THE APPALACHIAN SAVINGS PROJECT

Creating Opportunity:

The Impact of Matched Savings for Childcare Workers

WISER • Women's Institute for a Secure Retirement®

Anita, a childcare worker and participant in the Appalachian Savings Project.
(Photo Credit: Jennifer Ludden, NPR)

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Overview

Retirement income security is an elusive goal for lower-wage earners. It's challenging to look beyond the next paycheck when earning at or around the minimum wage. To add to the challenge, when workers *do* want to save they often lack access to savings opportunities. Low-wage earners, especially the self-employed are rarely able to join 401(k)-type plans, and IRAs are out of reach for most given the minimum amount typically required to open an account.

But what if there was easy access to a simple savings vehicle combined with a matched incentive to save? The Appalachian Savings Project set out to test this question and the results are encouraging. The project demonstrates that low- and moderate-income workers interested in saving can accumulate significant savings, especially when they are incentivized to do so.

The Appalachian Savings Project

The Appalachian Savings Project was developed by the Women's Institute for a Secure Retirement. This project focused on childcare workers in the Appalachian regions of Ohio and West Virginia. Childcare workers—many of whom are self-employed—are among the lowest paid wage earners in the United States. Nationally, childcare workers earn a median hourly wage of $9.48, or $19,730 annually. The median hourly wage of childcare workers in West Virginia is $8.74 ($18,180 a year), while in Ohio it is $9.37 ($19,500 a year).[1]

Beyond earning low wages, childcare workers can experience significant month-to-month income volatility. In interviews, these workers explained that they only receive payments for publicly subsidized childcare the days those children are in their care. Any absences by those children results in a drop in income for that pay period. These fluctuations require households to use savings and credit to keep their spending steady from month-to-month.

"I am very glad for the opportunity they gave me to save and make it worthwhile with the savings match."

The project established incentives for participants to save small amounts with auto-debit purchases of I Bonds via *TreasuryDirect*, the U.S. Treasury's online site.[2] Participants received a $50 match to establish an account, and another $50 if they directed at least $50 of their tax refund toward the purchase of I-Bonds. The project then matched 50% of savings after a year of participation (up to $400). This match was used to simulate an expanded and refundable Saver's Tax Credit to measure its effects on savings rates. The Saver's Tax Credit is a federal tax credit that incentivizes retirement savings for lower- to moderate-income households. The credit is currently not refundable and therefore only tax payers with a tax liability can take advantage of it.

1 Wage data are available from the Bureau of Labor Statistics. Childcare workers are coded 399011 in the BLS data.

2 WISER selected I Bonds because they have features that are a good fit for small dollar savers. If the money is withdrawn before five years, only one quarter's interest is forfeited. I Bonds have no fees for opening or maintaining an account, a low minimum contribution requirement, no risk of loss of principal, and inflation protection.

The Appalachian Savings Project began in 2012. Between 2012 and 2015, WISER recruited 30 participants for this project. To recruit participants, we worked with two partner organizations: the Corporation for Ohio Appalachian Development (COAD, **www.coadinc.org**) and Mountain Heart (**www.mountainheartwv.org**) located in West Virginia. Both are childcare resource and referral agencies that provide support services for local childcare providers. As trusted resources that our target group was already familiar with, they provided access to the childcare community and helped us to educate caregivers about the program. Information about the savings project was incorporated into their communications and other events and activities they hosted. During the first year of the project, WISER and the community partners also co-presented financial education workshops for the caregivers that were tailored to the childcare business. Topics included preparing for tax filings, Social Security, and a legal seminar on wills, power-of-attorney and related subjects. These workshops allowed us to further raise awareness about the benefits of the savings program. By the second year of the project, some of the women who were participating were also able to help promote the project by encouraging their peers to join.

Participants volunteered to be a part of the program after learning about it and agreeing to sign up. The only requirement was that they be childcare workers who did not have access to an employer savings plan. In the first year we limited participation to self-employed childcare workers, but in the second year we opened it up to employees of childcare centers that did not offer employee plans. WISER and our research partners were able to closely track each participant's progress through interviews and surveys.

Significant Savings Outcomes

The project demonstrated that basic, easy-to-access savings vehicles combined with savings incentives can result in increased savings for lower-income workers who have few other saving and investment options. Among the findings:

"This is a great program for family child care providers. This is the only way people in my field would be able to have a matching retirement."

- Participants' total savings including the match averaged $1,150, estimated to be **5.5% of their average annual incomes**.
- On average, participants purchased $767 in I Bonds over the course of one-year and received a match of $383.
- Nearly all respondents agreed that their total savings and investments had increased compared to 12 months earlier. Only two respondents reported an increase in debt over the same period.
- 60% of the respondents reported purchasing savings bonds monthly or more often during the program.
- About one-half used their most recent tax refund to purchase savings bonds.
- The interviewees had generally earmarked their savings bond purchases for longer-term uses, including retirement.

These findings indicate that the savings that participants accumulated through the program represented a net increase in savings, rather than a shift in existing resources to savings bonds or increased use of debt in order obtain the match. It is also worth noting that saving 5.5% of average annual income is a substantial percentage of income for individuals who are often living paycheck-to-paycheck.

Participants provided feedback about the program through write-in survey responses and interviews. The 50% match provided a clear economic incentive to save, but the project might have also affected participants in subtler ways by focusing their attention on saving, serving as a reminder to save and giving savers a deadline to follow through on. Participants were overwhelmingly positive about the program and enthusiastic about the savings match, attributing the match to their decision to participate in the program.

"I set it a little higher than what I normally would have; however, I really wanted that match. . . I did $40 every two weeks, which was a little much for us, but I really wanted that 50% [match]."

Public Policy Implications

The Appalachian Savings Project demonstrated that a low-dollar, easily accessible savings vehicle, combined with a matched incentive to save can produce significant savings by lower-wage earners. Historically, a significant gap has existed in the marketplace for a savings product that meets the needs of lower- and moderate-income workers; one that does not require a large minimum investment to open the account, is low-risk with low fees, can be purchased in small increments, and is available nationally.

The 50% match provided a clear economic incentive to save. In theory, the Federal Saver's Tax Credit should function in the same way. However, the Credit is currently nonrefundable and only applies to contributions to qualified retirement accounts, dramatically limiting the number of households that can benefit from it.[3] This project suggests that an expanded and refundable Saver's Credit could support the rate of saving by financially vulnerable households.

When the Appalachian Savings Project began, the I Bond savings bond available through *TreasuryDirect* was the best savings vehicle available for lower-income savers. Since then, however, the U.S. Department of the Treasury launched the My Retirement Account (*my*RA). It has been designed for the small dollar saver, allowing small contributions, charging no fees, and offering a fair interest rate structure. Its structure as a Roth IRA also makes it eligible for the Saver's Tax Credit. It allows penalty-free withdrawals of contributions, which enables to people to access it in case of an emergency. The design allows for an initial contribution of as low as $25, and low additional contributions. Individuals can set up automatic deductions to a *my*RA through payroll deduction or an ACH bank transfer from their personal checking or savings account. Account holders can also

3 Over 65% of taxpayers who qualified for the Saver's Credit where not able to access it because they did not have positive tax liability according to the analysis in *The Freedom Savings Credit. A Practical Step to Build Americans' Household Balance Sheets* by Lisa Mensh, Raymond O'MaraIII, Colby Farber and Robert Weinberger (Washington, D.C.: The Aspen Institute Initiative on Financial Security, February 2012.)

direct their tax refund directly into their *my*RAs. Going forward, WISER will encourage the use of the *my*RA as a preferred savings vehicle for lower- and moderate-income workers.

Conclusion

The Appalachian Savings Project shows that despite all the financial barriers and competing demands, lower- and moderate-income workers, self-employed workers and small business operators can save regularly, and incentives help people overcome inertia and significantly boost their level of cash assets. What is needed is easy access to simple, affordable savings vehicles and encouragement to start with small deposits that can build the habit of saving.

Even if the savings goals do not seem adequate for long-term financial security, the power of these savings should not be underestimated. Small amounts can make a big difference for lower-incomes families and we need programs that encourage saving at every level. A foundation of savings can buffer families against financial shocks, and give them the confidence to set higher goals to save for education, retirement, and other future goals.

Our country's savings incentives do not reach the majority of middle and low-income workers. This project demonstrates that incentives to save can and do boost accumulation, and its results point to the potential of providing an easy-to-understand match that is deposited directly into the worker's savings account no matter their tax obligation. Such incentives would boost the savings of lower-income families and households who need to save more to provide for basic needs in retirement.

While there are challenges in getting lower-income workers to voluntarily participate in a savings plan, we have learned that making it simple and providing savings incentives can be effective. This approach needs to be more vigorously tested and applied beyond the target population served by this grant. The project focused on the childcare sector in Appalachian Ohio and West Virginia, but its design can be used in other work sectors with high concentrations of self-employed and entrepreneurial workers (such as the farm, food and crafts sector), as well as promoted in lower-wage service sectors where retirement benefits are not offered, such as home-care and other service work.

National momentum is building for improving savings outcomes for lower-income workers. As part of this movement, the Appalachian Savings Project brings a unique and much-needed perspective, as well as promising new data to the national conversation about increasing savings for workers who have traditionally been left out of the saving and retirement planning process.

For More Information

Complete details of the evaluation and research results are included in the report, *Savings Matches, Small Dollar Accounts, and Childcare Workers' Decisions to Save: 2012-2015 Appalachian Savings Project*. The report was written by Policy Lab for the Women's Institute for a Secure Retirement. Download the report at **www.wiserwomen.org**.

About WISER

The Women's Institute for a Secure Retirement, WISER, is a nonprofit organization dedicated to the education and advocacy that will improve the long-term financial quality of life for women. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through training workshops, strategic partnerships, research, education materials, media outreach, policy analysis, and advocacy. WISER also provides vulnerable women with basic information to help them take financial control of their lives and surmount the structural barriers that hinder women's participation in the nation's retirement system.

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