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Savings Matches, Small Dollar Accounts, and Childcare Workers' Decisions to Save

2012-2015 Appalachian Savings Project

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Key Findings

- On average, participants saved $767 of their own money and received a match of $383.
- Participants' total savings including the match averaged $1,150, an estimated 5.5% of their annual incomes.
- The savings match motivated respondents to sign up and follow through on saving.
- A majority of respondents reported purchasing savings bonds monthly or more often. About half used their most recent tax refund to purchase bonds.
- Nearly all respondents agreed that their total savings and investments had increased compared to a year earlier, and only two reported an increase in debt.
- The interviewees had generally earmarked their savings bond purchases for longer-term uses including retirement.

Introduction

This brief summarizes outcomes from the 2012-2015 Appalachian Savings Project.[2] The Women's Institute for a Secure Retirement (WISER) developed the project to improve the financial security of childcare workers in the mid-Appalachian regions of Ohio and West Virginia. Childcare workers there earn an average of about $9.00 an hour.[3] Many are self-employed and therefore lack access to workplace benefits.

The project aimed to promote participants' financial security by encouraging them to save through two components:

- Simulating a refundable Saver's Credit by providing a 50% savings match, up to a match of $500 each year.
- Connecting them to a product well suited to small dollar savers, Series I U.S. Savings Bonds. Going forward, WISER will promote *my*RA accounts rather than savings bonds for the reasons discussed later in this brief.

The project ran from December 2012 to June 2015 and was broken into two years, with a short break in between. Participants from the first year could continue onto the second year and accumulate twice the savings match. This brief combines information from both years of the program to document its effects on savings outcomes.

The next section of this brief explains the rationales for simulating a refundable Saver's Credit and selecting Series I U.S. Savings Bonds. Then the brief describes how PolicyLab and WISER worked together over the course of the project to gather information on savings outcomes. The brief then presents information about participants' backgrounds, followed by a discussion of key results and feedback about the program. The brief concludes with an overview of WISER's next steps in promoting savings among lower-income workers.

Simulating a Refundable Saver's Credit & Identifying a Small Dollar Savings Product

Existing policies to support savings and investments are generally not well targeted to lower-income workers. The 50% savings match provided through this project was intended to simulate a refundable Saver's Credit. The existing federal Saver's Credit provides a tax credit of up to 50% for low– to moderate-income taxpayers who contribute to savings. The existing credit is nonrefundable and limited to contributions to qualified retirement accounts. These two features combined with a general lack of awareness about the credit among consumers dramatically limit its take-up.[4] The information presented in this brief points to the potential

[1] Contact: corourke@policylabconsulting.com
[2] The full report on Years 1 and 2 of the Appalachian Savings Project is available here.
[3] For example, the average hourly wage for childcare workers in the Parkersburg-Marietta-Vienna WV-OH area, one of the locations with participating childcare workers, is $8.52, or $17,710 annually, based on BLS data (code 399011).
[4] Spader, Jonathan, et al. 2011. "Encouraging the Use of the Saver's Credit through VITA Sites: Evidence from a Pilot Demonstration in Two Cities." Center for Financial Security Research Brief FLRC 11-7. Madison, WI.

of an expanded Saver's Credit—one that is refundable and perhaps less restrictive in terms of which savings plans qualify—to promote savings among lower-income working households.

In 2012, WISER selected I Bonds to serve as the program's savings product due to their suitability for small dollar savers.[5] Going forward, WISER plans to promote the new Treasury-sponsored *my*RA accounts, which only became available towards the end of the Appalachian Savings Project. *my*RA accounts are even better suited for small dollar savers. Importantly, *myRA* contributions are eligible for the existing Saver's Credit, which I Bond purchases are not. *my*RA accounts allow accountholders to withdraw their contributions without penalty, an important feature in case a financial emergency arises. I Bonds place some restrictions on withdrawals. In addition, *my*RA accounts are not subject to a minimum contribution requirement. I Bonds require a $25 minimum purchase.

Despite their differences, across all of the savings and investment products available to consumers, I Bonds and *my*RA accounts remain quite similar. They are both safe, low-cost ways to begin saving.

Research Process

PolicyLab worked with WISER to collect information to understand the effects of the program on participants' financial security. Information was collected from four sources:

1. *Participant survey*. Each year, participants completed a survey at the beginning of the program (baseline) and after they had received their savings match (follow-up). The survey asked participants about their financial management practices and account balances. A copy of the Year 1 follow-up survey is available here. A total of 20 participants completed baseline and follow-up surveys, including four who participated both years.
2. *Participant interviews*. To supplement the survey findings, PolicyLab interviewed four participants over the telephone in 2013 after they had received their savings match. Another round of interviews was conducted in June 2015 with eight Year 2 participants. These interviews were conducted in-person in West Virginia and Ohio.
3. *Administrative data*. WISER provided administrative data on the savings match each participant received.
4. *Nonparticipant survey*. WISER and local partners surveyed childcare workers in the program area who did not participate in the project. This "nonparticipant survey" provides insights into the population WISER aimed to reach through the program, including barriers to participation.

The findings presented in the following sections are drawn from the first three data sources. The nonparticipant survey findings are discussed in the full report.

Participant Backgrounds

The survey data collected from program participants confirm the target population's financial vulnerability, as shown in Table 1. At baseline, participants' average estimated monthly income was $1,761, which translates into an annual income of about $21,000. Respondents provided their income in ranges, and income can fluctuate significantly from month-to-month. Nonetheless, the $21,000 estimate is close to childcare workers' median annual wage in West Virginia and Ohio. Average monthly incomes increased from baseline to follow-up to about $1,830 a month or $22,000 annually.

Table 1. Participant Demographics

	Average or %
Average Estimated Monthly Income*	
Baseline	$1,761
Follow-up	$1,831
Employment Status	
Full-time or more	95%
Part-time	5%
Self-employed	70%
Age	
Average	43
Range	21-59
Highest Educational Attainment	
Some high school	5%
High school diploma or equivalent	20%
Some college or an Associate's degree	40%
Bachelor's degree	35%
Married	80%
Average Household Size	3.7

Notes: n=20 participant surveys. * Respondents provided their income in categories, so midpoints were used to estimate average monthly incomes; upper and lower bounds were applied for the highest and lowest ranges, respectively.

All but one program participant worked full-time, with the other working part-time. After limiting the program to self-employed childcare workers in Year 1, WISER opened the program to employees for Year 2. Still, a majority of respondents are self-employed. Overall, respondents' income and employment characteristics attest to the target population's status as low-income working adults.

In terms of other demographic characteristics,

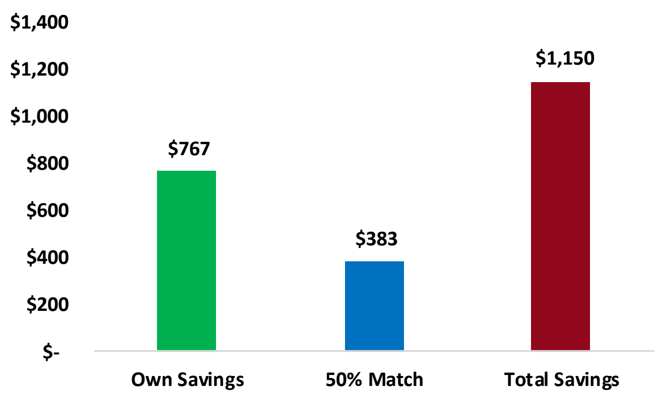
[5] Key features include no fees for opening or maintaining an account, a low minimum contribution requirement of $25, universal access (e.g., no ChexSystems verification), no risk of loss of principal, and inflation protection. Historically, I Bonds have offered interest rates competitive with CDs.

participants' ages ranged from 21 to 59 and averaged 43, Three-quarters of participants had attended at least some college. A majority of respondents were married, and participants had an average of nearly three other members in their households.

Savings Outcomes

A variety of data points were collected to measure participants' savings activity over time. Figure 1 displays the average savings participants accumulated over the course of the program. Participants used an average of $767 of their own funds to purchase savings bonds. This corresponds with the average match of $383 and average total savings of $1,150. Not shown in the figure, the lowest amount saved among all participants was $500, with a match of $250. Four individuals saved $900 and received $450 matches.

Figure 1. Average Participant Savings



Source: WISER Administrative Data

Table 2 summarizes additional savings outcomes. On the follow-up surveys, participants reported saving an average of $1,227 due to the program, similar to the $1,150 average total savings from WISER's administrative data. In line with these findings, participants' self-reported savings bond balances increased substantially from baseline to follow-up.

Using participants' average income at baseline from Table 1, $1,150 in total savings represents an estimated 5.5% of participants' annual incomes. This percentage is quite significant, particularly in light of data documenting total savings accumulations close to zero for U.S. households in the two lowest income quintiles. Lower income households tend to spend a lower share of their incomes on discretionary items, so they may have less slack in their budgets to devote to savings. The findings in Table 2 show that participants were successful in building savings over the course of the program.

Table 2. Additional Savings Outcomes

	Average or %
Total savings attributed to the program (including match)*	$1,227
Self-reported U.S. Savings Bond balances†	
Baseline	$235
Follow-up	$1,498
Total savings as % of estimated annual income	5.5%
Frequency of U.S. Savings Bond purchases over the prior year	
Once a month or more often	61%
Every few months	6%
One-time purchase	33%
Purchased savings bonds with most recent tax refund	46%

Notes n=20. * For individuals who participated in both years of the program, these figures only include savings for the second year. † Blank responses were recoded as $0. Source: All data are from the participant surveys.

Sixty-one percent of participants purchased savings bonds monthly or more often during the program. One respondent purchased savings bonds every few months, and one-third of respondents made one-time purchases. The dates of participants' purchases were not available, so it is unknown when participants made one-time purchases relative to the timing of the match. Nearly one-half of respondents used their most recent tax refunds to purchase savings bonds.

Not shown in the table, a vast majority of participants (88%) agreed that the total amount they held in savings and investments had increased compared to 12 months earlier. Only two participants reported an increase in total debt over the same time period. Together, these responses indicate that the savings 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 to obtain the match.

Effects of the 50% Savings Match

One of the project's primary goals was to test the effects of the 50% savings match, which was designed to simulate a refundable Saver's Credit. Through the surveys and interviews, it is clear that the match was the primary reason why participants signed up for the program and ultimately purchased savings bonds. Although participants enjoyed the support WISER provided during the program and were generally positive about I Bonds, they overwhelmingly cited the match as their reason for taking part in the program.

- Survey respondents reported saving an extra $692 than they otherwise would have without the match, consistent with their average I Bond purchases.

- All but one survey respondent reported that the match was "very" or "extremely" important in determining how much they chose to save.

Interviewees were unanimous in highlighting the match as their primary reason for participating in the program. For example, one interviewee explained,

> *I set it [automated savings bond purchase] 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].*

One survey respondent went so far as to say the match "forced" her to save. The interviewees were enthusiastic about the program and the rare opportunity it provided people in their position to receive a savings match. One participant observed,

> *I know some companies match what you put into your 401(k), and that's similar to what this was.*

Participant Feedback

Survey respondents and interviewees were overwhelmingly positive about the program and enthusiastic about the savings match, again attributing the match to their decision to join the program and follow through in purchasing savings bonds. One interviewee described being on "cloud nine" about the program, and representative survey responses included:

> *I am very glad for the opportunity they gave me to save and make it worthwhile with the savings match.*
>
> *This was a very good incentive for me, and I want to thank you very much for offering this to me.*

Two survey respondents mentioned that they would like to see the model replicated, with small employers offering savings matches for retirement contributions. Recognizing the lack of infrastructure to support savings among self-employed childcare workers, another respondent observed that this program was the only way she could receive a match for retirement savings. Multiple respondents explicitly expressed a desire for the program to continue into the future.

One of the only potential suggestions to emerge from the surveys is one respondent's comment that she missed the workshops that were part of the first year of the program. Another survey respondent indicated she needed additional information about what would happen to her savings bond balance after the program, a topic that other interviewees also raised.

Conclusions

The results of this project show that childcare workers interested in saving can accumulate significant savings over the relatively short period of one year when they are incentivized to do so. In theory, the federal Saver's Credit should function similarly to the savings match provided through this program. In practice, the fact that the current Saver's Credit is nonrefundable dramatically limits the number of households that benefit from it. The results of this project point to the potential of an expanded Saver's Credit that is refundable to support savings among financially vulnerable households. Going forward, WISER plans to use the knowledge it gained from this project to inform the wider rollout of *my*RA accounts and further promote the idea that lower-income workers can save when given support and connected to well-suited savings products.

Acknowledgements

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