Striving to Save: Creating Policies for Financial Security of Low-Income Families
Margaret Sherrard Sherraden and Amanda Moore McBride, With Sondra G. Beverly
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INTRODUCTION

Saving in Low-Income Households

Low-income Americans face significant challenges in their efforts to accumulate wealth. They often lack even the most basic transaction and savings instruments (Caskey 1997; Barr 2004). Furthermore, savings vehicles with more favorable terms, such as Individual Retirement Accounts (IRAs), 529 college savings plans, or defined contribution schemes such as 401(k)s, are not financially attractive to families working in the low-wage sector of the economy (Sherraden 1991; OECD 2003).

In this book, we look at the experiences of 59 low-income families participating in a groundbreaking savings program. The families saved in Individual Development Accounts (IDAs), accounts that match the savings of poor families for long-term investments such as a house, postsecondary education, retirement, or a small business.[1] Looking at the experiences of a random sampling of low, medium, and high savers in the IDA program, we analyze whether low-income families can successfully accumulate savings and what difference it makes when they do. To understand their experiences, we begin by describing the realities of growing up in poor households, especially the economic socialization and tangible support individuals received from their families as they came of age. Following them into adulthood, we explore how successfully they manage their finances, earn a living, and save. We learn about their hopes and dreams for the future, and whether the savings program helped them meet their goals. Their successes and failures in the IDA program provide insight into saving in poor families and inform public policy debates on wealth building in low-income households.

As a useful comparison, we also examine the experiences of 25 low-income individuals who signed up for the IDA program but were not selected to participate. The experimental research framework allows us to contrast and compare the perspectives and motivations of IDA participants and nonparticipants. In-depth interviews with these 84 families, along with quantitative survey and account monitoring data, contribute to a better understanding of saving and the impact of a matched savings program on participants' expectations and achievements.

To set the stage, we introduce Camille.[2] Camille had always believed saving was important, so when she heard about the IDA program, she immediately signed on.[3] Unfortunately, she was not selected to participate. Through her story, however, we begin to understand why a savings program might be important to low-income families.

Camille

At 57 years of age, Camille had already raised one child, and, at the time we talked to her, she was caring for her five grandchildren. Growing up, Camille learned how to work hard. Her mother was a domestic worker, and the "foundation" of the family. Her father worked long and hard hours as a "common laborer," holding two or more jobs at a time throughout Camille's childhood. After a life of hard work and thrift, her father died, leaving the family with two small plots of land, a house, and a car. Camille's mother also found money hidden under a mattress and in a credit union savings account. Camille recalled, "[My father] always taught us, you know, you should save, save, save, save, save, save. He would drill that in our heads continuously, you know, because you'll never have anything if you spend everything you've got."

Camille married early. Her first marriage ended when the baby was young, but Camille soon remarried and moved out of state with her new husband. Eventually, she completed a GED, attended secretarial school, and began to get better jobs.

Camille had several jobs before she was able to save any money. She tried to follow her father's advice to save. "But I never could find a way to save because it took every dollar" just to pay the bills. She tried to save small amounts in a savings account, "but then for some reason I would always have to go get it." "I went from payday to payday. I didn't feel I had any to save, you know, with a baby. And I didn't want food stamps and all that crap . . . because we weren't raised that way, you know." She sometimes opened a savings account to deposit her income tax refund. "Every year I open it up, but something comes up and

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it's gone before the next year." Camille felt stymied by her inability to save. "My mother says—she still says it to this day—that we just live above our needs and this is why we can't save. So she may have a point because I still can't save."

There were two times in Camille's life when she accumulated some savings. The first time she saved enough to make a down payment on a small house. She was working at a credit union at the time. With her father in mind ("his voice never left me alone"), she had part of her wages automatically deposited in a savings account. She also had a job doing paperwork for a realtor and saw listings before they were released to the public. That way she found a house and bought it "at a steal."

Camille said that having the credit union savings account made her feel good. "It felt good, you know, to look and see that I actually had some money that belonged to me." Moreover, she said it was an easy process because they took it out of her check before she got it. She also had a retirement account at the credit union but left the job before she accumulated much money.

The second time she accumulated savings was through her job where the pay and the benefits were better than her previous jobs. "Things were going pretty good . . . and I did have savings. I had a little bit of money." But in 1989, she had to return to Oklahoma to care for her grandchildren. She sold all of her assets, setting the savings aside for what lay ahead.

> I was very fearful because I didn't know what to do "God, how I am going to take care of these five grandchildren? I don't know what to do." So everything that I had I sold because it was too expensive to bring. I had a house sale. I sold my car. I sold furniture. I sold goldfish, aquariums. Everything I had I sold so I could come here with as much cash as possible.

When she returned to Oklahoma she turned to public assistance for the first time "because of the kids." Unfortunately, Camille came up against the asset limit test in the welfare system. "When they found out that I had money, they told me that was considered as an asset. . . . Any money you have in savings is considered an asset. And if you have a certain amount of money you can't get help. I couldn't get housing. I couldn't get anything. So I had to go out on my own and find a place to stay. We couldn't stay with my mom. She was 70-something years old."

Within seven or eight months, Camille had spent down her life savings. When her savings were depleted, she began to receive state aid. Nonetheless, she still did not qualify for housing and had to pay her rent out of the monthly

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check. Camille reflected on her decision to tell the welfare worker about her savings.

> You can't lie and say you don't have it. I guess you could. Some people do, but I didn't. I was very honest, and they said, "Well, you have to use that up first and then come back because that's an asset." You have means to supply yourself. Why should we give you anything when you've got money? . . . I guess it makes sense, but it made me angry.

At the time she applied for the IDA program, Camille was living close to the margin, working two jobs, and raising five grandchildren, three still at home. All she had was what was in her checking account. She kept a small surplus in the account as a back up. "All I have is sitting in my checking account where I can go get it if I need it. I usually . . . maintain $200 or $300 monthly in my checking account. . . . I like to see a big number in my checkbook." She likes the checking account surplus because she can get to it if she needs it.

As she described the surplus in her checking account—which she later calculated as about $100 average—she felt bad that she hadn't saved more. "Talking to you is making me realize that, you know, I could save if I would just do it. But I always say, 'Oh no, I ain't got no money to save, girl. I need all my money, you know.' " She believed that she could not accumulate larger amounts because the money was so accessible. "I guess because it's just readily available. And you know, it's really a stupid thing . . . because that sitting over in savings could be drawing a little bit of interest. Whereas in checking, I'm not drawing any interest. I'm just writing it out, writing it out."

At the time of the interview, Camille was also saving in other ways. Through her job in the school district, she was saving in a retirement account and an annuity. She was not impressed with the amounts in either account. "Because this annuity, if you cash it in, you know it's less. You know, they show you the cash value and what it actually is, so the cash value is not that great. So it just, you know, sits there."

She is also saving in stock investments through her job. "That's right, I'm buying stock, five dollars a payday. . . . They take that out of my check. And then they have shareholding accounts. . . . They really, really, really push saving incentives there." She signed up for the stock option because "they put it out there for you and you'd just be kind of stupid not to take advantage of it." But, she laughed, she would not buy this stock if it was not coming directly out of her paycheck because it would be too easy to spend instead. "I doubt it—if I'm not working for them—I really doubt that I would write out a check and send it to them to purchase stock. But this way, by coming out of my check before I even see it, you know. Yeah."

Camille did not really think about these retirement accounts and the stocks as savings because she did not have easy access to them. She thought about them "as really belonging to someone else." She understood they belonged to her and money was deposited regularly, but they were not accessible. "Actually it's my money. But it's—you've got to go through channels to get it if you wanted it. Whereas the money in my checking account, I look at that as being mine because I don't have to go through channels. All I've got to do is stick the ATM card in the deal and get my money." Until speaking with the interviewer, she hadn't thought about these as savings. "You know, I don't know, because I had never really realized that—I mean, I know there's savings, and I know it comes out of my check. But until sitting here talking to you about it, I never even kept up with it, to tell you the truth. I know I can't get it."

Although Camille thought her small retirement savings were fairly insignificant, upon further reflection she commented that "at least it's a nest egg" for the grandchildren. "I doubt if I'll ever use it because it will never be large enough for me to use, but maybe it will benefit them." She only wished there was more. "I just feel like one day when I stop working, you know, whenever that day is, there should be something you could fall back on instead of just having absolutely nothing."

Camille was disappointed she was not selected for the IDA program because it was an opportunity to save for a house that would provide greater stability for her grandchildren and herself. Nonetheless, she is still determined to pursue this goal. "I'm not giving up." She planned to use her next tax refund (which she had planned to deposit in the IDA before she learned she was not accepted into the program) for a house down payment. "When I file my income tax this time, I'm going to try to already have it set up where I can go buy a house. And then if I could take the money and hurry and put it down, you know." However, her determination seemed to fade as her voice trailed off. "But those types of things . . ." As if trying to gather her energy, she once more expressed her desire to buy a home, concluding, "I do want a home, I really do, you know. I really do."

Despite a lack of schooling and an unsuccessful teenage marriage, Camille managed to land on her feet. She moved to another state with her second husband, raised her daughter, and worked her way up to a responsible job with decent benefits. Fortunately, Camille worked in jobs that provided opportunities to save. First, she worked at a credit union where she could automatically deduct a sum from each paycheck to deposit into a savings account. Later, in a job that offered a structured savings program, she saved even more. She accumulated some assets, and despite her divorce, Camille held onto her home, her most precious financial asset.

Unfortunately, life events intervened, and Camille became, like an increasing number of other grandparents in America, responsible for raising her grandchildren. Turning to public assistance, Camille found herself caught up in welfare regulations that deplete the assets of poor families, and she was forced to spend down her life savings before she could receive assistance for her grandchildren. Camille believes that owning a house would provide stability and a foundation for her grandchildren, but she has little money to make a down payment.

Camille tries, but it is difficult to save on a low income and without the support of a structured savings program. Therefore, she planned to start saving the way she had many years earlier using an automatic deduction from her paycheck to her savings account. She understands it is easier to save if she does not see it. Nonetheless, it is difficult to arrange because of her low income and high consumption needs. The hardships she confronts make saving difficult, even as lack of savings makes hardships more difficult to endure.

ASSET ACCUMULATION IN POOR HOUSEHOLDS

Why do assets and wealth matter for poor households?[4] Although income and assets are highly correlated, research suggests that assets have positive effects beyond those of income (Schreiner and Sherraden 2007). Assets may endow people with economic resources, offer psychological and social benefits, and shape opportunities for the future (Miller and Roby 1970; Henretta and Campbell 1978; Sherraden 1991; Oliver and Shapiro 1995; Midgley 1995; Scanlon and Page-Adams 2001; Shapiro and Wolff 2001; Miller-Adams 2002; Shapiro 2004; Glennerster 2006). As Seymour Spilerman observes, people may benefit from their assets without their losing value, in contrast to income, which is consumed (2001, 369; see also Spilerman 2000). A retirement account, for example, offers peace of mind about the future, tends to appreciate in value, and in bad economic times, can be sold and consumed. A house provides shelter, gives a family a stake in the neighborhood, and may be an object of pride, a tangible form of accomplishment, and a source of equity (Conley 2001). Thomas

Shapiro suggests that inherited wealth, in particular, is "transformative" in the sense that it lifts families "beyond their own achievements" (2001, 10) and therefore promotes social mobility (Shapiro and Johnson 2005). Assets can build opportunities and change perceptions about the future in ways that income alone cannot.

Assets are inaccessible to many low-income Americans, however, because their net worth (household assets minus liabilities) is low (Carasso and McKernan 2008). Net worth in the poorest 40 percent of U.S. households averaged only $2,200 in 2004 (Wolff 2007). Net worth among the poorest 10 percent of U.S. households was a negative $1,800 in 1999 (Caner and Wolff 2004; see also Kennickell 2006).[5] According to Robert Haveman and Edward Wolff, one quarter of Americans were asset poor in 1998. Their net worth (home, savings, and other assets minus debts) could not support them at a poverty level for three months, and one-half of the population had liquid assets of less than $5,000 (Haveman and Wolff 2005).

Some population groups have particularly low levels of net worth (Haveman and Wolff 2005; Nembhard and Chiteji 2006). Women, especially single heads of households, own fewer assets than men do, in part because of the consumption demands of raising children (Conley and Ryvicker 2005). Wealth is lower in families with lower levels of education (Lerman 2005). Middle-class families hold 9.5 times the net worth of low-income families (Carasso and McKernan 2008). Median wealth of those in the bottom 40 percent of the income distribution declined between 2001 and 2004 (Bucks, Kennickell, and Moore 2006), and this trend may continue (Keister 2000b; Keister and Moller 2000; Wolff and Zacharias 2006; Smeeding and Thompson 2007). People who live in rural areas have lower levels of net financial and liquid assets (Fisher and Weber 2004).

Across ethnic and racial groups, there is a large and persistent disparity in wealth. A legacy of racism and discrimination contributes to low levels of assets (Terrell 1971; Massey and Denton 1993; Oliver and Shapiro 1995; Conley 1999; Denton 2001; Stern 2001; Masnick 2004; Shanks 2005; Lui et al. 2006). Median net worth in Native American households in 2002 was $5,700, in Black households it was $5,998, and in Hispanic households it was $7,932, fractions of the $88,651 median net worth in White non-Hispanic households (Kochhar 2004; Zagorski 2006). Approximately 31 percent of African Americans and 35 percent of Hispanics had zero or negative net worth in 2001, while in White households only 13 percent had zero or negative net worth (Caner and Wolff 2004).

Several factors contribute to lack of assets in poor households. First, low-wage employment and low levels of education contribute to low income that strains families' ability to accumulate assets, especially among women and families with children (Chang 2006). There is frequently little to save as families struggle to pay for basics and to cover emergencies (Waldron, Roberts, and Reamer 2004).

Second, low levels of wealth in one generation beget low levels of wealth in the next (Kotlikoff and Summers 1981; Gale and Scholz 1994; Shapiro 2004). Although estimates vary widely, inheritance helps to explain wealth holding (Kotlikoff and Summers 1981; Gale and Scholz 1994), with significant implications across social classes, and across race and ethnic groups (Shapiro 2001, 2004; Wilhelm 2001).

Third, many families living in poverty lack transaction accounts such as basic checking and savings accounts, which help to establish financial stability and build financial assets (Barr 2004; Sherraden and Barr 2005; Blank and Barr, 2009). An estimated 24 percent of low-income families lack a bank account (Carasso and McKernan 2008). These so-called unbanked are disproportionately poorer, younger, unemployed, less educated, and more likely to be non-White than their banked counterparts (Aizcorbe, Kennickell, and Moore 2003; Hogarth, Anguelov, and Lee 2004; Berry 2005).[6] Up to half of Latinos, for example, lack transaction accounts, and therefore lack one of the key building blocks for asset building (Muñiz, Rodriguez, and Pérez 2004).

Fourth, low-income families typically cannot take advantage of policies that structure and subsidize asset building in wealthier American households (Sherraden 1991). Tax expenditures, including the home mortgage interest deduction and tax-favored retirement savings accounts, build wealth in nonpoor households. The poor, because of their low tax liability, do not benefit, and they lack equivalent policies that build assets in poor households (Sherraden 2005). The federal government invests approximately $335 billion in asset subsidies (mostly through tax deductions), one-third of which goes to the wealthiest 1 percent of the population, while less than 5 percent goes to the bottom 60 percent (Woo, Schweke, and Buchholz 2004). Tax expenditures, which overwhelmingly benefit the nonpoor, contribute to what some have called a "hidden" welfare state (Howard 1999; Seidman 2001).

Finally, the poor not only lack access to subsidies for saving and other asset-building policies, but they also are discouraged from asset accumulation because of asset tests. Middle-class people can save for retirement in a tax deferred 401(k) plan, buy a home with a generous tax subsidy from the government, and save for their children's college education in a tax-benefited 529 college savings plan. In contrast, a typical poor family does not have access to these tax benefits and furthermore cannot save without risking the loss of welfare benefits, including cash, health care, and housing assistance (Hubbard, Skinner, and Zeldes 1995; Ziliak 2003). There is evidence that "asset limits" in means-tested social programs may reduce asset holdings of the poor (Nam 2008).

In 2001, only 30 percent of households in the bottom quintile of income reported saving, a proportion that had declined in the previous 10 years (Aizcorbe, Kennickell, and Moore 2003; Belsky and Calder 2005). Despite generally low savings in poor households, some studies report that the poor want to save and already do set aside money for their families' well-being and security (Newton 1977; Furnham 1985; Kennickell, Starr-McCluer, and Surrette 2000; Hogarth and Anguelov 2003). Many recipients of the Earned Income Tax Credit (EITC), a tax credit for low-income families, plan to use this money as a tool for economic mobility (e.g., invest in education), as well as to make ends meet (Romich and Weisner 2000; Smeeding, Phillips, and O'Connor 2000). Researchers point to the widespread use of self-run saving and lending groups in poor communities in the United States and around the world as further evidence that even the poorest want to and have the capacity to save when provided appropriate financial instruments (Rutherford 2000, 2005; Matin, Hulme, and Rutherford 2002; Collins et al. 2009).

ORGANIZATION OF THE BOOK

Little research exists on how families with low incomes save and how successful they are in accumulating savings. We know even less about the impact that saving may have on their lives and those of their families. This book follows a group of people who signed up for an Individual Development Account (IDA). The 84 respondents whose experiences fill these pages signed up for an IDA in the hopes that it would help them accumulate some savings they could use to make progress in their lives.

What we learn from the 59 IDA participants and 25 nonparticipants, including Camille, challenges traditional assumptions that the poor do not want to or cannot save. The findings suggest ways to understand the economic lives of low-income and low-wealth individuals and families, and offer valuable insights into approaches for future policy, programs, and savings products that will help build assets in poor households.

The first part of the book explores the context for saving and the efforts of Camille and 83 others to save in the absence of a savings program. The latter part of the book analyzes what happened when some of these families entered a savings program, what difference it made in their lives, and what these findings mean for savings theory and public policy. Because they signed up for a voluntary savings program, respondents in this study may be more motivated to save than the average person in their financial position. They may possess greater motivation and have more personal and economic resources. However, it is also possible that most low-income people who participate in a structured savings plan would respond similarly. A test of universal savings would be necessary to establish how the low-income population as a whole would react.

Following this introduction, chapter 1 describes the American Dream Demonstration and details the features of IDAs. For readers interested in the study's research methods, the second part of the chapter describes the sampling, interview content and format, and data analysis for the in-depth interviews that form the basis of this book.

Chapter 2 reviews economic and institutional theory about why and how people save, especially in low-income households. We focus on the major strands of thinking about saving, including neoclassical economics, behavioral economics, and institutional theory and perspectives. The second half of the chapter reviews evidence on the impacts and implications of saving in low-income households. For readers who prefer to skip this chapter, a rather dense discussion of theory and evidence, there is a list of key questions at the end of the chapter.

Chapter 3 continues Camille's story and introduces Anne and some of the 82 other respondents, including Cynthia, a nonparticipant. It explores their growing up and coming of age in working-poor families. Many respondents grew up in financially stretched and sometimes unstable families, struggling to provide for their children. Respondents' schooling was often unrewarding and interrupted. As children, they learned little about household financial management and saving; their economic socialization focused on getting a job. Several left home and assumed financial independence at a very young age. With low levels of education, they tried to obtain decent jobs at a time when good jobs were disappearing from the American landscape. They encountered obstacles and made mistakes. Most respondents, with a few important exceptions, sought to gain an economic foothold in the adult world with few tangible resources from their families of origin.

Chapter 4 begins with the experiences of two respondents who discuss how they manage their household finances on low incomes: IDA participant Tonya and Ella, a nonparticipant. Turning to the whole sample, we find that with high expenses and low incomes, families tend to adopt a perspective that they will make it through hard times with faith and hard work. They try to be economical and cut back on unnecessary expenses, but they also borrow, use their savings, and scramble to earn more when they must.

Despite respondents' efforts to make ends meet and cover expenses with available income, some accumulated problem debt. Debt, the topic of chapter 5, absorbs resources and saps respondents' energy and future expectations. Beginning with Ella's and Becky's stories of debt, the chapter explores how low incomes and unexpected events contribute to problem debt. When families are in problem debt, they find it difficult to build a good credit record, and for some, debt forecasts difficulty in accumulating savings.

Chapter 6 continues Ella's story and introduces another participant, Debra, as well as a nonparticipant, LaVonne. The chapter explores how these three women managed to save and invest over their lifetimes, chronicling savings goals, types of savings, and families' efforts to save, including sources, strategies, and patterns of saving. Although the focus is on those respondents who did not participate in the IDA program, we also hear from some IDA participants who describe their saving before they joined the IDA program. They relate their frustrations and difficulties saving and discuss how they tried to save in ways that would accumulate over the long term.

In chapter 7, we turn to the experience of participants in the IDA program. Here we continue Theresa's and Becky's stories and introduce two other participants, Heather and Denise. These four women, and other IDA participants, discuss what attracted them to the IDA program and how they perceive its features.

In chapter 8, these four women and the other 55 IDA participants reveal how they earmarked money for saving, how they deposited it in their IDA, and how they struggled to avoid spending their IDA savings. They also discuss how the IDA program affected their ability to set money aside. The chapter concludes with a discussion of the major barriers to saving in an IDA.

Chapter 9 examines evidence for potential effects of saving and savings,[7] including effects on participants' families and children. Beginning with Heather, Denise, and Becky, the chapter discusses cognitive, psychological, and economic effects of saving in an IDA. These reactions provide a glimpse into the possible meaning of saving and asset accumulation in low-income households.

Finally, the conclusion returns to Camille and her dream of stability for herself and her five grandchildren. It also continues Cynthia's narrative. She articulates the hopes, dreams, and frustrations of many of the 84 families as they try to get ahead and build opportunities for themselves and their families. After summarizing the book's findings, we propose a conceptual model for how families with low incomes save, and discuss how saving affects them and their families. We discuss some of the debates that arise throughout the book about saving in low-income families and raise key challenges for savings programs. The chapter concludes with theoretical, policy, and research implications.