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Many ways to boost U.S. personal savings

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Washington, DC, Apr. 1 (UPI) -- With personal savings rates at one of its lowest rates ever, not only are secure retirements in jeopardy but also many Americans are one medical emergency or layoff away from financial disaster.

According to the U.S. Bureau of Economic Analysis, U.S. personal savings made up 1.6 percent of disposable personal income as of fourth-quarter 2004.

With this problem in mind, experts proposed several solutions for solving America's low savings rate Thursday at a discussion in Washington sponsored by the New America Foundation.

Five solutions were suggested. One was changing 401(k) enlistment so that employers could automatically enlist workers in 401(k)s rather than waiting for workers to enlist. Another was changing tax-filing procedures so as to allow taxpayers to split refunds, with part going into a savings device and part going to the taxpayer. Another one is getting the "unbanked" banked, meaning getting those without a basic checking or savings account to have such accounts. Another possible tactic is achieving higher participation in the Family Self-Sufficiency Program, which allows public-housing or Section 8 residents to have increases in their income directed into interest-bearing personal escrow accounts (since public-housing residents pay 30 percent of their income toward rent, an increase in income would normally mean an increase in rent). The fifth proposal involves resuscitating the U.S. savings bond.

"You don't have to be a mechanic to drive a car; so, you shouldn't have to be a financial expert to use your 401(k), said William Gale, a senior fellow in the economic studies program at the Brookings Institute, a Washington, D.C. think tank.

Right now, Gale said, participating in a 401(k) is a complicated process. People have to sign up, decide how much to pay in, allocate the money into different funds -- which

usually ends up with the participant being overallocated in either conservative or aggressive growth funds -- and finally, figure out what to do with the balance if they leave the job.

With automatic 401(k) plans, employees would be enrolled automatically unless they made it clear they did not want to sign up.

Where there are automatic 401(k) plans being offered, enrollment has increased "dramatically" Gale said, but some things need to change to improve conditions under which to offer this option.

Right now, Gale said, companies that offer such automatic 401(k) plans are still nervous about diverting too much pay into such plans, so they only direct about 2-3 percent of employee pay that way. To make automatic 401(k)s effective savings vehicles, Gale said, companies that offer such 401(k)s would need to raise the amount that they divert from employees, either incrementally as the employee gets raises or all at once. The window in which to be able to withdraw funds without penalty should also be enlarged to six months -- it is now 60 days -- so low-income families could access the funds in case of an emergency, Gale said.

Directing part of tax refunds into savings accounts is another tactic to increase savings, explained Fred Goldberg, who works as a consultant for New York law firm Skadden, Arps and served as Commissioner of the IRS from 1989-1992.

In fact, the current federal budget will implement such "split" refunds starting in 2007, with the 2006 tax return filing, he said.

"It's all about removing barriers" to saving, Goldberg added.

Split refunds would also get a boost from companies such as H&R Block, which would likely add it to its lineup of popular tax services, Goldberg said.

Getting the unbanked checking and savings accounts would also help U.S. personal savings, said Jennifer Tescher, director of the Center for Financial Services, which aims to get the financial industry to better serve un- and underbanked customers.

There are currently as many as 22 million U.S. families that lack a basic checking or savings account and who are often forced to cash checks through such services as check cashers, which charge high fees. Tescher proposed expanding the services offered

through the Electronic Transfer Account, a special limited bank account for those who receive regular federal benefit payments such as welfare or Social Security.

The Treasury Department, Tescher said, should expand the eligibility criteria for ETAs to tax refund recipients, to encourage people to start saving. Then the number of customers would rise to the level that would make it worthwhile for banks to invest in such accounts.

Concurrently, she said, banks should offer more options to customers and should expand services that are allowed through such ETAs; right now, since ETAs are available to everyone, banks have protected themselves by curtailing services -- only withdrawals are allowed, and users cannot write checks or pay bills directly from such accounts. Banks should offer at least one low-cost product to such consumers regardless of any past dings on their bank credit, she said.

In light of barriers currently up at banks, credit unions, mutual funds and other traditional investment vehicles against low-income families, U.S. savings bonds are a way to increase saving especially at the low- and moderate-income level, said Peter Tufano, a professor of financial management at Harvard University's Graduate School of Business Administration.

"While at first glance it appears that the financial service sector offers (low income) families many opportunities to save, in reality, lower income families' savings needs are quietly ignored," Tufano argued in a recent paper.

With that in mind, "There's an opportunity to make the savings bond relevant today," he said Thursday.

For example, banks often set minimum balance requirements or charge fees when balances are too low, Tufano said. They also typically bar people that have had problems with past bank accounts from opening not only checking accounts but even savings accounts. In fact, the number of bank branches in low- and moderate-income neighborhoods fell 21 percent from 1975 to 1995.

Mutual funds also present obstacles for the poor with the minimums they set for investments, Tufano said; eight of the top 10 set minimums of \$250 or more. Meanwhile, alternative financial centers such as check cashing centers don't offer savings products to customers.

The answer? Add a line on tax returns that asks taxpayers how much of their return they want to invest in U.S. savings bonds, Tufano said.

In a recent poll, three-quarters of those asked said they would be interested in such an option.

The idea of stashing away a part of one's tax refund is not a new idea, Tufano pointed out. A similar option was available about 40 years ago in 1962. But tax returns then only offered the option of using their whole return to purchase bonds.

"People aren't willing to put their whole return in," he said.

Some changes that need to be made to revitalize the bond program include shortening the minimum holding period for bonds, as right now bondholders can't cash out bonds for at least one year. Low-income families might need to cash it out earlier if an emergency occurs. More outlets must also be found to sell bonds to low-income families as well, such as Wal-Mart, check cashers and post offices, which Tufano said actually used to sell savings bonds.

Finally, to boost public awareness the government needs to re-establish its marketing program for bonds, which in the past few years has been eliminated.

The fifth solution, explained Reid Cramer, research director of the Asset Building Program at New America Foundation, would be increasing participation in the U.S. Department of Housing and Urban Development's Family Self-Sufficiency Program, to allow more public housing and Section 8 recipients to put any additional income from income increases into an escrow account instead of paying more rent, since their rent is figured as 30 percent of their income. The programs require that participants are welfare-free for 12 months, meet self-sufficiency goals and have a job. If participants graduate from the FSS program, they are awarded the funds in the escrow accounts plus interest.

"With small changes, we can greatly increase the program's impact," said Cramer.

Indeed, data from November 2000 show that nearly half (48 percent) of FSS participants enrolled in the program for nearly 12 months had positive escrow balances of on average \$2,400 and growing by about \$300 per month.

There is also no limit to the number of families in the program. About 75,000 families are currently FSS participants.

What's needed is for HUD to provide more program support as well as stable funding. Right now it receives "only a tiny fraction" of HUD budgetary dollars, Cramer said.

The FSS program also needs consistent funding to be effective. Nearly one-third of the 771 agencies that received FSS funds lost the funding, due not to a shortage of funds, but because of the way funds are allocated. HUD should make sure it funds at least one FSS coordinator in each state housing agency and each region in each agency, Cramer said.