

Saving Grace

Incentive Programs Aim to Help Poor People Build Up Assets

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Americans are rotten at saving. To encourage thrift, the government hands out billions of dollars in tax breaks, mostly to the nation's wealthier half. The other half, it has long been assumed, either can't or won't save.

But in recent years, a growing number of state governments, nonprofit groups and private companies have been running pilot programs to induce poor and working-class Americans to save. The results, they say, are surprising: When participants get the right incentives and financial counseling, many open savings accounts and begin accumulating assets.

Advocates of the programs say they could become productive successors to liberal antipoverty programs of the 1960s and conservative welfare reforms of the 1990s. But they acknowledge that it is difficult to persuade many poor people that they can afford to save, even with financial incentives. Given "the struggles of keeping the utilities on, paying your bills, keeping the car running and just dealing with life," even \$10 a week is a huge amount, says Chris Krehmeyer, executive director of a St. Louis nonprofit social agency.

Stepping Stone

America's saving problem isn't new, but it is getting worse. The U.S. savings rate—the percentage of after-tax income that Americans save—has declined for nearly three decades. In 2005, it dropped into negative territory, meaning that Americans spent more than they earned.

One-third of U.S. households have no financial assets. But households with about \$2,000 or more in assets are ineligible for basic welfare programs, which provides a disincentive for the poor to save.

The new savings programs draw on the work of social worker Michael Sherraden, whose 1991 book, "Assets and the Poor," argued that governments and charities should move beyond providing the poor with income to meet immediate needs and focus on helping the poor save money, which can provide them a stepping stone to escaping poverty.

He proposed that the federal government provide "individual development accounts," or IDAs, for every child at birth, tapping public and private funds for initial deposits. The poor would get bigger initial deposits, and also matches for their personal savings, up to a limit. He argued that the accounts, coupled with financial education, would promote savings for college, job training, buying a home or starting a business.

Mr. Sherraden's proposals drew interest from community groups, governors, members of Congress and the first Bush and Clinton administrations. Private foundations stepped in with funds to test the approach.

There are now more than 500 such projects across the country, whose participants have opened more than 20,000 accounts. Thirty-three states support such programs on a small scale, using state funds and federal subsidies for savings matches, and contracting with nonprofits to run the programs.

Numerous other ideas have been floated for encouraging low-income workers to save more. Making enrollment in 401(k) plans automatic for new hires is one. Giving taxpayers the option of saving all or part of their annual tax refunds—sometimes by offering them a financial incentive—is another.

More ambitious, and costly, are the proposals to roll out IDA-like accounts on a national scale. A bill introduced in Congress to establish accounts for every newborn would cost an estimated \$40 billion over 10 years.

Pennsylvania started its Family Savings Account Program eight years ago. The program gets about \$1 million annually from the state, and another \$1 million from federal welfare funds. The program offers to match participants' savings of up to \$2,000 over three years with state and federal funds. Households with incomes of no more than twice the poverty level are eligible. They must save at least \$10 a week and attend a series of financial-planning classes. IDA savings must be used for college, job training, buying a home or starting a business.

'I Can Save' Club

Michelle Simmons is a big beneficiary of the program. Ms. Simmons, 37, says she was a "hope-to-die dope fiend" living on the streets of Los Angeles when she was arrested in 1998 for prostitution. Freed from prison after one year, she returned to her hometown, Philadelphia, and found low-paying work as a telemarketer. She wanted to start a halfway house for women newly released from prison, so she took a self-employment course run by the Women's Opportunities Resource Center, a local social-service agency. She learned there about the savings-match program. With the help of a nonprofit agency that helps administer Pennsylvania's savings account program, she got financial advice and opened an IDA.

To save money, she shopped at thrift stores and went without cable TV, a cellphone or manicures. By 2003, she had saved \$1,007. The program matched that amount, producing enough for the down payment on a \$50,000 home from Habitat for Humanity.

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Today, she owns a three-story townhouse in Norristown, just north of Philadelphia, which she bought in 2003. She has regained custody of two daughters, who have their own bedrooms. Not far away stands the halfway house she opened. In three years, she has housed 33 women fresh from jail and “graduated” 17 to jobs and housing, she says. She urges residents to open IDAs. “I sell it,” she says. “I tell them, ‘This is an investment.’”

Meanwhile, with funding from Ford and other foundations, a group of social-service organizations is testing Mr. Sherraden’s idea to encourage savings early in life at 13 sites across the country. At Delmar-Harvard Elementary School outside St. Louis, 50 students are in the third year of a four-year pilot program managed by Beyond Housing. Each student received an initial \$500, and a promise that his or her own savings would be matched dollar-for-dollar. They receive \$2 for attending each weekly meeting of the “I Can Save” club. Through November, the 7- to 9-year-olds had saved a total of \$64,093.