSI program. SSI provides much needed cash assistance to both low-income working-age persons with disabilities and to low-income elderly persons who cannot work, or can work little. Because SSI is a means-tested program, it is understandable that the assets of the elderly—specifically moneys held in retirement accounts—be considered when determining eligibility for assistance; retirees with several million dollars in the bank should not qualify for this anti-poverty program.

However, for working-age persons with disabilities who are able to work, saving should be encouraged for precautionary needs, short-term goals, and long-term retirement planning. Since the asset test in SSI counts any money saved in defined contribution retirement plans such as 401(k)s and IRAs when determining eligibility, working age persons with disabilities are likely to avoid saving for retirement, lest they jeopardize their eligibility for SSI and consequently in many cases, Medicaid.[50] What makes sense for those over 65 does not for working-age families, even under the same program.

and still qualify for public assistance. Old-age income support programs would then, in effect, be used to subsidize intergenerational wealth transfers that many would argue is not the goal of these programs and not a proper use of government dollars. At the same time, it is important to reform asset rules so that elderly households who did save during their working years are better off than if they had not saved. Moreover, although elderly households should be required to spend down their savings in retirement, they should not have to deplete everything before receiving assistance, lest they be left vulnerable to unanticipated financial shocks. With these considerations in mind, we offer below a set of broad principles for reforming asset eligibility rules for elderly households.

All families need access to reliable transportation. Numerous studies have detailed the positive relationship between vehicle ownership and employment: low-income workers who have access to a car are more likely to be employed, work more hours, and, in some studies, have been found to earn more than low-income workers who do not have access to a vehicle.[51] One study of TANF recipients in Tennessee found that families who have access to a car spend less time on public assistance and are more likely to be employed, earn higher wages and work more hours.[52] Research by James Sullivan and others (summarized in the Appendix), demonstrates that households subject to an asset limit on vehicles are significantly less likely to own a car.

All families need savings for emergencies and short- and medium-term consumption needs. Under the current rules, families who manage to save more than a few hundred dollars for Christmas or unanticipated, emergency expenses are likely to run afoul of the asset limit once they deposit their paycheck into their checking account.

Furthermore, the asset limit on unrestricted assets creates an incentive for families to spend, instead of save, their tax refund and Earned Income Tax Credit (EITC). Without savings, families are less likely to experience upward economic mobility.[53]

All working-age families need savings for retirement. By counting money saved in retirement accounts, asset limits create a disincentive for low-income families to make long-term investments in their financial security. Whereas traditionally defined benefit pension plans have always been excluded in determining eligibility for major public assistance programs, many programs count money held in defined contribution plans, including 401(k)s and IRAs.[54] These limits may discourage many low-wage workers from participating in employer-sponsored retirement plans such as 401(k)s for fear of losing benefits.

All working-age families can benefit from saving for higher education. The connection between overall household wealth and educational attainment and achievement is well documented.[55] Recent years have seen increased investment in 529 savings plans, a tax-advantaged financial product specifically designed to help families save for higher education expenses. As of December 2008, more than nine million accounts have been opened nationwide. In an effort to increase enrollment by low-income families, a number of states have increased education awareness and outreach and introduced targeted incentives, such as matching deposits. Program rules that count 529 plans and Coverdell education savings accounts toward the asset limit actively discourage saving and investing in higher education and may encourage low-income families to liquidate their child's college savings in order to qualify for assistance.

All families can benefit from conducting financial transactions with formal financial institutions such as a bank or credit union. By employing a strict limit on unrestricted savings and requiring applicants to hand over detailed records of financial activities, asset limits encourage low-income households to be "unbanked" and use costly, alternative financial service providers such as check cashers for routine transactions.

Asset limits should be standardized across programs wherever possible. Low-income families who qualify for multiple forms of public assistance are currently forced to navigate a complex web of asset eligibility rules that vary across programs and between states. In addition to ensuring that all program eligibility rules allow low-income families to own a car and save for short and long term needs, streamlining the asset test for eligibility will simplify the application process, reducing caseworker burden and the potential for reporting error.

Non-institutionalized, elderly households should spend their retirement savings to cover household expenses. As we expect elderly persons with retirement savings to supplement Social Security income by spending down money saved in their working years, retirement accounts cannot be wholly disregarded from eligibility considerations.

Non-institutionalized, elderly households should be able to maintain modest savings and still qualify for public assistance. To qualify for SSI, very low-income, elderly households can hold no more than $3,000 in assets, including money in both unrestricted accounts (checking, savings) and restricted accounts (including 401(k)s, IRAs). Elderly households should be able to maintain modest savings to supplement income when necessary and cover anticipated and unanticipated expenses without jeopardizing eligibility for public assistance (SNAP, Medicaid).

Income from retirement savings should receive preferential treatment in determining benefits (SSI, Medicaid) for non-institutionalized elderly households. Under current rules in the SSI program, any moneys drawn down from savings are counted as household income and thereby reduce the SSI benefit $1 for $1—an effective 100 percent tax rate on retirement savings. This means that low-income elderly households who saved for retirement are no better off than those who did not. Retirement savings should be rewarded, not penalized.

CONCLUSION

Liberalization of program eligibility rules may result in some increase in the number of families eligible for assistance. The actual number of newly eligible cases is hard to estimate and will vary by program and largely depend on the specific details of the reform. One clear objection to the reforms detailed above is likely to come from the states, especially those that currently employ restrictive asset limits in TANF and Medicaid. Given the current budget climate, states may be unwilling or unable to cope with an increased caseload and will likely object to rule changes that are not coupled with an increase in federal dollars, such as for the TANF block grant and Medicaid funds. However, reforming asset limits should, in time, reduce the number of families receiving assistance and shorten time spent on public assistance programs.

Moreover, through standardizing rules across programs and streamlining the eligibility process, states should enjoy significant administrative savings as well as reduced error rates. Further research is needed to determine whether asset ownership reduces the likelihood a family will turn to public assistance in the event of an income shock and the duration of time spent on assistance.

CHAPTER 4

ENCOURAGING SAVINGS TO ADVANCE MOBILITY

Reid Cramer and Rourke O'Brien

Given the link between savings and upward economic mobility demonstrated in the first chapter of this report, it makes sense for public policy to support savings and wealth creation. An array of public policy levers are deployed to do just that, most of them embedded in the tax code. However, these mechanisms work best for households that have higher incomes. Families with lower incomes not only have lower savings rates, but they receive fewer benefits from current policy. To make matters worse, the safety net programs intended to help protect families in times of need discourage a specific behavior that is essential to self-sufficiency and economic mobility: savings. In order to advance an economic mobility agenda, policy efforts should focus on rewarding savings by households striving to move up the economic ladder.

ENCOURAGING SAVINGS THROUGH THE TAX CODE

The twin principles of fairness and inclusion, combined with a goal to promote economic mobility, can serve as a foundation for considering ways to reform savings policy to effectively reach low- and moderate-income households. Policymakers should build on the findings of the American Dream Demonstration that showed that even people with lower incomes could save if given access to a supportive infrastructure.[56] While there are many elements to such an infrastructure, one primary feature is the design of incentives offered through the tax code. In order to create viable pathways to economic mobility, policy must redesign these incentives to make them more accessible and meaningful for families with lower incomes, fewer resources, and lower tax liabilities.

These changes will be most effective if they consider how to reach those that currently do not save or own anything. Revamping the tax code should not be done to reward asset shifting; rather the nation should strive to create an accessible and inclusive savings policy that ensures all Americans can participate in the savings process.

Create accessible savings incentives through employment and at tax time. Ensuring equal access to policy benefits is the cornerstone of a fair and inclusive savings policy. Since the savings process is already facilitated for many through their place of employment, encouraging more employers to offer savings should be a primary policy objective. The ability to use payroll deductions to deliver direct deposits is a vital tool. However, since many workers have multiple employers and uneven work histories, policymakers should look for other opportunities to link households with savings

opportunities. A primary means to do this is through the tax filing process, which can serve as an infrastructure to support savings through the delivery of tax refunds into designated savings vehicles.

Additionally, as the recent findings of behavioral economics confirm, human inertia is a major influence on saving behavior, and we should always look for ways to take advantage of it. One way to do this is to make sure that the default settings for a given savings program are set optimally. For example, recent policy changes have made it easier for employers to automatically enroll employees in their savings plans while allowing workers to opt out if they choose to go to the effort.[57] This approach has increased participation rates among workers at all income levels. Other features associated with automatic enrollment that can make savings more productive include escalating contribution amounts over time as a matter of course.

Offer incentives with meaningful value for households with low incomes and low tax liabilities. Regardless of whether tax subsidies for higher-income households are reduced, increased benefits should go to those who need them and who are not served by current policy. This will entail raising the value of incentives. The current approach, which reduces tax liabilities for contributions either at the time of deposit or withdrawal, will not be meaningful for the targeted lower-income population unless the means for delivering benefits changes substantially.

Two potential reforms are promising. The first is the increased use of refundable tax credits that would have value to households even when they had low or no tax liabilities. These refundable tax credits could deliver money into designated accounts after contributions had been made. Another approach that would create meaningful incentives would be to have the government directly match deposits in designated accounts after households made and reported contributions. This direct match approach has the advantage of being transparent and also could be facilitated through the tax filing process.

Limit complexity and maximize coherence in federally-sanctioned savings accounts and plans. Rules in these accounts should be simplified and the number of special accounts consolidated in ways that allow consumers to save for multiple purposes. This might entail creating one class of accounts that are only for retirement and another that can be used for multiple purposes, such as education, homeownership, or other life contingencies. Finally, a streamlined system would be easier to incorporate into the workplace, so more employers would offer savings opportunities that encourage maximum participation of workers.

Specific policies have recently been proposed that hold promise for creating incentives more aligned with these principles.[58] The Obama administration is supporting the creation of Auto IRAs that will offer increased access to savings plans by workers whose employers do not currently offer them. They have also proposed making the Saver's Credit refundable to make it more valuable to lower-income workers even when they don't have a tax liability. This approach would provide 87 percent of its benefits to the bottom 60 percent of taxpayers, including 34 percent of the benefits to the third quintile, 38 percent for the second quintile and 15 percent for the bottom quintile.[59]

Ensure everyone has access to a retirement savings plan. Automatically enrolling employees in employer-sponsored 401(k)-type plans promotes savings. Positive features of these plans include low-cost administration, limited investment options, and direct deposits from payroll. The public sector is accumulating experience in operating such plans; the federal government already runs the Thrift Savings Plan for its employees and each state manages their own 529 College Savings Plan to promote savings for postsecondary education. These are models to build upon because accounts are portable and not tied to a specific employer. Access to a savings plan is a fundamental pillar of an inclusive savings infrastructure.

ENCOURAGING SAVINGS IN PUBLIC ASSISTANCE PROGRAMS

Reforming the current morass of confusing rules governing the treatment of assets in program eligibility is an important step to ensuring that public assistance programs do, in fact, promote and not impede economic security and economic mobility. Simply reforming asset limits, however, is not enough. The provision and delivery of public assistance programs must be recalibrated to encourage and facilitate the asset development needs of low-income families: from basic financial education and counseling to quality financial products; from defaults that opt families into positive economic behaviors to thoughtful consumer protections; from new employer-based savings mechanisms through payroll deduction to meaningful savings incentives that move beyond the tax code.

Policymakers and practitioners should work to use the connection between client and social service provider as an opportunity to encourage savings and sound financial management. To do so, several strategic opportunities should be pursued that connect low-income families to safe financial products and quality financial education.

The following proposals are tempered by consideration of the potential cost of implementation and appreciation for arguments that asset limits serve an important function in preserving benefits for those truly in need.

Standardize asset limits on unrestricted savings by setting a national "floor" across programs. Policymakers should mandate that any public assistance program cannot employ a limit on unrestricted assets lower than a prescribed national threshold, indexed to inflation. This national threshold should be high enough to allow families to maintain a modest level of savings and still qualify for assistance, yet low enough to ensure that public assistance programs are reserved for those most in need (see box, "Why Not Complete Elimination?"). The national floor would replace the current liquid asset limit threshold in all public assistance programs including TANF, SNAP, Medicaid, the State Children's Health Insurance Program (SCHIP), SSI, Low-income Energy Assistance, and many forms of housing and child care assistance. States, however, will retain the flexibility granted to them under various programs to increase the limit above this new threshold or eliminate the asset test outright. This new floor will be applied to asset limits on both applicants and current recipients of public assistance programs.[60]

A national floor on unrestricted assets also should be implemented in public assistance programs that serve individuals over the age of 65 (SSI, SNAP, and Medicaid).

- Exclude a portion of money held in qualified retirement savings accounts such as IRAs and 401(k)s when determining eligibility for assistance.[61]
- Disregard a portion of money withdrawn from retirement savings in calculating household income and, therefore, when determining SSI benefits.[62]

Standardize treatment of specific assets. Beyond money held in savings accounts, families hold assets in a wide range of forms. These include their cars, homes, and other types of financial products, such as retirement accounts and savings bonds. Asset limits policies should move in the direction of standardizing the treatment of these diverse asset forms in the following manner:

- ***Vehicles:*** Exclude all vehicles. A blanket exclusion of vehicles, as a number of states have done in both SNAP and TANF, would streamline the enrollment process and reduce administrative burden. An alternative policy would be to exclude one vehicle per licensed adult in the household.
- ***EITC:*** Streamline the treatment across programs to the current SNAP rule by excluding the amount of any EITC refund from asset limits for 12 months after receipt. The exclusion of other refundable credits should be considered as well, notably the federal child tax credit. States also should be encouraged to exclude the amount of state EITC where applicable.
- ***Retirement Accounts:*** Streamline treatment across programs to current SNAP rules by excluding all defined contribution retirement savings plans, including IRAs, 401(k)s, and 403(b)s.[65] Defined benefit retirement plans (pensions) are already excluded.
- ***College Savings:*** Streamline treatment across programs to current SNAP rules by excluding all 529 and Coverdell college savings plans.[66]

WHY NOT COMPLETE ELIMINATION OF ASSET LIMITS?

Given the negative impact of asset tests on economic behavior and the complexity of the current rules, some advocate for the complete elimination of asset limits in public assistance programs, at least for persons of working age.[63] This approach is attractive for reasons both logistic and symbolic: outright elimination would standardize eligibility rules across programs, while sending a powerful message to low-income households that government programs no longer penalize saving. Further, outright elimination of the asset limit in the TANF program, for example, is unlikely to result in "un-needy" families receiving benefits, because of the very restrictive income test in most states, as well as the strict work requirements, time limits, and stigma associated with the program that already serve as effective deterrents.

Yet it is important to consider that in some programs the asset limit does play a role in ensuring benefits, and public dollars, only go to those truly in need. SNAP eligibility, for example, is determined solely by an income and asset test—no additional stipulations are placed on families for assistance. Removing the asset test therefore would permit any household with an income less than 130 percent of the Federal Poverty Line to qualify for SNAP assistance, even if they hold tens of thousands of dollars in their checking accounts. While such a population is admittedly quite small—and many would argue virtually nonexistent—the potential may warrant keeping some restriction in place.

Some have proposed a national floor on asset limits of $10,000.[64] In their seminal 2001 paper on assets and economic well-being, economists Edward Wolff and Robert Haveman designed a measure of asset poverty that has proven to be a useful tool in research and policy design. According to Wolff and Haveman, a family is in asset poverty if they do not have enough liquid assets to support their family for three months at the federal poverty level in the event of a complete loss of income resulting from illness or unemployment. In 2009, this translates to $5,512.50 for a family of four. At the same time, families should have the flexibility to use their checking and saving accounts for normal household budgeting, i.e. families who have amassed five or six thousand dollars in emergency savings should not have to worry about whether their account balance on payday or the day before the rent is due pushes them over the asset limit. This suggests that an initial floor of $10,000 may be appropriate. Coincidentally, in 1991 President George H.W. Bush and Housing and Urban Development Secretary Jack Kemp recommended increasing the asset limit in Aid to Families with Dependent Children, the precursor to TANF, from $1,000 to $10,000.

- ***Savings Bonds:*** Exclude the value of bonds until maturity. The value of savings bonds should not be counted as an asset by the applicant for public assistance unless that individual is the designated beneficiary and has full rights to redeem the bond. Further, there should be consideration for setting an upper bound on this blanket exclusion, perhaps excluding the first $20,000 in savings bonds from the asset test.
- ***Individual Development Accounts:*** Exclude from eligibility considerations resources held in these matched savings accounts targeted to lower-income persons when the accounts are funded all or in part with federal dollars or defined in federal programs.[67]

Streamline the process of asset verification with a national standard. The process of verifying income and assets in the course of determining eligibility varies by program and across states. In many instances, the requirements for verifying an individual's assets often are unnecessarily burdensome on both the applicant and caseworker. In some states, individuals are required to supply bank statements from any account they have ever held, even those no longer in operation. In some states, an individual is determined to be ineligible for assistance if the balance of their transaction accounts rose above the asset limit threshold at any point in the last 30 days, whereas other states only consider the balance on the day of application, meaning eligibility may hinge on whether or not the rent check for that month has cleared the account. State and federal policymakers should work to streamline the process of asset verification to ease the administrative burden on clients and caseworkers. In order to encourage more low-income families to use formal financial institutions, policymakers should ensure that individuals who do have a bank account are not subject to extraordinary or overly burdensome reporting requirements.[68]

Encourage direct deposit of benefits and facilitate opening of basic bank accounts. More than one-quarter of households in the bottom 20 percent of the income distribution lack any transaction account.[69] Research demonstrates that low-income families who have access to a bank account are less likely to use costly alternative financial service providers, such as check cashers, and are more likely to save and own productive assets.[70] Social service offices should make every effort to connect applicants and recipients of public assistance to reasonably priced, high-quality financial products and services. At the local level, social service agencies can partner with local financial institutions to offer basic banking products for current and former recipients of public assistance. At the state and federal level, policymakers can negotiate with major financial institutions to provide basic bank accounts for low-income families.[71]

Expand the capabilities of Electronic Benefits Transfer (EBT) cards. As a result of modernization efforts in the 1990s, all SNAP benefits are currently issued electronically by way of an EBT card issued by the state, usually through a private financial services contractor. Individuals draw their benefits at point-of-sale transactions using their state-issued EBT card. Most states also use EBT cards as the primary vehicle for individuals to access cash benefits such as TANF. Individuals receiving SSI and Social Security payments also have an electronic card option with similar capabilities known as Direct Express. States and the federal government should work with the partnering financial service provider(s) to expand the capabilities of these cards by linking them to accounts. Families could then reload money to the card and potentially even send remittances and draw down money orders from the account. Additionally, a number of states have formed coalitions to negotiate lower fees with contracted financial services providers issuing the EBT. States should negotiate better terms for their clients as well, including more free ATM withdrawals and the opportunity to connect to a basic banking product.

Expand financial education and counseling. In order to achieve self-sufficiency, families must be equipped with basic financial skills, from balancing a checkbook to picking the right financial product to making a household budget. States should be encouraged to provide financial education courses to current recipients of public assistance or help connect families to free resources in their community as well as count financial education courses as a "work activity" under TANF.[72] In addition, social service agencies should work with local nonprofits or financial institutions to connect clients with free, one-on-one financial counseling—given the complexity of today's financial products and the need for smart financial planning, all families, even very low-income families, require and deserve personalized financial counseling.[73]

CONCLUSION

These discrete proposals should receive scrutiny in the near future and could improve savings outcomes by a population that is missed by current policy. Yet this does not replace the need to reform the larger deficiencies of current savings policy that, in turn, entails taking on the broader issues of the tax system's overall fairness and efficiency.

The tax system has many problems that need to be addressed, including its inability to produce enough revenue to avoid compounding deficits. When this work begins in earnest, policymakers should consider increased savings as one of the primary objectives of reform.

APPENDIX

TABLE A1: Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care

TABLE A2: Average Contributions to 401(k)-Type Plans, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars

TABLE A3: Average Contributions to IRAs, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars

TABLE A4: Average Contributions to Self Employment Plans, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars

TABLE A5: Percentage of Participants Contributing the Maximum to 401(k)-Type Plans and IRAs

TABLE A6: Tax Benefits of Defined-Contribution Plans and IRAs, by Age of Household Head, 2004

TABLE A7: TANF Asset Limits by State, July 2007

TABLE A8: Treatment of Various Assets in Select Public Assistance Programs

FIGURE A1: Program Layering: Percent of Program Recipients Receiving Additional Assistance

Review and Critique of Recent Quantitative Studies

TABLE A1

Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care

Tax-Favored Savings Vehicle	Income Limits and Eligibility Rules	Contribution Limits	Qualified Uses	Tax Treatment	Interaction with Other Plans
Retirement					
Employer-Sponsored Plans					
401(k)	Private-sector employees with compensation under $245,000.	Employee contribution limit by elective deferral $16,500 for under 50; Catch-up contribution limit for 50+ $5,500; Total contribution limit lesser of $49,000 or AGI.	Termination of employment or plan, in case of financial hardship, death, disability, or when the participant reaches 59½.	Contributions are tax-deductible (front-loaded); distributions are taxed.	Limits IRA deductibility.
403(b)	Employees of certain tax-exempt and public education institutions.	Lesser of limit on annual additions ($49,000 or 100% includible compensation), or limit on elective deferrals ($16,500); For 50+, catch up contribution lesser of $5,500 or excess of compensation over elective deferrals.	59½, severance from employment, death, disability, financial hardship or qualified reservist.	Contributions are tax-deductible (front-loaded); Distributions are taxed.	Contribution limits applies to all plans (401(k), 501(c)(18), SIMPLE, SEP, 403(b)); Limits IRA deductibility; Can rollover to Traditional IRA or non-Roth eligible retirement plan; Can convert to Roth IRA.
Governmental 457 Plan	Non-school state and local government employees.	Employee contribution limit by elective deferral lesser of $16,500 or adjusted gross income (AGI) for those under 50; For those 50 and over and within 3 years of retirement lesser of $33,000 or basic annual limit plus under-utilized basic annual limit in prior years.	Termination of employment, in case of financial hardship, or when the participant reaches 70½.	Contributions are tax-deductible (front-loaded); Distributions are taxed.	Not necessary to coordinate maximum deferral with contributions to other retirement plans. Limits IRA deductibility.
SIMPLE 401(k)	Small business employees.	Employee contribution limit by elective deferral $11,500 for under 50; Catch-up contribution up to $2,500 for over 50; Employer contribution limit is (1) mandatory matching contribution not exceeding 3% of compensation or (2) non-elective contribution of 2% of the first $245,000 of compensation .	Termination of employment or plan, in case of financial hardship, or when the participant reaches 59½.	Generally same as 401(k) with additional limits on the employer deduction.	Employer may not maintain any other retirement plan.

...continued

TABLE A1

Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care ...continued

Tax-Favored Savings Vehicle	Income Limits and Eligibility Rules	Contribution Limits	Qualified Uses	Tax Treatment	Interaction with Other Plans
RETIREMENT (CONTINUED)					
EMPLOYER-SPONSORED PLANS... CONTINUED					
Qualified plans (a.k.a H.R. 10 or Keough Plans)	Self-employed individual, including sole proprietorships, partnerships, and unincorporated entities.	25% of net self-employment earnings, up to a maximum of $49,000 for defined contribution plans; Up to $195,000 for defined benefit plans.		Contributions are tax-deductible ; Distributions taxed as income after age 59½; Early distribution penalty of 10% additional tax unless death or fall under exception; Eligible rollovers not taxed	Tax-free rollover to Traditional IRA or another eligible retirement plan.
Simplified Employee Pension (SEP) IRA	Small business employees; Self-employed individuals.	Employer contributions limit lesser of 25% of employee compensation or $49,000.		Contributions are tax-deductible for employer; distribution rules the same as Traditional IRAs.	
SIMPLE IRA	Small business employees.	Employee contribution limit by elective deferral $11,500 for under 50; Catch-up contribution up to $2,500 for over 50; Employer contribution limit is (1) mandatory matching contribution not exceeding 3% of compensation or (2) non-elective contribution of 2% of the first $245,000 of compensation.		Contributions are tax-deductible (front-loaded); distribution rules the same as traditional IRAs.	Employer may not maintain any other retirement plan.

...continued

TABLE A1

Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care ...continued

Tax-Favored Savings Vehicle	Income Limits and Eligibility Rules	Contribution Limits	Qualified Uses	Tax Treatment	Interaction with Other Plans
Retirement (continued)					
Individual Retirement Accounts (IRA)					
Traditional IRA	Have earned income and (a) not be in an employer-sponsored retirement plan or (b) have AGI under $109,000 (married filing jointly) or $65,000 (single); phaseouts begin at $89,000 and $55,000, respectively and at $10,000 for married filing separately; Must be under 70½.	$5,000 for those under 50; $6,000 for those 50 and over		Contributions are tax-deductible (front-loaded); Excess contributions subject to 6% tax if not withdrawn; Distributions before 59½ are subject to 10% penalty with the exception of death, disability, a series of substantially equal payments, or: (1) health insurance premiums for the unemployed (2) qualified higher education expenses (3) qualified first-time home buyer expenses ($10k max). Contributions are taxed (back-loaded); Distributions are tax-free after the owner has held the account for 5 years and reaches 59½, dies or becomes disabled, or uses the funds for qualified first-time home buyer expenses; 10 percent penalty tax for non-qualified withdrawal.	Contribution limit applies to sum of contributions to all IRAs; Can rollover to a Traditional IRA, an employer's qualified retirement plan, 457 plan, 403 plan; Can rollover from IRAs, qualified trusts, 403(a), 457, 403(b) annuities; Can convert amounts to Roth IRA if AGI not more than $100,000 and not married filing separately, but must pay income tax on principal.
Roth IRA	AGI under $176,000 (married filing jointly), $120,000 (single) or $10,000 (married filing separately and living with spouse); phase-outs begin at $166,000, $105,000, and $0, respectively.	$5,000 for those under 50; $6,000 for those 50 and over.		Contributions are taxed (back-loaded); Distributions are tax-free after the owner has held the account for 5 years and reaches 59½, dies or becomes disabled, or uses the funds for qualified first-time home buyer expenses; 10 percent penalty tax for non-qualified withdrawal.	Contribution limit applies to sum of contributions to all IRAs; Can convert to traditional IRA; Can rollover from Employer's plan.

...continued

TABLE A1

Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care ...continued

Tax-Favored Savings Vehicle	Income Limits and Eligibility Rules	Contribution Limits	Qualified Uses	Tax Treatment	Interaction with Other Plans
Retirement (continued)					
Tax Credits					
Saver's Credit	Filer at least 18; Not full-time student claimed as a dependent; AGI not more than $55,500 joint, $41,625 head of household, or $27,750 all others.	Maximum $2,000 contribution to a federally sanctioned retirement plan.	N/A	Non-refundable tax credit worth 10–50% of the eligible contributions	Only get credit when payroll deduction contribution made to a 401(k), 403(b), SIMPLE, SEP or governmental 457; contribution made to a Traditional or Roth IRA; contribution made to a 501(c)(18) plan.
Education					
Coverdell Education Savings Account (ESA)	Beneficiary must be under 18 (excluding special needs beneficiary); Modified AGI must be below $220,000 (married filing jointly), under $110,000 (single); phase-outs begin at $190,000 and $95,000, respectively.	$2,000 per beneficiary.	Certain elementary, secondary, and higher education expenses; Contributions to 529 Plans.	Tax-free earnings and withdrawals for qualified expenses (back-loaded); non-qualified distributions generally penalized with 10% additional tax.	Can contribute Coverdell funds to 529 Plans tax-free.
529 Plans/Qualified Tuition Program (QTP)	Anyone can establish an account for a designated beneficiary.	Varies by state; Contribution limit is often high; Cannot be more than amount necessary to provide for qualified educational expenses.	Tuition, room, board, fees, books, and supplies at accredited institutions of higher education.	Tax-free earnings and distributions for qualified expenses (back-loaded).	N/A
Education Savings Bond Program	Purchased EE bond issued after 1989 at age 24+; Pays for qualified education expenses; Modified adjusted gross income less than $82,100 for single, $130,650 married or qualifying widow(er); Filing status not married filing separately; Benefits phase out starting at $67,100 single ($100,650 joint or widow(er)); Income limit $82,100 single ($130,650 joint or widow(er)).	None.	Qualified educational expenses.	Interest earned on portion of bond used for qualified education expenses not taxed.	N/A

...continued

TABLE A1

Tax-Favored Savings Vehicles Associated with Retirement, Education, and Health Care ...continued

Tax-Favored Savings Vehicle	Income Limits and Eligibility Rules	Contribution Limits	Qualified Uses	Tax Treatment	Interaction with Other Plans
Health Care					
Health Savings Account (HSA)	Covered by a HDHP[74]; Have no other health coverage with some exceptions; Not enrolled in Medicare; Not a dependent.	$3,000 for self-coverage; $5,950 for family coverage	Most medical care and services, dental care, and vision care; Also includes over-the-counter drugs.	Employer contributions excluded from gross income; Individual contributions are deductible for the account holder (front-loaded); earnings and distributions tax-free for qualified expenses (back-loaded); Non-qualified distributions subject to income tax and 10% penalty tax; Distributions after age 65, disability or death not subject to 10% penalty tax.	Rollovers from other HSAs and Archer MSAs not subject to contribution limits.
Archer Medical Savings Account (MSA)	Self-employed, small business owners, and employees of small business owners. All participants must be covered by a HDHP.	75% of HDHP deductible (family); 65% of HDHP deductible (self-only); no more than income.	Most medical care and services, dental care, and vision care.	Tax-deductible contributions, earnings and distributions tax-free for qualified expenses (front- and back-loaded); 15% penalty tax for non-qualified distributions; Exception to penalty tax for disabled, over 65 or death.	

Sources: Internal Revenue Service, 2008a; U.S. Department of Treasury, 2007; Internal Revenue Service 2008b; Internal Revenue Service 2009a; Internal Revenue Service 2009b; Internal Revenue Service 2008c; Internal Revenue Service 2009c; Internal Revenue Service 2004.

TABLE A2 **Average Contributions to 401(k)-Type Plans, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars**

CATEGORY	Average Contribution (1997 dollars) 1997	2000	2003
By Age Cohort			
Under 30	1,592	1,873	1,710
30 to 44	2,681	2,993	3,084
45 to 59	3,466	3,590	3,917
60 and over	3,213	3,338	3,801
All Cohorts	**2,772**	**3,039**	**3,257**
By Income Group (1997 Dollars)			
Under $20,000	546	635	636
$20,000 to $40,000	1,324	1,397	1,388
$40,000 to $80,000	2,482	2,633	2,772
$80,000 to $120,000	4,131	4,245	4,634
$120,000 to $160,000	5,360	5,706	6,553
$160,000 and over	7,054	7,019	8,330
All Income Groups	**2,772**	**3,039**	**3,257**
By Marital Status/Earner Role			
Unmarried Earners	2,190	2,448	2,534
Married Earners			
Sole	3,580	3,881	4,196
Primary	3,398	3,712	3,988
Secondary	2,239	2,501	2,722
All Earners	**2,772**	**3,039**	**3,257**
Nonearning Spouse	n.a.	n.a.	n.a.

Source: Congressional Budget Office, 2007. Tabulations of a sample of 1997, 2000, and 2003 individual income tax returns and tax information returns.

Notes: The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts.

n.a. = not applicable

401(k)-TYPE PLANS

The employee contribution limit established by law for 401(k)-type plans increased from $9,500 to $10,500 between 1997 and 2000 and then again to $12,000 in 2003.[75] The average contribution (in constant 1997 dollars) was $2,772 in 1997, $3,039 in 2000 and $3,257 in 2003.[76] Despite the higher limits in 2003, the growth in average real contribution was smaller between 2000 and 2003 (7.2 percent) than it was in the earlier period, when it grew 9.6 percent.

The patterns of contributions among income groups, age cohorts, and household structure also changed substantially from 2000 to 2003. Average contributions made to these savings plans increased with incomes in each of these years and represented similar shares of income. These ranged from five percent of adjusted gross income in the lower-income groups to approximately four percent in the higher income groups. Between 1997 and 2000, the growth rate for average contributions was the highest for the lowest-income group (under $20,000 in AGI). Their contributions went up from $546 to $635 in real terms, but were stagnant between 2000 and 2003.

The higher contributions limit in 2003 allowed more higher-income earners to increase their contributions. Earners with incomes over $160,000 increased their average contribution by 18.6 percent between 2000 and 2003. Older cohorts also appeared to take advantage of the catch-up provisions to increase their contributions between 2000 and 2003. Alternatively, the real contributions of the under-30 cohort, declined despite the higher dollar limit. Married people made higher average contributions and had their contributions increase more than unmarried people over the 2000 to 2003 period. These differences in growth rates were not as high as among age and income groups.

TABLE A3 **Average Contributions to IRAs, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars**

CATEGORY	Average Contribution (1997 dollars)		
	1997	2000	2003
By Age Cohort			
Under 30	1,407	1,378	1,493
30 to 44	1,530	1,474	1,741
45 to 59	1,675	1,564	2,122
60 and over	1,713	1,659	2,258
All Cohorts	**1,593**	**1,512**	**1,926**
By Income Group (1997 Dollars)			
Under $20,000	1,428	1,355	1,481
$20,000 to $40,000	1,513	1,397	1,720
$40,000 to $80,000	1,520	1,486	1,912
$80,000 to $120,000	1,741	1,627	2,142
$120,000 to $160,000	1,863	1,652	2,310
$160,000 and over	1,915	1,753	2,578
All Income Groups	**1,593**	**1,512**	**1,926**
By Marital Status/Earner Role			
Unmarried Earners	1,549	1,451	1,777
Married Earners			
Sole	1,626	1,571	2,163
Primary	1,613	1,546	1,963
Secondary	1,615	1,527	1,940
All Earners	**1,593**	**1,512**	**1,926**
Nonearning Spouse	1,583	1,559	2,182

Source: Congressional Budget Office, 2007. Tabulations of a sample of 1997, 2000, and 2003 individual income tax returns and tax information returns.

Notes: The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts.

IRAs

The $2,000 contribution limit did not change between 1997 and 2000, but over this period the average size of real contributions by those participating did decline. This may be because almost two-thirds of participants were contributing $2,000 in 1997, but the real value of this amount declined by 2000 due to inflation. Still, there is a relatively high number of participants that contribute the maximum deductible amounts for traditional IRAs, a feature that is more pronounced for higher-income earners than lower-income earners. The contribution limit was raised in 2003 to $3,000 for taxpayers under the age of 50 and to $3,500 for taxpayers over the age of 50. This created more room for higher contributions and between 2000 and 2003, the average real contribution to IRAs increased by over 27 percent to an average of $1,926.

Contributions to traditional IRAs grew substantially more (31.8 percent) than did contributions to Roth IRAs (22.7 percent) between 2000 and 2003 when the limits were raised. This is likely because the highest income group was previously most constrained by the contribution limits for Traditional IRAs and they were prohibited from contributing to Roth IRAs, which has income limits.[77]

Average contributions increased with age in all years, and this may have been a reflection of the catch-up provisions which allowed those over 50 to make higher contributions. Average real contributions varied little by marital status and earner role in 1997 and 2000, with unmarried earners making the lowest contributions and married sole earners the highest. In 2000, there was a $120 difference in the average contribution of these two groups. By 2003, that difference had increased to $386. Since IRA contributions limits are more restrictive than those for 401(k)s, average contributions vary less with income for IRAs than for 401(k)-type plans.

TABLE A4 **Average Contributions to Self Employment Plans, 1997, 2000, 2003, by age cohort, income, and marital status, in 1997 dollars**

CATEGORY	Average Contribution (1997 dollars)		
	1997	2000	2003
By Age Cohort			
Under 30	4,675	5,137	6,557
30 to 44	8,050	7,909	10,807
45 to 59	8,211	9,093	12,829
60 and over	8,612	7,675	12,276
All Cohorts	**8,115**	**8,405**	**11,995**
By Income Group (1997 Dollars)			
Under $20,000	2,245	1,920	2,716
$20,000 to $40,000	2,665	2,761	3,525
$40,000 to $80,000	4,098	4,027	5,534
$80,000 to $120,000	6,360	5,432	7,836
$120,000 to $160,000	9,433	8,500	11,640
$160,000 and over	14,578	14,984	21,015
All Income Groups	**8,115**	**8,405**	**11,995**
By Marital Status/Earner Role			
Unmarried Earners	7,290	7,465	12,714
Married Earners			
Sole	11,311	12,189	16,304
Primary	9,812	10,054	14,256
Secondary	2,950	3,409	4,852
All Earners	**8,115**	**8,405**	**11,995**
Nonearning Spouse	n.a.	n.a.	n.a.

Source: Congressional Budget Office, 2007. Tabulations of a sample of 1997, 2000, and 2003 individual income tax returns and tax information returns.

Notes: The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts.

n.a. = not applicable.

SELF-EMPLOYED PLANS

There are varying contribution limits for each of the three self-employed plans. The Simplified Employee Pensions (SEPs) was a limit of $30,000 and the Savings Incentive Match Plans for Employees (SIMPLEs) has a limit of $6,500. These did not increase between 1997 and 2000. Average contributions did increase during this period by four percent to $8,405, which CBO attributed to inflation and a real growth in self-employment income.[78] In 2003, the contribution limits were increased. The contribution limits for SIMPLEs was increased to $8,000 and $9,000 for those over 50 and the limits on contributions to SEPs to $40,000. The SIMPLE limit of 25 percent of earnings was increased to 100 percent and the 15 percent limit for SEPs was increased to 25 percent. Before these changes took effect, fewer than 10 percent of participants had been constrained by these limits, so the expectation was that these changes would not lead to higher contribution amounts. However, they increased over 42 percent between 2000 and 2003, which was a much larger increase over the previous period.

Again, there is a strong correlation between contribution amounts and income. The higher the income of the household, the larger the contribution amounts they made. In 1997, the average contributions for those earning between $20,000 and $40,000 was $2,665 and this grew to $3,525 in 2003 (in 1997 dollars). However, those with income between $120,000 and $160,000 had average contributions of $9,433 in 1997 which grew to $11,640 in 2003 (in 1997 dollars).

At incomes above $20,000, average contributions were around 10 percent of Adjusted Gross Income (AGI). But unlike 401(k)-type plans and IRAs, the growth in average contributions to self-employed plans was higher at the low end of the income scale (41.5 percent) than at the high end (40.2 percent). This may be because the people most constrained by the percentage of earnings limits were concentrated at lower income levels. The increased levels in 2003 allowed for these people to increase their contributions four times previous amounts. For higher earners, it is the dollar limit that would become binding rather than the percentage of earnings limit.

TABLE A5 **Percentage of Participants Contributing the Maximum to 401(k)-Type Plans and IRAs**

CATEGORY	401(K)		IRA		ROTH IRA	
	2000	2003	2000	2003	2000	2003
BY AGE COHORT						
Under 30	2	1	51	38	56	36
30 to 44	6	6	65	55	58	44
45 to 59	8	6	73	58	70	48
60 and over	9	5	81	53	82	51
All Cohorts	**6**	**5**	**70**	**55**	**62**	**44**
BY INCOME GROUP (1997 DOLLARS)						
Under $20,000	1	<1	50	58	58	37
$20,000 to $40,000	1	<1	56	33	50	35
$40,000 to $80,000	2	1	69	55	59	42
$80,000 to $120,000	7	6	78	71	73	54
$120,000 to $160,000	18	16	82	87	81	61
$160,000 and over	37	37	97	87	n.a.	n.a.
All Income Groups	**6**	**5**	**70**	**55**	**62**	**44**
BY MARITAL STATUS/EARNER ROLE						
Unmarried Earners	4	3	67	49	61	44
Married Earners						
Sole	12	8	70	60	69	55
Primary	8	7	72	56	61	40
Secondary	5	3	71	57	62	45
All Earners	**6**	**5**	**70**	**55**	**62**	**44**
Nonearning Spouse	n.a.	n.a.	72	66	72	52

Source: Congressional Budget Office, 2007. Tabulations of a sample of 2000 and 2003 individual income tax returns and tax information returns.

Notes: The Economic Growth and Tax Reconciliation Act of 2007 increased the annual dollar and percentage-of-comparison limits and permitted additional "catch-up" contributions by taxpayers age 50 and older. Maximum contributions include the full "catch-up" rate. The income classifier is adjusted gross income plus excluded contributions to retirement plans less taxable distributions from individual retirement accounts.

n.a. = not applicable.

TABLE A6 **Tax Benefits of Defined-Contribution Plans and IRAs, by Age of Household Head, 2004**

Age of Household Head	Percent of Tax Units with a Benefit	Share of Total Benefits	Average benefit ($)
Less than 25	16.4	7.9	-316
25-34	34.3	22.9	-654
35-44	43.9	35.3	-900
45-54	43.5	24.9	-789
55-64	30.0	7.7	-384
65	3.5	1.3	-33
All	**28.7**	**100.0**	**-528**

Source: Urban-Brookings Tax Policy Center Microsimulation Model.

Note: Average benefit refers to the present value of income taxes for each filing unit after contributions have been made.

TABLE A7

TANF Asset Limits by State, July 2007

State	Asset Limit	Vehicle Exemption
Alabama	$2,000/$3,000	All vehicles owned by household
Alaska	$2,000/$3,000	All vehicles owned by household
Arizona	$2,000	All vehicles owned by household
Arkansas	$3,000	One vehicle per household
California	$2,000/$3,000	$4,650/One vehicle per licensed driver
Colorado	$15,000	One vehicle per household
Connecticut	$3,000	$9,500
Delaware	$1,000	$4,650
D.C.	$2,000/$3,000	All vehicles owned by household
Florida	$2,000	$8,500
Georgia	$1,000	$1,500/$4,650
Hawaii	$5,000	All vehicles owned by household
Idaho	$2,000	$4,650
Illinois	$2,000/$3,000 +$50	One vehicle per household
Indiana	$1,500	$5,000
Iowa	$5,000	One vehicle per household
Kansas	$2,000	All vehicles owned by household
Kentucky	$2,000	All vehicles owned by household
Louisiana	$2,000	All vehicles owned by household
Maine	$2,000	One vehicle per household
Maryland	$2,000	All vehicles owned by household
Massachusetts	$2,500	$5,000/$10,000
Michigan	$3,000	All vehicles owned by household
Minnesota	$5,000	$7,500
Mississippi	$2,000	All vehicles owned by household
Missouri	$5,000	One vehicle per household
Montana	$3,000	One vehicle per household
Nebraska	$4,000/$6,000	One vehicle per household
Nevada	$2,000	One vehicle per household
New Hampshire	$2,000	One vehicle per licensed driver
New Jersey	$2,000	$11,500
New Mexico	$3,500	All vehicles owned by household
New York	$2,000/$3,000	$4,650/$9,300
North Carolina	$3,000	One vehicle per adult
North Dakota	$3,000/$6,000/+$25	One vehicle per household
Ohio	No limit	All vehicles owned by household
Oklahoma	$1,000	$5,000
Oregon	$10,000	$10,000
Pennsylvania	$1,000	One vehicle per household
Rhode Island	$1,000	One vehicle per adult
South Carolina	$2,500	One vehicle per licensed driver
South Dakota	$2,000	One vehicle per household
Tennessee	$2,000	$4,600
Texas	$1,000	$4,650 of all vehicles owned by household
Utah	$2,000	All vehicles owned by household
Vermont	$1,000	One vehicle per adult
Virginia	No limit	All vehicles owned by household
Washington	$1,000	$5,000
West Virginia	$2,000	One vehicle per household
Wisconsin	$2,500	$10,000
Wyoming	$2,500	$15,000

Sources: Urban-Brookings Tax Policy Center Microsimulation Model; 2009 Welfare Rules Database. Urban Institute.
Note: Average benefit refers to the present value of income taxes for each filing unit after contributions have been made.

TABLE A8

Treatment of Various Assets in Select Public Assistance Programs

	Temporary Assistance for Needy Families (TANF)	SNAP (Food Stamps)	Supplemental Security Income (SSI)	Medicaid/SCHIP (for working families)
Treatment of:				
Owner Occupied Home	Excluded	Excluded	Excluded	Excluded
Vehicles	Varies by state. Many states exclude at least one vehicle per household. Some states set a limit on equity or fair market value as low as $4,650	Varies by state: most states exclude at least one vehicle per driver	Excludes one vehicle, regardless of value, if it is used for transportation a member of your household	Varies by state and category. Usually some amount of equity or value in a vehicle is not counted.
Retirement:				
Defined Benefit (Pension) Plans	Excluded	Excluded	Excluded	Excluded
Defined Contribution Plans (401ks, 403bs, IRAs, etc.)	Varies by state. Some states exclude all retirement accounts. Some count all retirement accounts	Excluded (as of enactment of 2008 Farm Bill)		Counted, unless specifically excluded by the state
Other Assets:				
College Savings Accounts (529s, Coverdells)	Varies by state.	Excluded (as of enactment of 2008 Farm Bill)	Count	Varies by state. See "Defined Benefit Plans."
EITC	Varies by state. Some states exclude EITC for one year after receipt. Others only for month after receipt.	Excluded for 12 months after receipt	Excluded for 9 months.	Varies by state. See "Defined Benefit Plans."
Savings Bonds	Count	Count	Count	Varies by state. See "Defined Benefit Plans."
Life Insurance			Excludes policies with a combined face value of $1,500 or less.	Varies by state. See "Defined Benefit Plans."

Sources: Social Security Administration, 2009; Parent, 2006.

Notes: SNAP and TANF: The 2002 Farm Bill allows states to streamline eligibility between the SNAP and TANF cash assistance programs. Recognizing that the income eligibility threshold for TANF in every state is lower than the income eligibility threshold for SNAP, states now have the option to consider anyone who receives TANF categorically eligible for SNAP assistance. States have used this authority to extend SNAP benefits to individuals who receive TANF cash assistance and also individuals who receive a "TANF funded benefit." This has enabled states to use their own discretion and set their own asset tests in qualifying applicants for SNAP assistance.

OTHER PUBLIC ASSISTANCE PROGRAMS

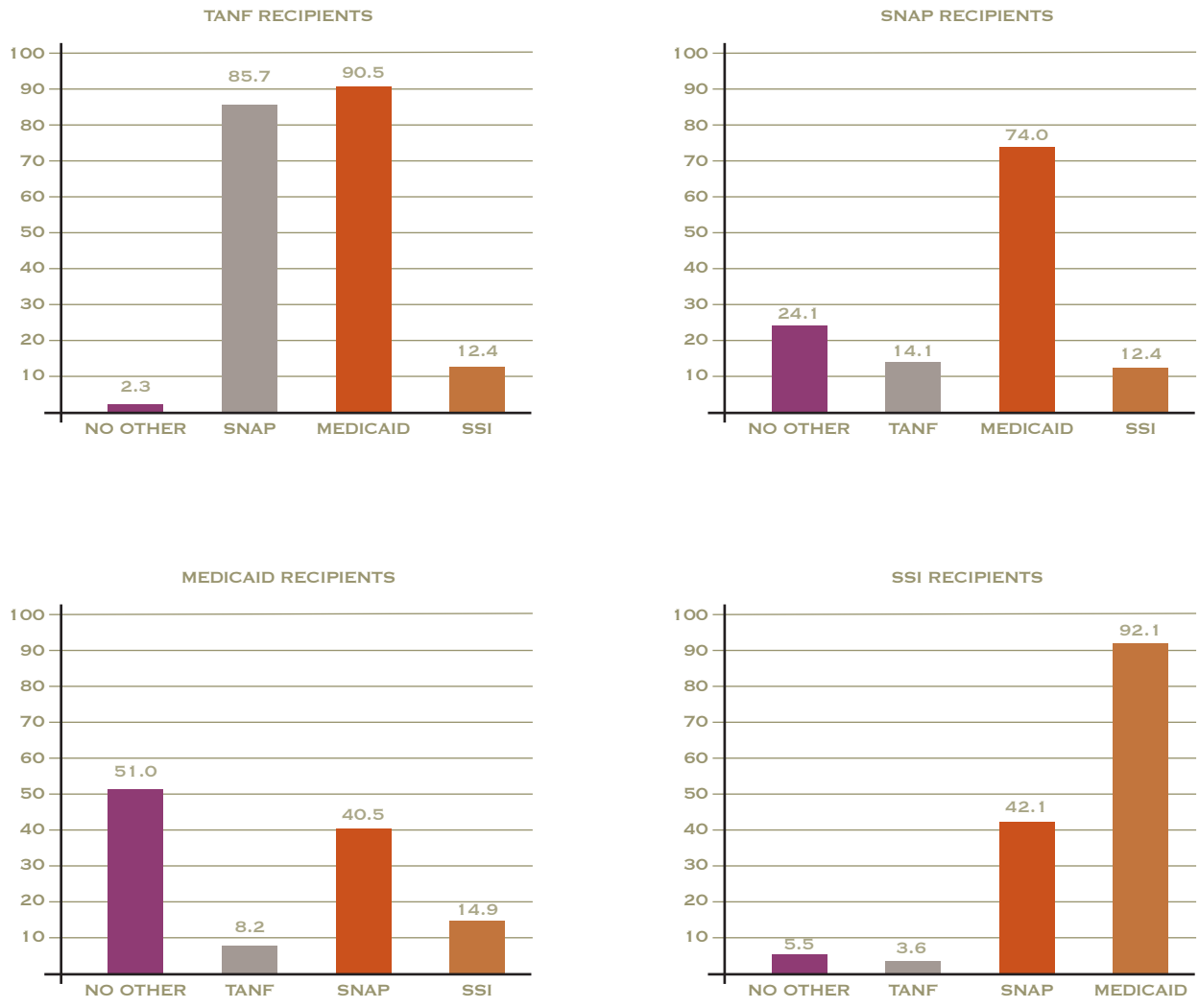
Housing Choice Voucher Program: Eligibility for this program is set at the federal level. There are no set asset limits for housing programs per se, but for families with assets over $5,000, a modest amount of interest is assumed and added to their income to determine eligibility.

Low-Income Home Energy Assistance Program (LIHEAP): States have the option to apply asset rules. Currently 11 states have asset tests for eligibility, ranging from $1,500 to $15,500 per household.

Child Care and Development Block Grant (CCDBG): States have the option to apply asset rules, but vehicles must be excluded. States have the option to employ an asset limit. No compilation of asset tests by state is available for this program.

FIGURE A1

Program Layering: Percent of Program Recipients Receiving Additional Assistance



Source: Author's calculation based on the 2004 Survey of Income and Program Participation.

REVIEW AND CRITIQUE OF RECENT QUANTITATIVE STUDIES

Using data from the Survey of Income and Program Participation (SIPP), James Sullivan (2004) finds that the asset limit on vehicles in TANF has a significant effect on whether low-educated single mothers own a car. Exploiting state variation in the treatment of vehicles for eligibility determination, Sullivan concludes that moving from a $1,500 vehicle exemption to a full vehicle exemption results in a 20 percent increase in the probability of car ownership. Sullivan, however, finds no evidence that asset limits affect the liquid asset holdings of low-educated, single mothers. Economists Hurst and Ziliak (2004) conducted a similar analysis using data from the PSID, with

the same results: asset tests do affect the probability of car ownership but have no effect on the liquid asset holdings of single mothers. This lack of empirical evidence leads the authors to make bold conclusions about the effect of asset tests, asserting that most welfare recipients report asset holdings too low to be affected by current asset limit thresholds. If there exists a propensity and ability for precautionary saving, they argue, we should see an increase in the liquid assets of households in states that have liberalized the asset test in TANF post welfare reform.

Gruber and Yelowitz (1999) conducted a similar analysis but instead focused on Medicaid. Using data from the SIPP, the authors demonstrate that the asset test in the Medicaid program actually has a large and statistically significant negative effect on the asset holdings of eligible low-income households. The authors analyzed household data from 1984 to 1993, a period when many states phased out their asset tests for Medicaid eligibility. Exploiting state variation in the asset test for Medicaid eligibility, Gruber and Yelowitz find that the interaction of an expansion of eligibility with the presence of an asset test "more than doubles the wealth reduction attributable to expanding Medicaid eligibility."[79] The authors posit this finding supports the argument that individuals who are newly eligible for assistance under the income test may "spend down" their wealth in order to qualify under the asset test.

Extending the analysis conducted by Gruber and Yelowitz, Maynard and Qui (2007) find that the effect of Medicaid eligibility—both with and without an asset test—on asset holdings varies by household wealth. They demonstrate that Medicaid eligibility—regardless of the specific asset limit—puts the greatest downward pressure on the holdings of families in the middle wealth deciles, with little to no effect on families in the very bottom or top of the wealth (or income) distribution. In looking at the effect of asset limits specifically, the authors find a similar pattern, noting that the effect is strongest for the lower-middle quintiles: families whose asset holdings are just above the asset test threshold for eligibility. These families have a strong incentive to "spend down" their assets in order to qualify for assistance. Higher-wealth families are presumably less willing to spend down their high wealth in order to qualify for assistance (and to be sure are likely covered by some form of private insurance). Lower-wealth families, they conclude, have too little in the way of assets to be affected by the limit.

On first glance it appears that the findings of Gruber and Yelowitz and Maynard and Qui—that asset limits negatively affect the asset holdings of low-wealth families—contradict those of Sullivan and Hurst and Ziliak (2004), who find no such evidence and therefore conclude no effect. The disparities between these research projects can be accounted for by considering how the eligibility rules for multiple programs interact to affect the savings and wealth accumulation of low-income households.

Each of these studies fails to appreciate that many low-income families receive assistance from more than one program, and the number of programs an individual is eligible for—and likely receives benefits from—increases as household income decreases. Consider, for example, a family who receives TANF cash assistance. Although the income eligibility threshold for TANF varies by state, even in the most generous states a family of three can earn no more than about $17,000 a year and still be eligible for assistance.[80] However, the income eligibility threshold for SNAP is set by the federal government at 130 percent of the federal poverty line, which in 2009 is $23,803 for a family of 3. Therefore, with few exceptions, every family in the United States who is income eligible for TANF cash assistance is also income eligible for SNAP assistance. In fact, data from the 2004 SIPP reveals that 85.7 percent of individuals who receive TANF also receive SNAP.

A family who receives TANF is likely to receive SNAP and is therefore subject to the SNAP asset limit of $2,000, which does not vary by state. Even if states use their authority to eliminate the asset limit in TANF, these households are still covered by the $2,000 SNAP asset limit. This "layering" of program eligibility requirements results in the most restrictive asset test serving as the de facto governing threshold. It is no surprise, then, that eliminating the asset limit in the TANF program alone—as Virginia and Ohio have—has little effect on the asset holdings of program recipients. Since the SNAP asset test has remained unchanged at $2,000, the only potential variation in the "de facto" asset limit is for TANF recipients in states that raised their limit from $1,000 to $2,000 and above. But this too overestimates the real change on the ground, as many states that increased the asset limit for TANF to $2,000 and above left their Medicaid limit unchanged at $1,000 for much of the period analyzed by Sullivan and Hurst and Ziliak.[81] It is no surprise, then, that Sullivan and Hurst and Ziliak found no effect—much of the variation in program rules that provided the conditions for their "natural experiment" did not exist on the ground; regardless of changes in the TANF program, the de facto asset limit for many families changed very little, if at all.

The layering effect also explains Maynard and Qui's finding that the downward pressure of the asset limit in Medicaid on asset accumulation follows a "u-shaped" curve across the wealth spectrum, with very low- and high-wealth families experiencing little downward pressure, whereas middle-wealth families experience a much stronger saving disincentive. The income eligibility threshold for Medicaid assistance is the highest of any of the major public assistance programs, including TANF and SNAP. It stands to reason then, that many families who are income eligible for Medicaid assistance earn too much to qualify for TANF or SNAP assistance. Indeed, analysis of 2004 SIPP data reveals that only 40.5 percent of Medicaid recipients also receive SNAP assistance.

Fully 50 percent of individuals on Medicaid do not receive assistance from any other major public assistance program—TANF, SNAP or SSI. These families are subject to no other program eligibility guidelines and are therefore wholly sensitive to changes in the Medicaid program, which is why these "middle-wealth" families responded strongly to variations in the asset limit in Maynard and Qui's analysis. The lower-income families, the 50 percent who, in addition to Medicaid receive assistance from SNAP, TANF, and/or SSI, are consequently not as sensitive to variations in the Medicaid asset test as they are still subject to asset limit rules in those programs.[82]

This layering effect explains why both Sullivan (2004) and Hurst and Ziliak (2004) found a relationship between asset limits in the TANF program and car ownership, as many states who liberalized their car rules in the TANF and Medicaid programs also exercised an option granted to them under the SNAP program to liberalize the treatment of vehicles in that program.

NOTES

[1] Brobeck, 2008.

[2] A transaction account is a deposit account from which holders can withdraw funds or make transfers to third parties.

[3] A future Economic Mobility Project technical report will examine differences in savings, income, and consumption mobility, including separate analyses for blacks and whites. It will include analyses of intergenerational elasticities as well as the transition matrices presented here.

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

[5] The PSID is a nationally representative, longitudinal survey of households and their offspring that began in 1968. The survey was conducted annually between 1968 and 1997 and has been collected biennially since 1997. The survey includes an initial over-sampling of low-income households (poverty sample) as well as the addition of an immigrant sample in the 1990s. We include all households whether or not they are in the immigrant or poverty sample. We do this to maintain adequate sample size for our analysis, especially the intergenerational results. The survey includes longitudinal weights to account for this oversampling, which we use when calculating summary statistics. We restrict our final sample to include only household heads. All economic measures are reported in 2000 dollars. These data are adjusted for inflation using the Personal Consumption Expenditure deflator from the National Income and Product Accounts.

[6] "Other real estate" includes any investment property other than a household's primary residence. Non-collateralized debt includes credit card debt, college loans, and other debt without pledged assets as collateral.

[7] The measure of savings includes households other real estate holdings. The results are virtually identical when other real estate is excluded from the savings measure since a very limited number of households have such assets.

[8] In particular, we regress income on successive 5-year indicator variables for household age and then use the respective residuals for our conditional analysis. The indicators variables are for households 25 to 29, 30 to 34, 35 to 39 and so on. A given indicator takes a value of 1 if the household's age falls within the specified range and is zero otherwise. In the intergenerational analyses, average age in the parent generation was 51 (ranging from 22 to 87) while in the child generation it was 41 (ranging from 17 to 79). In the intra-generational analyses, average age was 50 in 1989, ranging from 22 to 98.

[9] Averaging income reduces measurement error and is important for obtaining unbiased results (Solon, 1992).

[10] Cramer and Siu, 2009.

[11] Each of these policies is described as tax expenditure for budget purposes to account for revenue losses.

[12] Hungerford, 2006.

[13] President's Advisory Panel on Federal Tax Reform (2005).

[14] Each of these vehicles represents a form of savings incentive created by public policy and embedded in the tax code. Although these accounts and savings plans are associated with different primary purposes, such as retirement, education, and health care, with their various rules they create opportunities to use funds for other purposes as well. The largest number of vehicles are associated with retirement and these include IRAs (both Roth and Traditional), 401(k)-type plans sponsored by employers (different ones for private employers, government, and nonprofit entities), and Keough plans for the self-employed. Savings incentives for education are delivered through individual Coverdell Savings Accounts and state-run 529 College Savings Plans. Savings for health care can be accumulated in Health Savings Accounts (originally piloted as Archer Medical Savings Accounts).

[15] This paper is focused on tax incentives for personal savings. This excludes tax incentives to build other types of assets or compensate for expenditures like the First-Time Homebuyer Credit or Flexible Spending Arrangements. It also excludes tax savings on interest gained from life insurance plans.

[16] Some savings that are invested in non tax-favored accounts also receive preferential tax treatment; profits from long-term investments in capital assets, such as stocks, bonds, or real estate are currently taxed at a lower rate than income. The rationale for treating capital gains distinctly from income is intended to promote capital investments and funding for entrepreneurial activity, but it has been a subject of ongoing policy debate.

[17] Hungerford, 2006.

[18] Contributions to IRAs are restricted for persons with adjusted gross annual incomes of more than $105,000 as an individual, or $166,000 as a couple, and barred altogether if income is more than $120,000 singly or $176,000 with a spouse.

[19] Despite the range of savings incentives created by the tax code, this analysis will focus on those primarily associated with retirement. These are the ones that are most pervasive and costly in terms of federal resources as well as the ones for which the greatest amount of data is available. This paper relies most heavily on data presented by the Congressional Budget Office, Office of Management and Budget, Tax Policy Center, and the Employee Benefit Research Institute.

[20] There are limitations on higher-income households' participation in some accounts, such as IRAs, but these individuals usually have access to other savings vehicles, such as 401(k) plans. For 401(k) plans there are other limits that restrict contributions made on behalf of employees. Annual contributions, including elective deferrals and employer contributions, cannot exceed the 100 percent of compensation or $46,000 in 2009. Also, the amount of contribution that can be considered when determining employer and employee contributions is limited to $245,000 for 2009.

[21] There are a range of methodological challenges inherent in measuring participation and calculating contribution rates accurately. Congressional Budget Office (2007) provides a thorough description of these issues, which include sampling error. The IRS data used for this analysis is a representative sample of tax filers. Burman et al. (2004) offers additional insights, particularly how the inclusion of non-tax filers can change participation estimates. The CBO sample focused on tax filing workers. Participation consists of contributing to an individual retirement account, self-employed plan, or 401(k)-type plan or being enrolled in a noncontributory plan during the given year.

[22] The Economic Growth and Tax relief Reconciliation Act of 2001 (EGTRRA) increased the annual dollar and percentage of compensation limits on contributions to tax–favored accounts and permitted additional "catch-up" contributions by taxpayers over the age of 50.

[23] This calculation is based on an estimate of 133.4 million tax filing workers. Participation includes both defined-contribution and defined-benefit (traditional pension) arrangements.

[24] In other analysis, Employee Benefit Research Institute (2006) has calculated a "sponsored participation rate" which is defined by the fraction of workers participating in a plan among those whose employers or unions sponsor a plan for any employees. Their estimate of participation for 2003 (50.9 percent) is similar to CBO's with an overall sponsored participation rate of 75.6 percent. However, for earners with incomes over $50,000, the sponsored participation rate is 91.7 percent and is close to 50 percent for those earning less than $20,000.

[25] An additional finding of the CBO analysis was that the participation rates had remained relatively stable since 1997. They did decline slightly, from 51 percent in 1997 to 50 percent in 2000, but were unchanged through 2003. The decline in participation was largest among those under age 30, although even they experienced only a small decline. During these years, there were small increases in participation by older households and households with higher incomes.

[26] Employee Benefit Research Institute (2006).

[27] Ibid.

[28] Employer contributions were excluded from the analysis. Contributions to retirement plans do not necessarily represent new savings since they could be drawn from existing assets. Contribution levels are influenced by governing rules, which vary by account type. For example, 401(k)-type plans have higher contribution limits than IRAs, which partly explains why they have higher contribution levels. See the appendix for a presentation and analysis of contribution amounts in 1997, 2000, and 2003 by account type.

[29] Carasso, Reynolds and Steuerle, 2007.

[30] See Burman et al., 2004, page 4 for a full description of data and simulation techniques. These include use of 1999 IRS data and Current Population Survey data to capture nonfilers, an aging and extrapolation process, and a set of assumptions to calculate future tax incidence.

[31] Burman et al., 2004, page 9. Also, this analysis presents the model results in terms of "cash income," as opposed to adjusted gross income. Cash income includes wages and salaries, interest income, taxable dividends, and other categories of income. In this sense, it provides a more accurate reflection of economic status.

[32] This analysis also focused on how different cohort age groups benefit from current policy, and found that the amount of tax benefits also vary by age. (See also Table A6 in the Appendix.) One factor is that younger people have more years ahead of them, and therefore potentially stand more to gain from a deferral of tax liabilities. Yet younger workers typically have less income available for them to save. Working in their 40s and 50s, by contrast, typically have fewer years ahead of them, but have more income available to defer, are subject to higher tax rates, and also have a higher probability of working for an employer who offers a savings plan. All told, the tax benefits for saving in these vehicles are worth most to workers between age 35 and 54 (see Burman et al, (2004) page 12). The present value of these benefits in 2004 averaged approximately $900 for households with a head between age 35 and 44, and close to $800 for those between 45 and 54. These figures, however, mask an important reality: At any age, likelihood of participation and of making contributions grew steadily with income.

[33] Tax Policy Center estimates of participation and contributions were performed at the household level (tax unit) as opposed to CBO's approach focusing on workers. Consequently, CBO's participation rates were somewhat higher but broadly consistent with the TPC estimates.

[34] Burman et al., 2004, page 11.

[35] Hungerford, 2006; Hubbard and Skinner, 1996.

[36] President's Advisory Panel on Federal Tax Reform (2005).

[37] Enger and Gale, 2000.

[38] Benjamin, 2001.

[39] Shreiner et al., 2002.

[40] Shreiner et al., 2002.

[41] Participation in defined-contribution 401(k)-type plans has increased (from 27 to 29 percent) between 1997 and 2003, while participation in defined-benefit pensions declined over the same period (from 20 to 17 percent). If other defined-contribution accounts, such as IRAs and self-employment plans, are included, participation did not exceed 37 percent for all workers in 2003.

[42] Madrian and Shea, 2001.

[43] Cramer and Sui, 2009.

[44] One notable exception to the home exemption is for institutionalized elderly under Medicaid. The home is counted as a nonexempt asset if the individual stays in the nursing home for a period of longer than six months and no spouse or dependant children are living in the home.

[45] For a state by state breakdown of state treatment of retirement and other restricted accounts in determining eligibility for TANF and Medicaid/SCHIP, see Resource Guide; Lifting Asset Limits in Public Benefit Programs. CFED (2009). http://scorecard.cfed.org/downloads/pdfs/resource_guides/rg_AssetLimits.pdf. See also the Welfare Rules Database, 2009.

[46] States have also used an option known as "categorical eligibility" to waive the asset limit in SNAP for any households who receive a TANF-funded benefit. A number of states have exercised this option to effectively liberalize the asset limit in SNAP.

[47] For a discussion of how asset limits discourage saving and a review of existing research, see McDonald, Gordon, Peter Orszag and Gina Russell, "The Effect of Asset Tests on Saving," Retirement Security Project, www.retirementsecurityproject.org

[48] O'Brien, 2008.

[49] Elderly persons in a nursing home or other institutional setting are subject to a particular asset limit for long-term care under Medicaid. As this assistance is typically provided for end of life care, the principles and motivations for reform outlined in this report—self-sufficiency and economic security—are not strictly applicable. Liberalizing the asset limit for this population, for example, would directly increase the amount of wealth available for inheritance, raising a number of important questions regarding equity and the role of public policy.

[50] Individuals under 65 who qualify for SSI are currently required to apply for periodic payments from their retirement accounts in order to qualify for assistance. Alongside exclusion of retirement savings, this requirement would also need to be eliminated. See Neuberger and Greenstein (2008) for a detailed discussion of why retirement savings by working aged persons with disabilities should be excluded from eligibility considerations for SSI.

[51] Ong, 2002; Lucas and Nicholson, 2002; Raphael and Rice, 2002.

[52] Richards and Bruce, 2004.

[53] See Chapter One.

[54] Orszag, 2005.

[55] Axinn et al., 1997; Nam and Huang, 2008; Zhan and Sherraden, 2003; Conley, 2001; Nam and Huang, 2008.

[56] Schreiner et al, 2001.

[57] Of note, another problem associated with low take-up rates is when employers fail to provide necessary financial education to understand the intricacies and value of the tax-favored account as a compensation benefit. When employers assume the task of explaining this complexity to their employees, it amounts to a cost of business that some employers choose to avoid; a situation which reveals the promise and peril of relying on the employment relationship to facilitate savings.

[58] The New America Foundation has supported the development of a targeted savings incentive called the Saver's Bonus, which would reward low- and moderate-income individuals and families who save at tax time. (See Newville, 2009.) Deposits made in designated savings products would be matched with an additional dollar from the federal government, up to a $500 annual maximum. Participants would make or report contributions to an eligible account on their federal income tax return, and the bonus would then be transferred directly to the designated account.

[59] Burmann et al., 2004, Table 8.

[60] Some states employ different asset limits for applicants and current recipients under TANF. In addition to the administrative complexity and confusion of implementing two limits for one program, this policy still requires that low-income families spend down nearly all of their assets in order to qualify for assistance, leaving them more vulnerable to future income shocks, less likely to achieve self-sufficiency, and likely to spend more time on public assistance.

[61] This reform recommendation is more restrictive than current policy under the 2008 Food, Conservation and Energy Act (Farm Bill) which excludes all money in retirement savings accounts when determining any household's eligibility for SNAP, including elderly households. If this proposal is adopted in concert with the suggested changes to SSI for working age persons detailed above, a potential eligibility "cliff" would appear at age 65. Working age persons on SSI who save for retirement in excluded vehicles (401(k), IRA, etc.) would be required to spend down their retirement savings to under $10,000 (or total combined retirement and non-retirement liquid assets to less than $20,000) in order to continue eligibility for SSI.

[62] Neuberger and Greenstein of the Center for Budget and Policy Priorities recommend disregarding one-third of money withdrawn from retirement accounts when calculating household income and determining benefits for SSI. This proposal "treats senior's retirement savings more generously than other unearned income, but less favorably than earned income, by reducing SSI benefits by $2 for each $3 in such payments." Neuberger and Greenstein, 2008, page 5.

[63] For example, see Center for American Progress, 2007, page 51.

[64] Sherraden and Sherraden, 2000.

[65] Food, Conservation and Energy Act of 2008 (Farm Bill).

[66] Ibid.

[67] IDAs funded all or in part by TANF/MOE or Assets for Independence Act (AFIA) moneys are already excluded. Exclusion should be extended to all IDAs funded and defined in federal law, including Office of Refugee Resettlement and Beginning Farm and Rancher IDA programs.

[68] Streamlining the asset verification process can reduce the administrative burden on caseworkers and thereby save government money; after eliminating the asset limit in TANF, the state of Virginia reported administrative cost savings of $400,000 a year.

[69] Survey of Consumer Finances 2007

[70] Seidman, Hababou, Kramer, 2005. For a discussion of the direct financial costs of being unbanked, see Desmond and Sprenger, 2007.

[71] The Obama administration has proposed the establishment of a Consumer Financial Protection Agency that will be tasked with developing "plain vanilla" banking products for consumers.

[72] Those who completed the financial education provided through the Financial Links for Low-Income People (FLLIP) program in Illinois were more likely to use and balance a household budget, take advantage of employer sponsored retirement benefits and save using formal bank accounts.

[73] Some have called for the creation of a volunteer "financial services corps" of financial planning professionals who would go in to low-income communities and offer families one-on-one financial counseling at no cost.

[74] A High Deductible Health Plan (HDHP) has a higher annual deductible than typical health plans, and a maximum limit on the total deductible and out-of-pocket covered medical expenses (e.g. co-payments) paid out per year.

[75] There was a 25-percent-of-compensation limit on contributions in 1997 and 2000, which was increased to 100 percent for 2003. Also in 2003, taxpayers age 50 and over were allowed to make catch-up contributions of $2,000 above the limit for other taxpayers.

[76] All figures are in 1997 dollars to facilitate comparison.

[77] With both types of IRAs, growth in contributions was lower in the highest eligible income group than in the one right below it. Growth in contributions to traditional IRAs ranged from 15.2 percent in the lowest income group to 53.4 percent in the $120,000 to $160,000 group, before dropping to 46.8 percent in the highest income group. Growth in contributions to Roth IRAs ranged from 3.0 percent in the lowest income group to 31.0 percent in the $80,000 to $120,000 group, and dropping to 30.2 percent in the $120,000-$160,000 group.

[78] Congressional Budget Office, 2007, page 14.

[79] Gruber and Yelowitz, 1999, page 1270.

[80] National Center for Children in Poverty, 2009.

[81] As of July 2000, the following states employed an asset limit of $1,000 in determining Medicaid eligibility: Alaska, Arkansas, Georgia, Idaho, Indiana, Louisiana, New Hampshire, Virginia, Washington West Virginia and Wisconsin. See "Eliminating the Medicaid Asset Test for Families: A Review of State Experiences," Kaiser Commission on Medicaid and the Uninsured, Kaiser Family Foundation, 2001.

[82] Maynard and Qui briefly acknowledge that eligibility for other public assistance programs may account for why very low-wealth households are not responsive to a change in the Medicaid asset test (27) but appear to align more with Ziliak in arguing that these households have assets too low to respond to changes in the test.

REFERENCES

Auerbach, Alan J., William G. Gale, and Peter R. Orszag. 2004. "The Fiscal Gap and Retirement Saving Revisited." *Tax Notes*, *104* (4), 431-437. http://www.taxpolicycenter.org/publications/url.cfm?ID=1000672.

Axinn, William, Greg J. Duncan, and Arland Thornton. 1997. "The Effects of Parents' Income, Wealth, and Attitudes on Children's Completed Schooling and Self-Esteem. In Greg J. Duncan and Jeanne Brooks-Gunn (Eds.). *Consequences of Growing Up Poor* (pp. 518-540). New York: Russell Sage Foundation.

Bell, Elizabeth, Adam Carasso, and C. Eugene Steuerle. 2004. "Retirement Saving Incentives and Personal Saving." *Tax Notes*, *105* (13), 1689. http://www.taxpolicycenter.org/publications/url.cfm?ID=1000739.

Benjamin, Daniel. 2003. "Does 401(k) Eligibility Increase Saving? Evidence from Propensity Score Subclassification." *Journal of Public Economics* 87 (5-6), 1259-1290.

Brobeck, Stephen. 2008. "Understanding the Emergency Savings Needs of Low- and Moderate-Income Households: A Survey-Based Analysis of Impacts, Causes, and Remedies." Consumer Federation of America. http://www.consumerfed.org/elements/www.consumerfed.org/File/Emergency_Savings_Survey_Analysis_Nov_2008.pdf.

Bucks, Brian K., Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore. 2009. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, *95*, A1-A56. http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf.

Burman, Leonard E., William G. Gale, Matthew Hall, and Peter R. Orszag. 2004. "Distributional Effects of Defined Contribution Plans and Individual Retirement Accounts." Tax Policy Center. Discussion Paper 16. http://www.taxpolicycenter.org/publications/url.cfm?ID=311029.

Burman, Leonard E., William G. Gale, and David Weiner. 2001. "The Taxation of Retirement Saving: Choosing between Front-Loaded and Back-Loaded Options." *National Tax Journal*, *54*(3), 689-702.

Butler, Stuart M., William W. Beach, and Paul L. Winfree. 2008. *Pathways to Economic Mobility: Key Indicators.* Economic Mobility Project. http://www.economicmobility.org/reports_and_research/other?id=0004.

Carasso, Adam, Gillian Reynolds, and C. Eugene Steuerle.2007. *How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?* Economic Mobility Project. http://www.economicmobility.org/reports_and_research/other?id=0004.

Center for American Progress Task Force on Poverty. 2007. "From Poverty to Prosperity: A National Strategy to Cut Poverty in Half." Center for American Progress. http://www.americanprogress.org/issues/2007/04/poverty_report.html.

Commission on Thrift. 2008. "For a New Thrift: Confronting a Debt Culture." Institute for American Values.

Congressional Budget Office. 2007. "Utilization of Tax Incentives for Retirement Saving: Update to 2003." CBO Background Paper. http://www.cbo.gov/ftpdoc.cfm?index=7980&type=1.

Conley, Dalton. 1999. *Being Black, Living in the Red: Race, Wealth, and Social Policy in America.* Berkeley: University of California Press.

Conley, Dalton. 2001. "Capital for College: Parental Assets and Postsecondary Schooling." *Sociology of Education*, *74*(1), 59-72.

Cramer, Reid. 2006. "Savings and Tax Reform: Analysis of the Savings Proposals of the President's Advisory Panel on Federal Tax Reform." New America Foundation. http://www.newamerica.net/publications/policy/savings_and_tax_reform.

Cramer, Reid and Collin Sui. 2009. "The Assets Report 2009." New America Foundation. http://www.newamerica.net/publications/policy/assets_report_2009_0.

Desmond, Tyler and Charles Sprenger. 2007. "Estimating the Cost of Being Unbanked." Federal Reserve Bank of Boston. http://www.bos.frb.org/commdev/c&b/2007/spring/article9.pdf.

Employee Benefit Research Institute. 2006. *EBRI Databook on Employee Benefits.*

Engen, Eric and William G. Gale. 2000. "The Effects of 401(k) Plans on Household Wealth: Differences across Earnings Groups." National Bureau of Economic Research. NBER Working Paper 8032. http://www.nber.org/papers/w8032.

Engen, E. M, and J. Gruber. 2001. "Unemployment Insurance and Precautionary Saving." *Journal of Monetary Economics*, *47*(3), 545-579.

Gale, William G., J. Mark Iwry, and Peter R. Orszag. 2005a. "The Automatic 401(k): A Simple Way to Strengthen Retirement Saving." Policy Brief 2005-1. Retirement Security Project. http://www.taxpolicycenter.org/publications/url.cfm?ID=1000751.

Gale, William G., J. Mark Iwry, and Peter R. Orszag. 2005b. "The Saver's Credit: Expanding Retirement Savings for Middle- and Lower-Income Americans." Retirement Security Project. Policy Brief 2005-2. http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Retirement_security/RSP_SaversCredit_030105.pdf.

Green, Richard K., and Michelle J. White. 1997. "Measuring the Benefits of Homeowning: Effects on Children." *Journal of Urban Economics*, *41*(3), 441-461.

Gruber, Jonathan and Aaron Yelowitz. 1999. "Public Health Insurance and Private Savings," *Journal of Political Economy*, *107*(6), 1249-1274.

Haveman, Robert H., and Edward N. Wolff. 2005. "The Concept and Measurement of Asset Poverty: Levels, Trends and Composition for the U.S., 1983–2001." *Journal of Economic Inequality*, *2*(2), 145-169.

Hubbard, Glenn and Jonathan S. Skinner. 1996. "Assessing the Effectiveness of Saving Incentives." *The Journal of Economic Perspectives*, *10*(4), 73-90.

Hubbard, R. Glenn, Jonathan Skinner, and Stephen Zeldes. 1995. "Precautionary Saving and Social Insurance." *Journal of Political Economy*, *103*(2), 360-399.

Hungerford, Thomas. 2006. "Savings Incentives: What May Work, What May Not," Congressional Research Services Report for Congress. https://www.policyarchive.org/bitstream/handle/10207/2867/RL33482_20060620.pdf?sequence=1.

Hurst, Erik and James Ziliak. 2004. "Do Welfare Asset Limits Affect Household Saving? Evidence from Welfare Reform." National Bureau of Economic Research. NBER Working Paper 10487. http://www.nber.org/papers/w10487.

Internal Revenue Service. 2004. "403(b) and 457 Retirement Plans." http://www.irs.gov/pub/irs-pdf/p4406.pdf.

Internal Revenue Service. 2008a. "Health Savings Accounts and Other Tax-Favored Health Plans." Internal Revenue Service Publication 969. http://www.irs.gov/pub/irs-pdf/p969.pdf.

Internal Revenue Service. 2008b. "Tax Benefits for Education." IRS Publication 970. http://www.irs.gov/publications/p970/ch10.html.

Internal Revenue Service. 2008c. "401(k) Resource Guide." http://www.irs.gov/retirement/article/0,,id=151752,00.html.

Internal Revenue Service. 2009a "Individual Retirement Arrangements (IRAs)." IRS Publication 590. http://www.irs.gov/pub/irs-pdf/p590.pdf.

Internal Revenue Service. 2009b. "Retirement Plans for Small Business." IRS Publication 560 http://www.irs.gov/pub/irs-pdf/p560.pdf.

Internal Revenue Service. 2009c "Tax-Sheltered Annuity Plans (403(b) Plans)." IRS Publication 571. http://www.irs.gov/pub/irs-pdf/p571.pdf.

Isaacs, Julia, Isabel Sawhill, and Ron Haskins. 2007. *Getting Ahead or Losing Ground: Economic Mobility in America.* Economic Mobility Project. http://www.economicmobility.org/reports_and_research/other?id=0004.

Joint Committee on Taxation. 2007. "Estimates of Federal Tax Expenditures for Fiscal Years 2007-2011." Washington, D.C.: U.S. Government Printing Office. http://www.house.gov/jct/s-3-07.pdf.

Joulfaian, David and David Richardson. 2001. "Who Takes Advantage of Tax-Deferred Saving Programs? Evidence from Federal Income Tax Data." *National Tax Journal, 54*(3): 669-688.

Kane, Thomas J. 1994. "College Entry by Blacks since 1970: The Role of College Costs, Family Background, and the Returns to Education." *Journal of Political Economy*; *102*(5), 878-911.

Lucas, Marilyn and Charles Nicholson. 2002. "Subsidized Vehicle Acquisition and Earned Income in the Transition from Welfare to Work." Cornell University. Department of Applied Economics and Management Working Paper 2002-24. http://aem.cornell.edu/research/researchpdf/wp/Cornell_AEM_wp0224.pdf.

Madrian, Brigitte C. and Dennis F. Shea. 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *Quarterly Journal of Economics, 116*(4), 1149-87.

Maynard, Alex and Jiaping Qiu. (2005). "Public Insurance and Private Savings: Who Is Affected and By How Much?" Paper presented at the University of Albany. http://www.chass.utoronto.ca/~amaynard/papers/MaynardQiu.pdf.

McDonald, Gordon, Peter Orszag, and Gina Russell. [year] "The Effect of Asset Tests on Saving." Washington, D.C.: The Retirement Security Project. http://www.retirementsecurityproject.org/pubs/File/ResearchonAssetTestsandSavings.final.pdf.

Nam, Yunju and Jin Huang. 2008. "Equal Opportunity for All?: Parental Economic Resources and Children's Educational Achievement." Washington University, Center for Social Development. CSD Working Paper 08-02. http://csd.wustl.edu/Publications/Documents/WP08-02.pdf.

Nam, Yunju and Jin Huang. 2008. "Changing Roles of Parental Economic Resources in Children's Educational Attainment." Washington University, Center for Social Development. CSD Working Paper 08-20. http://csd.wustl.edu/Publications/Documents/WP08-20.pdf.

National Center for Children in Poverty. 2009. "50 State Policy Wizard." New York: Mailman School of Public Health, Columbia University. http://www.nccp.org/tools/policy/.

Neuberger, Zoe and Robert Greenstein. 2008. "Removing Barriers to Retirement Saving in Medicaid and Supplemental Security Income." The Retirement Security Project. http://www.cbpp.org/cms/index.cfm?fa=view&id=1281.

Neumark, David, and Elizabeth T. Powers. 1998. "The Effect of Means-Tested Income Support for the Elderly on Pre-Retirement Saving: Evidence from the SSI Program in the U.S." *Journal of Public Economics*, *68*(2), 181-206.

Newville, David. 2009. "The Saver's Bonus." Washington, D.C.: New America Foundation. http://www.newamerica.net/node/13803.

O'Brien, Rourke. 2008. "Ineligible to Save? Asset Limits and the Saving Behavior of Welfare Recipients." *Journal of Community Practice*, *16*(2), 183-199.

Office of Management and Budget. 2009. "Analytical Perspectives, Fiscal Year 2010."

Ong, Paul. 2002. "Car Ownership and Welfare-to-Work." *Journal of Policy Analysis and Management*, *21*(2), 239-252.

Orszag, Peter. 2005. "Protecting Low-Income Families' Savings: how Retirement Accounts Are Treated in Means-Tested Programs and Steps to Remove Barriers to Retirement Savings." Brief No. 2005-6. Washington, D.C.: The Retirement Security Project. http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Retirement_security/RSPAssetTestReport0605.pdf.

Parent, Rene. 2006. "Defined Contribution Pension Plans and the Supplemental Security Income Program." Policy Brief No.2006-01. http://www.socialsecurity.gov/policy/docs/policybriefs/pb2006-01.html.

Poterba, James M., Steven F. Venti, and David A. Wise. 1995. "Do 401(k) Contributions Crowd Out Other Personal Saving?" *Journal of Public Economics*, *58*(1), 1-32.

President's Advisory Panel on Federal Tax Reform. 2005. "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System." Report of the President's Advisory Panel on Federal Tax Reform. http://www.taxpolicycenter.org/taxtopics/upload/tax-panel-2.pdf.

Raphael, Steven and Lorien Rice. 2002. "Car Ownership, Employment, and Earnings." *Journal of Urban Economics*, *52*(1), 109-130.

Richards, Tami and Donald Bruce. 2004. "Car Access and Employment Outcomes for Tennessee Welfare Recipients" Knoxville, TN: Center for Business and Economic Research. http://cber.utk.edu/TDHS/ffjun0400.pdf.

Seidman, Ellen, Moez Hababou, and Jennifer Kramer. 2005. "A Financial Services Survey of Low-and Moderate-Income Households." Center for Financial Services Innovation. http://www/chicagofed.org/cedric/files/2005conf_paper_session2_seidman.pdf.

Sherraden, Michael and Margaret Sherraden. 2000. "Asset Building: Integrating Research, Education, and Practice." *Advances in Social Work, 1*(1), 61-77.

Shreiner, Mark, Clancy, Margaret., and Sherraden, Michael. 2002. "Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts." St. Louis, MO: Center for Social Development at Washington University. http://csd.wustl.edu/Publications/Documents/ADDReport2002.pdf.

Social Security Administration. "Understanding Supplemental Security Income SSI Resources." 2009. http://www.ssa.gov/ssi/text-resources-ussi.htm.

Sullivan, James. 2004. "Welfare Reform, Saving, and Vehicle Ownership: Do Asset Limits and Vehicle Exemptions Matter?" University of Notre Dame Working Paper. http://www.nd.edu/~jsulliv4/vehicles.pdf.

U.S. Department of Treasury. 2007. "All About HSAs." http://www.treas.gov/offices/public-affairs/hsa/pdf/all-about-HSAs_072208.pdf.

Zhan, Min and Michael Sherraden. 2003. "Assets, Expectations, and Children's Educational Achievement in Female-Headed Households." *Social Service Review, 77*(2), 191-211.

Ziliak, James. 2003. "Income Transfers and Assets of the Poor." *The Review of Economics and Statistics, 85*(1), 63-76.

The Pew Charitable Trusts (www.pewtrusts.org) is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life. We partner with a diverse range of donors, public and private organizations and concerned citizens who share our commitment to fact-based solutions and goal-driven investments to improve society.

ECONOMIC MOBILITY PROJECT

An Initiative of The Pew Charitable Trusts

THE PEW CHARITABLE TRUSTS

ABOUT THE PROJECT

The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from five leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, The New America Foundation, and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

PROJECT PRINCIPALS

Richard Burkhauser, Ph.D., American Enterprise Institute
Marvin Kosters, Ph.D., American Enterprise Institute
Ron Haskins, Ph.D., *Center on Children and Families*, The Brookings Institution
Stuart Butler, Ph.D., *Domestic and Economic Policy Studies*, The Heritage Foundation
William Beach, *Center for Data Analysis*, The Heritage Foundation
Ray Boshara, *Domestic Policy Programs*, The New America Foundation
Harry Holzer, Ph.D., The Urban Institute
Eugene Steuerle, Ph.D., *Urban-Brookings Tax Policy Center*, The Urban Institute
Sheila Zedlewski, *Income and Benefits Policy Center*, The Urban Institute

PROJECT ADVISORS

David Ellwood, Ph.D., *John F. Kennedy School of Government*, Harvard University
Christopher Jencks, M. Ed., *John F. Kennedy School of Government*, Harvard University
Susan Mayer, Ph.D., *Irving B. Harris School of Public Policy*, The University of Chicago
Bhashkar Mazumder, Ph.D., Federal Reserve Bank of Chicago
Sara McLanahan, Ph.D., Princeton University
Ronald Mincy, Ph.D., Columbia University School of Social Work
Timothy M. Smeeding, Ph.D., University of Wisconsin-Madison
Eric Wanner, Ph.D., The Russell Sage Foundation

For a copy of this and other Economic Mobility Project reports visit www.economicmobility.org