Supporting saving by low- and moderate-income families

Peter Tufano and Daniel Schneider

Peter Tufano is Sylvan C. Coleman Professor of Financial Management and Senior Associate Dean, Harvard Business School; Chairman, Doorways to Dreams (D2D) Fund; and Research Associate, NBER. Daniel Schneider is a doctoral student in Sociology and Social Policy and an affiliate of the Office of Population Research at Princeton University.

Families save for a wide variety of reasons, including identifiable reasons such as education and retirement and others they can't even articulate, such as for unforeseeable circumstances or future dreams. Definitions of what constitutes "enough"—enough material possessions, enough services, enough savings—vary widely from person to person. In this messy world, where companies never exhort us to "spend less," saving is hard work, and it is no surprise that household saving rates are low.[1] In 2007, the United States personal savings rate dipped to 0 percent—a fifty year record low.[2] While some debate the proper measurement of the saving rate, there is little dispute that large shares of Americans have saved very little for a long period.[3] In 2004, 10 percent of households had less than $100 in financial assets.[4] Large shares of the population are "asset poor," lacking sufficient financial assets to survive at the poverty line for three months.[5] Over the last ten years, the asset poverty rate has generally been well in excess of 25 percent of the full population, and about 60 percent for blacks and for households headed by someone without a high school diploma.[6] Lack of savings may make it more difficult for families to respond to emergencies, to invest in education and business opportunities, and to retire comfortably.

Some are pessimistic about the potential to address this problem. It may seem as though providing sufficient financial incentives to encourage low- and moderate-income families to save is too expensive and politically unlikely. Similarly, it can be difficult to imagine that the private sector will support such efforts because the potential for profits is too low to make it worth their while.

While these concerns are real, we believe they do not close the book on savings policy. Given that pressures to consume are not likely to abate, what realistically can governments, nonprofits, social institutions, and financial institutions do to help families save? Because people are diverse, it is unlikely that a single solution to the savings problem exists. Rather, this article describes a range of solutions, many of which have great promise in supporting household savings. The continuum ranges from solutions that force families to save (coercion) to others that seek to work consumers into a frenzy about savings (excitement). These varied solutions emphasize different elements of human behavior or impediments to savings. Some require massive government intervention, some require small changes in existing regulations, and still others are completely market oriented. Some require large subsidies, while others might be profitable on their own.

Our notion of savings in this piece is explicitly broad: Savings is the deferral of consumption today to enable the use of funds later. That later period may be decades away, as in retirement. Or, in low-income communities, the deferral may only be a matter of weeks or months, until a water heater breaks. We make no value judgments that only "long-term" savings can be helpful to families. To the contrary, short-term savings can be critical. An emergency fund that allows a family to quickly repair a car needed to get to work can be essential. While most of the concepts we discuss could apply to people of all incomes, our emphasis is on savings structures that would be relevant to low- to moderate-income households.

The range of savings innovations: From coercion to excitement

We attempt to organize savings programs along a variety of dimensions in order to emphasize their common features. Exhibit 1 provides a quick summary of the various dimensions. The first consideration is the mechanism by which the innovation changes the ability or motivation of the saver. We identify six categories for this mechanism. At one extreme are *process* innovations that take the savings decision away from the family through outright transfers or government-mandated savings. Other process innovations do not coerce savings, but make it easier to save or harder not to save by changing the time and place of savings while leaving the decision to save in the consumers' hands. Alternatively, *product* innovations reengineer the cost-benefit calculation of savings by adding financial, social, or psychological incentives. This set of six types of saving innovations represents the primary dimension along which we compare the interventions.

Another dimension is the barriers that inhibit saving. Innovations that take away the need to decide at all, either by giving or mandating savings, are blunt instruments that address all possible impediments. Other process innovations seek to increase savings by making it "easier," either using an alternative way to frame the decision (for example, setting up saving as a default), or by making the offer at a better time

Exhibit 1
Summary of Savings Program Alternatives

	Force to Save	Hard Not to Save	Easier to Save	Bribe to Save	Social Support	Fun or Exciting Savings
Current Barrier	All (ability and will)	Institutional impediments, inertia		Savings not "worth it"; would rather consume		
Saver's Role	No choice	Must refuse to save	Given more convenience, but must decide	Given different savings opportunities, but must decide		
Intervention	Change the savings decision making-process		Change the time and place for savings	Change the cost-benefit of savings itself		
Likely Partner	Government	Workplace, Govt, Vendors of produts and services	Retail sector, workplace, tax sites, schools	Government, Foundations	Communities and social networks	Financial service firms, possibly government
Cost or Profit Potential	High cost (grants); medium cost (mandate)	Generally low cost	Medium cost (new channels); low cost (tax channel)	High $ cost (matches, bonuses)	Low $ cost; high effort by community	Potential for profits in long-run
Example	Mandate (Social Security); Grant (UK Child Trust Fund)	Defaults; bundling; commitment products	New distribution channels; SMarT; buying savings	401k, IDAs, Savers Credit	ROSCAs and gifting savings	Prize linked saving, collectible savings

and place (such as when people have money and are thinking about their family finances). Product innovations all try to make the savings "deal" more attractive, varying in the dimensions along which the savings transaction is defined. If individuals are rational economic actors preferring more to less, financial incentives may induce savings. If we conceive of individuals embedded in a social context, savings can be enhanced by giving people a return in the form of stronger ties to a group. If we think of individuals as responding to psychological incentives, then product innovations can leverage behavioral quirks, such as individuals' tendencies to misestimate low-probability events, be overly optimistic about their own abilities, or draw mental fences around otherwise comparable activities.

Another dimension by which programs differ is in the stakeholders who are involved. By "stakeholder" we mean a party, apart from the saver, who must act to implement the innovation. Some programs involve governmental entities, for example, programs that deliver financial incentives via the tax system or change eligibility for government benefits. Other programs involve financial institutions, such as those that bundle savings with other financial products. Still others involve nonprofits or social networks, leveraging relationships to spur saving.

These stakeholders almost always need to bear costs to support family savings. Some solutions require substantial financial resources (e.g., programs that grant savings or provide financial incentives) and may cost not only dollars but political capital as well. Other programs may require efforts by social groups, drawing upon their social capital. Still others may require investments by financial services in systems and marketing, and some may be costly in the form of potential formal and informal liabilities borne by stakeholders attempting to support family savings.

Any categorization exercise is prone to imprecision. In practice, many savings interventions incorporate both product and process innovations. Some product innovations simultaneously change the economic, social, and psychological features of the product bundle.

Coercing saving

The first class of innovations does not require the individual to make a decision to save. These interventions literally compel individuals to save, under the assumption that without paternalistic government mandate, individuals would fail to accumulate adequate savings. Often, these programs offer universal participation to redistribute individual savings so as to lessen inequality and build a political base of support. Involuntary programs, overseen and funded by the government, tend to fall into two categories, those that force families to spend less to save, or those that give families additional funds but only in the form of savings. These general characteristics are summarized in the first column of Exhibit 1.

One example of forcing families to spend less in order to save is Social Security. While not savings in the traditional sense, Social Security provides a functional equivalent by requiring U.S. workers to make regular contributions, which are matched by employers. These funds are savings in the sense that current consumption is deferred with the goal of ensuring future consumption. Saving is coerced in that the only way not to participate is to avoid working or break the law.

A more recent example of coercing saving is found in the United Kingdom's Child Trust Fund (CTF), which is also an involuntary program, but which takes a different tack from Social Security, giving savings rather than withholding them. The CTF was designed to ensure that all British children will have savings upon reaching age 18, and also to facilitate the development of good saving habits.[7] Beginning in April 2005, every British child born after September 1st, 2002, received a grant of at least £250 at birth, with a similar grant due at age 7. Children born into low-income households receive grants twice as large.[8] The CTF (and various American proposals along the same lines) compel saving, but do so in a way so as not to inspire much complaint. Nonetheless, these policies are involuntary or coercive in that individuals end up with savings without having taken affirmative steps to build assets and without the ability to opt out of that asset creation.

Making it hard not to save

With Social Security in the United States or the United Kingdom's CTF, it is nearly impossible not to save except by not working or not being born. Closely related would be the concept of making it difficult for people *not* to save; that is, making *not* saving an affirmative decision. In this section and the following, we present a set of innovations that are slightly less coercive than either granting savings or forcing people to save. First, we discuss those that make it hard not to save through the use of defaults and bundling, and then we turn to those that make it easy to save (or harder to dissave), through commitment of savings products and by lowering the impediments to saving. These programs tend to change the manner in which the savings decision is made.

Innovations of this sort proceed from a slightly different set of behavioral assumptions than coercive savings policies. People are subject to certain behavioral biases, such as a susceptibility to procrastination, problems of self-control, and orientations towards the status-quo, that have a powerful effect on human action. This behavioral logic is summarized in the first row of column 2 of Exhibit 1.

One way to make saving the default behavior is to make 401(k) plans "opt out" (new employees must affirmatively choose not to participate) rather than "opt in." An increasing number of U.S. companies are changing their 401(k) enrollment policies in this direction and federal policy, in the form of the Pension Protection Act of 2006, supports these "nudging" strategies. A second strategy makes saving difficult to avoid by bundling it with an activity in which consumers typically engage, such as shopping, using a credit or debit card, or borrowing. This type of innovation is embodied most simply in amortizing mortgages. A person who wants to buy a house can get a loan whereby over time the borrower essentially "pays herself," or saves by investing in the equity in her home as the loan is paid off. Each month, the mortgage bill not only covers interest and tax and insurance escrows, but is also effectively a "savings bill" that purchases more home equity. A complementary set of products make it hard not to save through withdrawal commitments. These commitments could, for example, take the form of withdrawal penalties on tax-advantaged programs like Individual Retirement Accounts (IRAs).

Making it easy for people to save

Innovations that make it easy for people to save still require individuals to make a conscious, unbundled savings decision, but lower the impediments to saving. Making saving easy involves making savings products available when and where people can save, that is, where they have "free" money. These attributes are described succinctly in column 3 of Exhibit 1. They typically open up new, convenient distribution channels and make saving less of a hassle.

One such distribution channel is the workplace; for most Americans, the primary source of funds potentially available for savings comes from their employment income. One clever innovation that marries product and process innovations in the workplace is the Save More Tomorrow (SMarT) plan proposed by the economists Richard Thaler and Shlomo Bernartzi, which allows people to save easily with "free" money, that is, their future raises.[9] Mechanisms that allow people to pre-commit to savings may help to circumvent a lack of self-control. Certain sources of money may also be mentally classified differently than others.[10] For instance, people may act differently with unanticipated winnings than with regular income flows. First implemented in 1998, SMarT leverages these behaviors by allowing workers to pre-commit to saving a portion of *future* salary raises.

Tax preparation sites can also provide an easy distribution channel. The Internal Revenue Service distributed over $268 billion in tax refunds in 2007, with $120 billion to families with adjusted gross incomes of under $40,000, largely through the Earned Income Tax Credit (EITC) and the Child Tax Credit.[11] Large in total, these refunds are also financially meaningful at the family level. In 2007, nearly 22 million low- to moderate-income families claimed and qualified for an EITC refund, receiving an average EITC refund of over $1,900.[12] Refund dollars may be particularly "savable," because individuals mentally account for lump-sum distributions differently from regular income flows, seeing them as surplus or bonus funds.[13] Research on the uses of the EITC has found that many recipients either save a portion of their refund or use refund dollars to purchase relatively expensive durable goods such as appliances or autos.[14] Because the large majority of refund recipients file for refunds through intermediaries such as commercial or volunteer income tax assistance programs, this saving could be made even easier by having these professionals both provide filers with access to savings products and allowing filers to pre-commit to saving months or weeks before refund receipt. This type of saving may be facilitated by allowing refund recipients to "split" their refunds, allocating some funds to savings products and some funds to expenditures.[15] While many low-income refund recipients may have existing access to appropriate sav-

ings products, other filers may not. Recent research suggests that U.S. Savings Bonds may be a good simple and universal savings option for these filers.[16] The Obama administration's decision to allow refund recipients to direct a portion of their refunds to the purchase of Series I Savings Bonds embodies this strategy.

A third possible distribution channel is retail point of sale. Retail purchasing is generally considerably easier and less time-consuming than arranging savings. You give the merchant payment and you walk out with the product. It might be possible to create point-of-sale savings where a consumer could "buy" savings in the same way that one buys a cup of coffee, a pack of cigarettes, or a lottery ticket. This principle is currently used in prepaid cards and mobile banking products. One could construct an alternative to a prepaid card that emphasized saving; this alternative card might be branded differently, could pay interest, and could restrict withdrawals, earning most of its economics from net interest margin. The goal would be to make it as easy to "buy" savings as to buy anything else, and to make the economics of point-of-sale savings attractive to low-income savers. This would expand the point-of-sale savings "outlets" from depository institutions to a much wider range of possible places, such as supermarkets, convenience stores, and other retail locations. Various entrepreneurs are creating versions of these products.

Bribing people to save

Financial economists seem especially fond of monetary incentives (bribery) to change behavior. The private sector is generally less enamored with bribery, but uses it in the form of promotions and discounting. For example, banks sometimes offer attractive bonuses in the form of teaser rates on CDs and other products. In the extreme form, compelling saving through outright grants would be the ultimate bribe. One less extreme form of bribery is Individual Development Accounts (IDA), which match the saving deposits of low-income participants (column 4 of Exhibit 1). Similarly, the Retirement Savings Contribution Credit (the Saver's Credit), a progressively structured (but nonrefundable) tax benefit that awards the largest credits to the lowest-income taxpayers, also makes use of incentives to encourage savings. Finally, the Universal 401(k) proposal seeks to establish a simple program that matches contributions to retirement savings accounts. One version of the Universal 401(k) would provide a match to retirement savings in the form of a fully refundable tax credit that would be directly deposited into the tax filer's 401(k), IRA, or new government-sponsored account.[17]

Making saving a group activity

While economists tend to see money as a universal motivator, psychologists and sociologists see other quantities as the building blocks of motivation. Whereas behavioral economics tends to view these other factors as leading to various decision making "biases," other disciplinary perspectives see fear, greed, guilt, excitement, and belonging as determinants of behavior that could stimulate savings. These other lenses provide inspiration for a variety of savings programs, including those that leverage groups' approval and norms to encourage savings (in much the same way that micro-lending uses group norms to reduce default rates on loans).

Innovations that make saving a group activity are summarized in column 5 of Exhibit 1. Leveraging the power of groups, rotating savings and credit associations (ROSCAs) are found in communities around the world. A number of people meet regularly, and at each meeting, each member of the group contributes funds that are aggregated and presented to one member of the group. These meetings continue until each member has been awarded the pooled sums. For instance, a ten member group may meet weekly. At each meeting every member contributes $25. In the first week these funds are awarded to member A, in the second week everyone again contributes $25 (including A) and the funds are awarded to B. This process continues until all ten members have received the "pot." In this way, members who received the pot early on become debtors to those members who have not (who are essentially creditors). This basic structure has been modified extensively. The order of receipt can be set by seniority, lottery, or bidding. The amount of the pot can be fixed over time or adjusted to compensate members who receive it later in the process. The group's savings can be regularly distributed, or saved to serve as capital for loans.

Most of the literature on ROSCAs focuses on developing countries, where formal finance is lacking. However, ROSCAs also exist in the United States, especially in immigrant communities. This savings innovation could also be successfully implemented in non-immigrant low-income communities in the United States. The sociologist Nicole Woolsey Biggart identifies five factors that should be in place for ROSCAs to function effectively: (1) social structure is communally based, (2) obligations are collective, (3) community members are stable economically and socially, (4) the community is socially and geographic isolated, and (5) members have equal social status.[18] These conditions are likely met where there are dense kin networks, relative isolation from formal financial institutions, and an economically homogenous population.

In the United States, there are groups that try to create social rewards and support for savings. One well-known example of this is the America Saves! campaign. Begun in 2001, the program aims to encourage people to save by setting up citywide savings campaigns around providing education and encouragement. Approximately 67,000 people have enrolled in the program in the United States, making a savings plan and pledging to meet their savings goals.[19] The specific content of the program varies across sites, but the individual initiatives are similar in their focus on creating a social movement around savings, emphasizing that individuals are joining a "network of individuals who are interested in

building wealth and reducing debt" and are becoming "part of a growing community… realizing their dreams."[20] While the social bonds forged by saving are less obvious than in ROSCAs, this innovation tries to frame savings in the form of membership in a larger community.

Peer-supported saving has also shown favorable results in the IDA context. Attending meetings with peers increased the savings of IDA participants by more than any other institutional or personal factor.[21] Though the effect may be due in large part to self-selection, the finding is promising.

For low-income families, savings circles may perform many functions: support, education, fewer demands upon the family saver, peer pressure, and social reward. In addition, for low-income savers, pooling resources might give them access to financial choices that might otherwise be unavailable. Furthermore, pooling monies may give low-income families an ability to bargain with—or be more attractive to—more financial institutions. Existing social groups, such as tight-knit faith-based organizations, might be useful settings for these efforts.[22]

Finally, social bonds can be leveraged to encourage savings in the form of gifts. Savings is almost always conceived as an activity done by a person for herself or on her immediate family's behalf. Yet, in many cultures, extended social groups periodically "save" on behalf of newly married couples at weddings, parents at the time of the birth of their children, and children on the occasion of their birthdays and secular or religious transitions (such as graduation, communion, or bar or bat mitzvah). Recent market research on low- and moderate-income adults, especially women, suggests that these savings-gifting motives are very strong.[23]

Making saving exciting or fun

The savings innovations in the preceding sections take various approaches to trying to help people save. But whether they coerce saving, make it difficult to avoid, easy to engage in, or financially lucrative, most of these innovations (perhaps with the exception of group saving) still require that people believe that savings would help them. This is not necessarily an unfair requirement. Americans do seem to desire saving, most can rattle off a list of savings goals, and many own some kind of savings product.[24] However, a bigger challenge is to find savings products that do not require that people particularly want to save. ROSCAs may appeal to non-savers who want social approval. More boldly, can one create savings products that lead people to save because they simply enjoy it? Is it possible to make saving exciting? Even addictive? Are we willing to experiment with concepts of marketing (including some faddish or gimmicky concepts)?

The two product innovations that seek to create fun savings products described in this final section (column 6 of Exhibit 1) both have the potential to be "disruptive innovations" as defined by the business strategist Clayton Christensen.[25] Disruptive innovations are "second best" innovations which have enough features to be attractive to new or existing customers, but which seem inferior relative to the leading products in a market. Ultimately, they prevail over seemingly superior products. Finance theorists might consider lottery-linked savings, the product described below, far inferior to the panoply of advanced products in the market. However, by virtue of their simplicity, they appeal to non-savers.

In 1694, the British government offered investors the chance to join a "Million Adventure." One million pounds was raised in the United Kingdom, with investors receiving a 10 percent return and a chance at winning a large raffle prize (Allen and Gale, 1994). That experiment has since spurred more than 300 years of product offerings with products now offered around the world, including in the United Kingdom, Kenya, Mexico, Venezuela, Columbia, Japan, and South Africa.[26] The form of the product has settled on a fairly simple construction: investors purchase a savings product with no risk of principal loss and either forfeit or accept reduced interest payments in exchange for the chance to win one or several large prizes allocated randomly. Lottery-linked programs permit an interesting blend of classical economic and behavioral elements. While they don't offer the familiar and powerful concept of compound interest, this trade-off may be appropriate for savers who would (a) otherwise earn very low nominal returns owing to the size of the account and their demands for liquidity—and thus have to wait years for material accumulation through interest-on-interest; (b) have relatively short and uncertain holding periods, thus leaving little time for the monies to compound. Evidence from South Africa and from pilot tests in the United States suggests that these programs are particularly attractive to low- to moderate-income people without formal savings plans.[27]

People react to sight, smell, taste, and touch—yet while life is tangible, much of our thinking about saving is ethereal. Perhaps there is a way to make saving more concrete. Taking this concept literally, the cement maker CEMEX designed Patrimonio Hoy, a savings program for poor Mexican families.[28] Families band together to save to purchase construction materials to expand their small homes. After making some progress toward saving (but before paying for all the materials), savings materialize in the form of building materials on site. While American savers might not be motivated by deliveries of cement blocks, one can imagine other tangible manifestations of savings that might work. For example, some people are very motivated by the concept of collectibles. Could one create a collectible savings program, whereby each increment of savings was marked by a physical object and the goal was to "collect them all"? By setting concrete, incremental, and achievable goals, we might set up families for success, rather than the failure of always falling short of large lifetime aspirations. With a physical marker, it might be possible for savers to keep track of their progress easily. Moreover, an attractive physical collectible might itself might keep savers motivated. While faddish, newer concepts like this might be useful in supporting savings. Furthermore, while the economics of the program would need

to be addressed, the private sector might be able to bring its formidable marketing skills to bear.

From ideas to action

In this article, we have acknowledged the wide range of solutions to the problem of low family savings. All too often, we focus on one type of savings (such as retirement or education) or one type of program (such as a tax credit or a default scheme) without acknowledging the breadth of families' savings goals or the range of available savings mechanisms. Some solutions are best suited to government action (savings bonds at tax time), others to the private sector (collectibles or point of sale), and some to social groups or Nongovernmental Organizations (NGOs) (social network savings). Some solutions might appeal to lower-income families, other to more moderate-income families. Some might appeal to "analytic types" (for example, inflation-indexed savings bonds), while others might appeal to savers with other preferences (collectible savings or prize-linked savings.)

If there are such a wide range of good ideas, then why don't we see more of them in operation? In part, we do: virtually all of the examples cited here are taken from practice, albeit not always scaled up. Expanding some of these policies in place does not seem particularly far-fetched. The private sector can offer lottery savings, distribute savings products at tax-time, offer point-of-sale savings, and provide bundled savings vehicles. The private sector can also design effective marketing strategies around the psychological factors that are emerging as salient to saving and support, but not deliver, social savings schemes, for example, by facilitating the paperwork by savings groups in communities.

Firms will be motivated because they believe these products can deliver profits. Our observation, based on working with financial service firms for savings products for low- and moderate-income savers over the past decade, suggests that the barriers to implementation are real, but surmountable. In part, many private organizations lack basic information about low- and moderate-income families as they have not previously served them. Many financial service firms are more set up for delivery, rather than innovation. Both of these barriers can be addressed through partnerships with other organizations. We have witnessed firsthand how these process and product innovations may require relatively minor changes to existing regulations and laws. Splitting refunds to multiple destinations or permitting savings bond sales off of the 1040 form are not revolutionary changes, and it is gratifying that research on these topics has led to their adoption by the federal government. We have spoken to many financial institutions interested in lottery savings programs, and even worked to roll out a successful collaborative launch in Michigan in 2009. While existing laws in other jurisdictions make offering these products problematic, we have seen greater interest among state legislators in revisiting these rules. Finally, even small innovations that simplify the process of point-of-sale or tax time savings (and thereby make the cost of customer acquisition and account opening lower) can be thwarted by the unintentional consequences of existing financial regulations; but in theory, these are surmountable.

As optimists, we are hopeful that effective public-private alliances can increase savings for low-income families—but as realists, we realize that this alliance may hold only so long as the innovation requires modest governmental involvement and investment. A more complicated political calculus characterizes "big-money" governmental interventions described in this article. Child savings accounts and nationwide IDA program bills have not succeeded in Congress, perhaps in part because these policies have both support and opposition on the Left and the Right. By increasing individual and family savings, these programs may advance the Right's "ownership society" agenda—reducing social insurance in favor of private insurance (often in the form of private savings).[29] However, they do so not through small regulatory changes but through multi-billion dollar governmental expenditure. At the same time, by transferring funds to the poor, these programs also advance the traditional leftist goal of assisting the poor and maintaining the role of government in providing social insurance. However, there appears to be suspicion that adopting asset-based social welfare policy means reducing traditional income supports.

While the federal government has shown interest in spurring private savings, we cannot rely on government action alone. Would-be savers, for-profit businesses, and NGOs can all play a role. The cost-benefit equation for these partners must be clear, considering direct and indirect costs as well as benefits.

Whichever innovation is considered, it is important to research its impact on total *saving*. Just because a product is adopted does not mean that it is increasing saving—it could be cannibalizing savings from elsewhere. While measuring savings levels may be the primary goal, it is important to adopt a broad perspective when assessing effectiveness. If saving is seen as a long-run investing vehicle, then measuring wealth impact may be appropriate. If it is seen as a short-run emergency buffer, then the measurement of success may be very different. It is also critical to consider saving in the context of other financial decisions, especially credit management. Were we to induce families to take out debt at high rates to save at low rates, we might be working against the best interests of families. Research should also focus on how new savings initiatives affect family well-being more generally. New savings at the expense of reduced consumption of non-discretionary items (like health care) can reduce family welfare. Where the money for savings comes from remains an important concern.

Additionally, while this article looks at savings broadly, we did not fully consider the interplay between other government programs and savings. From a purely economic perspective, a dollar in potential government benefits may offset the need for a dollar in savings. From a psychological or sociological perspective, however, these may not be the same

at all. We suspect that while a dollar of TANF grants might offset a dollar of drawn-down savings, from an emotional level, they might be experienced quite differently.

Finally, policymakers need research to lead the way in providing guidance about how much savings, and what type, is optimal for families. While some research on this topic is available for long-horizon retirement savings, we need to focus the same level of attention and rigor on the full range of saving, in particular emergency saving, which recent research shows is often lacking.[30] In doing so, we must be sensitive to the needs of low- and moderate-income families, whose concerns about short-term emergencies are just as legitimate as their needs to plan for a retirement that may be decades away.■

---

[1]This article is based on P. Tufano and D. Schneider, "Using Financial Innovation to Support Savers: From Coercion to Excitement," in *Insufficient Funds*, eds. Rebecca M. Blank and Michael S. Barr. The book chapter contains detailed discussions of all the programs included here.

[2]U.S. Bureau of Economic Analysis, "Personal Income and Its Disposition, Table 2.1," available at http:www.bea.gov/national (accessed January 21, 2009).

[3]M. Guidolin, E. La Jeunesse, "The Decline in the U.S. Personal Saving Rate: Is It Real and Is It a Puzzle?" *Federal Reserve Bank of St. Louis Review* 89, No. 6 (2007): 491–514.

[4]Authors' calculations from the 2004 Survey of Consumer Finances.

[5]M. L. Oliver and T. M. Shapiro, "Wealth of A Nation: A Reassessment of Asset Inequality in America Shows at Least One-Third of Households are Asset-Poor," *American Journal of Economics and Sociology* 49, No. 2 (1990): 129–151.

[6]A. Caner and E. Wolff, "Asset Poverty in the United States, 1984–1999: Evidence from the Panel Study of Income Dynamics," Working Paper 356, Jerome Levy Economics Institute, Bard College, 2002.

[7]HM Treasury, *Detailed Proposals for the Child Trust Fund*, HM Treasury & Inland Revenue, London, 2003.

[8]S. Sodha, "Lessons from Across the Atlantic: Asset-Building in the UK," Paper presented to the 2006 Assets Learning Conference, "A Lifetime of Assets: Building Families, Communities, and Economies," Phoenix, AZ, September 19–21, 2006.

[9]R. H. Thaler and S. Benartzi, "Save More Tomorrow (TM): Using Behavioral Economics to Increase Employee Saving," *Journal of Political Economy* 112, No. 1 (2004): 164–187.

[10]R. H. Thaler, "Mental Accounting Matters," *Journal of Behavioral Decision Making* 12, No. 3 (1999): 183–206.

[11]Internal Revenue Service, "All Returns: Tax Liability, Tax Credits, and Tax Payments, Table 3.3," Internal Revenue Service, Statistics of Income, 2007.

[12]Internal Revenue Service, "Individual Income Tax Returns with Earned Income Credit, Table 2.5," Internal Revenue Service, Statistics of Income, 2007.

[13]R. H. Thaler, "Psychology and Savings Policies," *The American Economic Review* 84, No. 2 (1994): 186–192.

[14]See, for example, T. Smeeding, K. Ross-Phillips, and M. O'Conner, "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility," *National Tax Journal* 53 (2000): 1187–1209.

[15]S. Beverly, D. Schneider, and P. Tufano, "Splitting Tax Refunds and Building Savings: An Empirical test," *Tax Policy and the Economy* 20 (2006): 111–162.

[16]P. Tufano, "Just Keep My Money! Supporting Tax-Time Savings with US Savings Bonds," Working Paper 09-059, Harvard Business School, 2008; and N. Maynard, "Tax Time Savings: Testing US Savings Bonds at H&R Block Tax Sites," D2D Fund, Boston, 2007.

[17]M. Calabrese, "A Universal 401(k) Plan," in *Ten Big Ideas for a New America* (Washington, DC: New America Foundation, 2007).

[18]N. W. Biggart, "Banking on Each Other: The Situational Logic of Rotating Savings and Credit Associations," *Advances in Qualitative Organization Research* 3 (2001): 129–153.

[19]Consumer Federation of America, *National Survey Reveals Emergency Savings Needs and Effective Saver Strategies*, Consumer Federation of America, Washington, DC, 2007.

[20]Details are available at DC Saves: http://www.dcsaves.org/default.asp.

[21]M. Grinstein-Weiss, K. Wagner, and Fred M. Ssewamala, "Saving and Asset Accumulation among Low-Income Families with Children in IDAs," *Children and Youth Services Review* 28 (2006):193–211.

[22]L. Fondation, P. Tufano, and P. Walker, "Collaborating with Congregations: Opportunities for Financial Services in Inner Cities," *Harvard Business Review* 77, No. 4 (1999): 57–68.

[23]N. Maynard and J. Zinsmeyer, *The Mind of Low- and Moderate-Income Savers*, Filene Research Institute, Madison, WI, 2007.

[24]B. K. Bucks, A. B. Kennickell, and K. B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin* 92 (2006): A1–A38.

[25]C. M. Christensen, *The Innovator's Dilemma* (Boston: Harvard Business School Press, 1997).

[26]M. Guillen and A. Tschoegl, "Banking on Gambling: Bank and Lottery-Linked Deposit Accounts," *Journal of Financial Services Research* 21 (2002): 219–231.

[27]M. S. Kearny, P. Tufano, J. Guryan, and E. Hurst, "Making Savers Winners: An Overview of Prize-Linked Savings Products," Working Paper; and N. Maynard, J.-E. De Never, and P. Tufano, "Consumer Demand for Prize-Linked Savings: A Preliminary Analysis," Harvard Business School Finance Working Paper No. 08-061, 2008.

[28]A. I. Segel, M. Chu, and G. Herrero, "Patrimonio Hoy," Harvard Business School Press Case, 2006.

[29]J. Hacker, *The Divided Welfare State: The Battle Over Public and Private Social Benefits in the United States* (Cambridge: Cambridge University Press, 2002); and J. Hacker, *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement* (Oxford: Oxford University Press, 2006).

[30]A. Lusardi, D. Schneider, and P. Tufano, "Households @ Risk: US Households' Capacity to Cope with Risk," Working Paper, 2010.

Recent books from IRP affiliates:

Evidence-Based Policymaking: Insights from Policy-Minded Researchers and Research-Minded Policymakers

Karen Bogenschneider and Thomas Corbett

1. Exploring the Disconnect Between Research and Policy

2. Do Policymakers Want Evidence? Insights from Research-Minded Policymakers

3. When Researchers Delivered Evidence to Policymakers.

4. Who are These Knowledge Producers and Knowledge Consumers Anyway?

5. Why Research is Underutilized in Policymaking: Community Dissonance Theory

6. Breaking Through Stereotypes of Policymakers

7. What Knowledge Producers Should Know About the Policymaking Process

8. Barriers to and Rewards of Cross-Cultural Communication

9. Communicating With Policymakers: Insights from Policy-Minded Researchers

10. Approaching Policymakers: Moving Beyond "What" to "How"

11. Generating Evidence on Disseminating Evidence to Policymakers

12. Where Do We Go from Here?

386 pp., April 2010
Routledge, 7625 Empire Drive, Florence, KY, 41042
Order online (www.routledge.com)
Or call 1-800-634-7064

Wealth and Welfare States: Is America a Laggard or Leader?

Irwin Garfinkel, Lee Rainwater, and Timothy Smeeding

1. Introduction

2. Why All Rich Nations Have Large Welfare States

3. The Size, Nature, and Universality of Welfare State Transfers

4. How Welfare State Programs Redistribute Income, Reduce Poverty and Inequality, Build and Sustain Human Capital, and Promote Opportunity

5. A Short American Centric History of Welfare State Programs and Outcomes

6. Explaining American Exceptionalism: Laggard in Public Relief and Social Insurance: Leader in Education

7. Explaining Us Divergence in Last Quarter of 20th Century: The Long Swing Right

8. The Future of the American Welfare State

226 pp., March 2010
Oxford University Press, 198 Madison Avenue, New York, NY, 10016
Order online (/www.oup.com/us/)
Or call 1-800-451-7556