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ENCOURAGING THE USE OF THE SAVER'S CREDIT THROUGH VITA SITES: EVIDENCE FROM A PILOT DEMONSTRATION IN TWO CITIES

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The Retirement Savings Contribution Credit, or Saver's Credit, was created to encourage greater retirement savings among lower-income households; however, those eligible for the credit have made limited use of the program. This article reviews a pilot study aimed at encouraging the use of the credit among VITA clients. A web-based survey and focus groups provided further information. Results reaffirm that awareness of the credit is low. Although respondents were interested in both saving for retirement and the incentives associated with the credit, limited resources and uncertain incomes created obstacles to building and protecting retirement savings. While VITA sites have the potential to reach a large number of filers, they have limitations for a broader outreach campaign. Although the Saver's Credit creates valuable incentives for many VITA clients, because households with no tax liability cannot benefit from the credit, it has no value for the majority of VITA clients. Further, successfully facilitating the use of the Saver's Credit at VITA sites requires a relatively long time frame.

The Retirement Savings Contribution Credit, or Saver's Credit, was created to encourage greater retirement savings among lower-income households. The program provides a credit of as much as 50 percent of qualified investments (up to $1,000) per individual. However, there has been limited use of the credit since its introduction. In 2002, the first year of the Saver's Credit, only 5.3 million of the 59 million eligible tax filers claimed the credit (Koenig and Harvey 2005).

Several factors contribute to the low utilization rate. First, many eligible filers are unaware of the credit. Second, the credit is only available to households with a positive tax liability. Third, using the credit requires access to a qualified retirement savings account; however, many low-income households do not currently have such accounts.

To understand the potential for Volunteer Income Tax Assistance (VITA) sites to serve as outreach points for increasing awareness and utilization of the Saver's Credit, Abt Associates, Inc. and the National Community Tax Coalition conducted a study to: 1) examine the VITA programs' experiences implementing a pilot demonstration, and 2) document clients' awareness of the Saver's Credit and preferences for retirement savings products.

Phase One: The Process Study

The first phase of the study included three components: employer-based marketing of the Saver's Credit, the development of a qualifying financial product to be offered at the VITA sites, and site-based education about the credit. These components were implemented at two large VITA programs—the Campaign for Working Families (CWF) in Philadelphia, Pennsylvania and AccountAbility Minnesota (AAM) in St. Paul, Minnesota. The outcomes of each component were evaluated via the analysis of administrative data, on-site observations, and interviews with VITA staff.

Employer-based partnerships were difficult to establish and required a great deal of labor on the part of VITA staff. Staff members at both VITA organizations reported that an employer must be a "champion of the cause" to agree to participate. Only one employer was ultimately willing to participate. While that employer did disseminate information about the credit to employees, the outreach had little measureable impact: 15 employees enrolled in the retirement plan following the start of the intervention—about the same number the organization usually enrolls during a comparable time period.

Interviews with VITA staff at both sites suggested that a key component of a successful partnership for this type of effort is a bank's willingness to be flexible, along with its commitment to serving the local community.

Each site recruited a local financial institution to provide a qualified retirement savings account at the VITA site. The development of a financial product required extensive work; partnerships with banks could not be implemented in time for filers to claim the credit until the following year. Interviews with VITA staff at both sites suggested that a key component of a successful partnership for this type of effort is a bank's willingness to be flexible, along with its commitment to serving the local community.

Both VITA sites implemented an educational component seeking to increase awareness and understanding of the Saver's Credit. However, the sites delayed all outreach until the financial product was available at the site. On-site observations and conversations with site staff suggest that clients only infrequently received educational or marketing information. Additionally, tax preparers and site staff frequently exercised discretion, introducing the Saver's Credit only to clients they perceived as most able to save for retirement.

Phase Two: The Outcome Study

The second phase of the study included focus groups and a web-based survey to examine VITA clients' awareness of the Saver's Credit, their attitudes toward retirement savings, and their experiences with retirement savings accounts. Results support earlier findings that awareness of the credit is low. Respondents were, however, interested in both saving for retirement and the incentives associated with the credit. Despite this interest, limited resources and income instability created obstacles to building and protecting retirement savings.

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One focus group respondent commented "I guess right now, I just think about the present—just being able to make sure…we have a roof over our head and food on the table and everything….I guess retirement just falls towards the bottom just because there's so many other things that I gotta do."

Those respondents who were saving for retirement were most interested in a high matching contribution from tax credits or employers, the ability to withdraw funds in an emergency, and the specific investment options available. Many focus group participants indicated that they had previously saved for retirement, but had reduced or depleted their savings due to financial crises such as job losses. One respondent noted that "I've actually had three different 401k's that I've left the employers and I've just taken the money out because we needed it just to scrape by."

Most Important Factor in Retirement Savings Decisions

A high matching contribution from tax credits or employer	*35.5%*
Ability to withdraw funds in an emergency	*33.6%*
Investment options (savings account, mutual fund, stocks/bonds)	*17.7%*
Little effort required to set up or make ongoing contributions	*7.7%*
Other	*5.5%*

Conclusions and Implications

While VITA sites provide a centralized point of contact for outreach to low-income filers, households with no tax liability cannot benefit from the credit. Thus, although the Saver's Credit creates valuable incentives for many VITA clients, the program has no value for the majority of clients. Of those who were eligible, many felt that saving for retirement was either not possible or not their first priority given their financial constraints.

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The Saver's Credit focuses exclusively on retirement; however, many clients struggle to establish consistent savings or build and protect an emergency fund. Further, VITA sites that offer too many asset-building initiatives risk overwhelming clients; the complex regulations guiding the Saver's Credit present an additional barrier.

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A much longer timeline is necessary for such an intervention to work on a larger scale. VITA sites need at least six months to establish partnerships with banks so that financial products can be developed before the sites begin staff training. The first year of an intervention based at a VITA site might therefore best be approached as an opportunity to intensively educate clients about the Saver's Credit and financial products, with the intention that clients will take action in subsequent years. Employer-based partnerships proved difficult to establish and time intensive for the VITA staff members, thus, this component is likely not an efficient activity for VITA programs.

The pilot intervention provided funding for staff time associated with the intervention. Without such funding, it would be difficult for additional VITA sites to implement similar interventions. In addition, to be successful, interventions must educate potential filers about the credit and allow clients to quickly determine their eligibility and the credit's benefits. To address these challenges, screening and outreach procedures for the Saver's credit could ideally be integrated into existing tax preparation software.

Increasing the match rate to 50 percent for all clients, broadening the types of accounts that qualify for the Saver's Credit, or encouraging the use of hardship exemptions all might increase savings contributions by reducing clients' wariness of withdrawal penalties. However, the potential for increased withdrawals is worrisome, so the impact of any rebranding effort on withdrawal activities should be empirically tested.

References

Koenig, Gary and Robert Harvey. 2005. Utilization of the Saver's Credit: An Analysis of the First Year. *National Tax Journal* 58 (Dec): 787-806.

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The Financial Literacy Research Consortium

The Financial Literacy Research Consortium (FLRC) consists of three multidisciplinary research centers nationally supported by the Social Security Administration. The goal of this research is to develop innovative programs to help Americans plan for a secure retirement. The Center for Financial Security is one of three FLRC centers and focused on saving and credit management strategies at all stages of the life cycle, especially helping low and moderate income populations successfully plan and save for retirement and other life events, including the use of Social Security's programs.

The Center for Financial Security

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