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THE RETIREMENT SECURITY PROJECT

PEW CHARITABLE TRUSTS

SAVINGS INCENTIVES FOR LOW- AND MIDDLE-INCOME FAMILIES: A NEW REPORT FROM THE RETIREMENT SECURITY PROJECT

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P R O C E E D I N G S

MR. ORSZAG: Thank you. I think there are a few more people finding their seats.

Welcome. We're here to discuss a new report from the Retirement Security Project. The Retirement Security Project is supported by the Pew Charitable Trusts in partnership with Georgetown University's Public Policy Institute and the Brookings Institution, and we actually have a representative from Pew here with us today, Pauline Abernathy. So I'd like to invite her up to give us a few opening remarks.

MS. ABERNATHY: Thanks, Peter.

Economists are the butt of many jokes for saying, "assume people are perfectly rational and have perfect information." The study you are about to hear about today didn't make any assumptions. It looked at what thousands of real people did in real situations, and the study suggests that if public and private sector policies were based on its findings, we could make a real difference in increasing retirement security for millions of Americans.

The Pew Charitable Trusts is really delighted to be a part of the Retirement Security Project in trying to advance some very common-sense policies to increase retirement savings. One of the things the Pew Charitable Trusts does is advance policy solutions which can be a particularly difficult thing to do these days. But my colleagues and I at the Trusts are really confident that the Retirement Security Project staff, advisers and partners are going to demonstrate that it's still possible to do that if the evidence is sound, the solutions are practical. And we really look for common ground.

Thank you.

MR. ORSZAG: Thank you, Pauline.

Bill Gale and I are going to go through the results of the study, and then we'll have a question and answer period, and we're very pleased that Bernie Wilson from H&R Block is here with us for that period so that you can also ask questions of Bernie, who will be much better at answering some of the technical implementation issues surrounding H&R Block's side of things than we would be.

As most of you know, a significant share of low- and middle-income families appear to be under saving for retirement and to be accumulating very modest amounts of assets for retirement. For example, if you look at households on the verge of retirement, that is, headed by someone 55- to 59-years-old, the median value of 401(k)s and IRAs combined is only about $10,000.

The traditional approach to trying to encourage more retirement saving is by providing tax preferences, preferences through the tax code. The big problem here is that for the vast majority of families, roughly three-quarters or so, the tax preferences that are provided are modest because they're in the 15 percent marginal bracket or lower, so providing a tax preference for a 401(k) contribution or an IRA contribution doesn't do too much. If you're in the 35 percent bracket you put a dollar into a 401(k), you save 35 cents immediately. If you're in the 10 percent marginal bracket you save 10 cents immediately.

There seems to be growing interest among policymakers, again, as demonstrated by some comments that Representative Thomas has made, that Senator Grassley has made, that others on the Democratic side have made, to look for ways of

boosting retirement contributions outside of that traditional tax deduction, tax preference approach.

One of the main types of approaches that are possible for boosting incentives has to do with a match or a matching contribution which would be familiar to anyone who has participated in at least most 401(k) plans. You put a dollar into a 401(k) plan and the firm often matches, say, puts 50 cents or so into the 401(k) plan on your behalf. Same concept here. Let's put a dollar into, say, an IRA and have someone else—in this case H&R Block—put in some amount, 50 cents.

The thing about matches is that they can be independent of your marginal tax bracket, which means they can be quite potent even for lower- and middle-income families who are in lower marginal tax bracket.

The previous research literature on what match rates do has found mixed effects. Typically the research has found that the existence of a match in a 401(k) plan boosted participation, but higher match rates, that is, given that you have a match increasing it, some studies suggest higher match rates increase contributions. Some say it has no effect and some say it actually reduces contributions. So there's sort of mixed effects that come from the existing previous literature.

What we decided to do was really the first large-scale randomized experiment on what match rates do to IRA contributions. So it has two significant advantages. One is we're covering a much bigger part of the lower and middle income part of the income distribution who are disproportionately not represented in 401(k) plans, and therefore those existing studies don't do a particularly good job at capturing the effects at the bottom of the income distribution. And secondly—and this is

obviously very important—we have a randomized assignment of match rates, which means that we can be much more confident that the effects that we're picking up are not just correlation, there's actually causation from the varying match rates.

The research project was undertaken by a team of researchers including economists from MIT, Bill and myself from Brookings, Jeff Liebman from Harvard and Emmanuel Saez from Berkeley, and undertaken, obviously, in conjunction with H&R Block, which is the nation's leading tax preparation firm.

What we did was run the experiment in 60 H&R tax prep offices in the St. Louis area. The experiment ran from March 5th to April 5th. It covered about 15,000 H&R clients, so a relatively big sample. Each client was randomly assigned a match rate for IRA contributions of up to $1,000. There was a zero match, that is control group set of people, so they received no additional match, a 20 percent match group and a 50 percent match group. So just specifically you put $1,000 into an IRA and you were in the 20 percent match group, you could get $200 matched by H&R Block.

Another key feature was that the contributions were quite easy and convenient; you could basically do everything on the spot. You were allowed to effectively split your tax refund, part into a savings account, this IRA, and part back in some other form. There are proposals, that in fact the administration has embraced, allowing refunds to be split in this fashion through the IRS. And another key feature was that IRA sign-up was very easy. So both the financial incentive part and the ease of saving part will come through we think in our results.

So what were those results? To jump to the chase let's look at what the different match rates do just to the share of people who are willing to contribute to IRAs. With no match, 3 percent of tax filers contributed to an IRA. At a 20 percent match rate, 10 percent contributed, and at a 50 percent match rate, 17 percent contributed. In other words, you see very significant increases, very statistically significant and meaningful increases in participation rates as you move up the match rate from zero to 50 percent.

Furthermore, if you look at those who were contributing, the amount that they contributed also went up for the higher—for the match rates relative to the control group. The left-hand bars are showing you what the individuals themselves who were contributing put into the account, and then the right-hand bars show you what happened with the match from H&R Block. So in particular, among those who were contributing, the 3 percent who contributed with no match, they were putting in an average of $856; the 17 percent who were contributing at the 50 percent match rate put in an average of $1,300 each, and then also received an extra 5 or 600 dollars from H&R Block.

Both of those effects boost the average contribution when you include both those who participated and those who didn't. So in other words, in this graph we're counting all the zeroes now. And this is really the key result. Take everyone who was made an offer and just take the average IRA contribution across everyone including the people who did not make any contribution whatsoever, and what you see if that contributions, average contributions a the 50 percent match rate were eight times as large as at the zero percent match rate, and if you include the matches themselves, even more so.

So you get very significant increases as you move up the match from zero to 50. Again, this is in a sense the key result. Higher match rates increased contributions significantly among the client base.

Now, there are a variety of ways of parsing the data into sub-samples. We found more significant effects from married filers compared to single filers. Here we're just showing you the participation rates. The key point there is that the blue bars are going up more sharply than I guess it is the yellow bars. And that is just showing you that the married filers seemed more responsible to the increased financial incentives represented by the 50 percent match than the non-married filers.

Similarly, the effects were somewhat stronger for higher-income married couples than for lower-income married couples. Again, the blue bars are the high-income married couples. The yellow bars are the low-income married couples. But I think it's very significant to note that even those yellow bars show a substantial increase as you move from the no match to the 50 percent match. This is for married couples in the lowest quartile of the income distribution.

So just to pause for a second, some people look at the results so far and say, "Well, duh, if you offer people stronger financial incentives, they tend to contribute more." But there's another piece of conventional wisdom which is that low-income households won't save or won't contribute to retirement accounts, more precisely. And this evidence contradicts that. If presented with a clear and effective transparent incentive to contribute to retirement accounts, even low-income households respond in a statistically significant and meaningful way.

You also see this if you split the sample between EITC recipients and non-EITC recipients. Again, even among EITC recipients—those are the yellow bars—you see very significant increases in participation rates as you move from a zero match rate to a 50 percent match rate. I want to emphasize again, because this study is randomized we can be much more confident that these results are due to the financial incentive than we can be with any other existing large-scale study that has been presented to date.

We also found some other interesting effects. For example, it turns out that the tax professional—and again, just imagine what happens here. You walk into an H&R Block office and you sit down in front of a table with—or a desk with a tax professional. The person who is the tax professional plays a very important role in the contribution decision. And particularly, if you split the sample by how many IRAs the—what the take-up rate for that tax professional was in terms of IRAs taken up by his or her clients before the experiment began, and said, okay, some of the tax pros are very good at demonstrating the benefits of contributing to an IRA, and some are not so good or less good. If you look at what we're calling the high-experience tax pros—those are the ones with the higher take-up before the experiment began—you see again a significant difference between them and the other, the low-experience tax pros.

So if you walked into an H&R Block office and you happened to be sitting with a tax pro who had more IRA take-up before the experiment began and you were offered the 50 percent match, you had 28 percent of such clients took up the IRA offer with the 50 percent match.

If you were instead teamed up with a tax pro who had less experience and a lower take-up in IRAs before the experiment began, 20 percent of those took up the IRA. So a significant difference by tax professional, and that's something that we talk about in the paper itself.

I'm going to turn over to Bill to finish out the rest of the findings.

MR. GALE: Thank you very much, Peter. And before I start, let me just extend my thanks to H&R Block for all the hard work and coordination and expertise that was put into this.

I want to offer two additional points to what Peter has said. One is in the nature of a caveat, and the other is in the nature of how to interpret the results.

The caveat is that of course you have to worry about people taking the money out of the accounts when the money comes out. Obviously, if all this money is gone in six months, the experiment is not as successful or in reaching the underlying policy goals as if there's a lot of money in there left after a year and 2 years and 5 years and 10 years.

Now, also, equally obviously, we don't know what happens in 6 months yet because we haven't gotten the data. We do know two things. One is that in the experiment there were actually incentives for people that got matches to game the system. If you got a 20 or a 50 percent match, you could put your money in a Roth IRA between March 5th and April 5th, get the match on April 15th, and then case everything out with basically no penalty on April 15th. So that wasn't something we deliberately built in but it was an artifact of the way the experiment was set up.

So a first concern is did everyone take their money out after April 15th? The answer is no. By May 2nd, of the 1,500 accounts only 8 withdrawals had occurred, only 8 complete withdrawals had occurred, and maybe 10 partial withdrawals. And that's out of 1,500 accounts. It's one percent of the accounts through May 2nd. So far we're very good on that score and we will continue to monitor that.

The other way to look at whether people were gaming the system is to see whether people who got the matches were more likely to put money into Roth IRAs to take the money out, because there's no penalty, than people that didn't get the match. The reason there is that if you put it in a traditional IRA and then take it out on April 15th, you own not only taxes but you owe a 10 percent penalty on the entire contribution, whereas if you put it in a Roth, it's the same tax treatment, given the deduction and their withdrawal, their contribution withdrawal, but there's no penalty.

It turns out that in the two match groups, about 60 percent of people in the two match groups put money into Roth and more than half in the no match group put the money into a Roth. So there's not any significant gaming of the system that we see in the data, and part of that is that when the tax preparers were trained, they were told very specifically not to tell people that this was a possibility.

I should also add that the tax preparers and H&R Block generally have an ethic of encouraging people to contribute to these accounts with an eye toward increasing retirement saving. There's literature out there in the offices that actually encourages people to do this, so it's not a surprising result, but it's something we wanted to check out, and we did.

The other set of facts which we think are very illuminating have to do with comparing our results to the results for the Saver's Credit. And to be clear, all the Saver's Credit data I'll show you is for tax returns that were filled out from January 1st until March 4th, that is, in the period before the experiment started.

The Saver's Credit, many of you know it quite well, but let me just talk through it. It's a credit for contributions that go into IRAs and 401(k)s. The credit starts at 50 percent for low-income households, and then it ratchets down to 20 percent and to 10 percent. Once you earn $50,000 a married couple, the credit goes away. Now, that's the credit rate.

The effective matching rate is different. Basically a 50 percent credit rate is the equivalent of a 100 percent matching rate. The way that works is, if you put $100 into a 401(k), the government gives you $50 back as a 50 percent credit. Well, that's the same as if you put in $50 and the government put in $50. In both cases you gave up $50 and you ended up with $100. So if you put in $50 and the government puts in $50, that's a 100 percent match. So the effective matching rate in the Saver's Credit is larger than it is in our maximum matching rate. The effective matching rate is 100 percent for households with income below 30,000, for married households with income below 30,000. Then it falls to 25, and then to 11. We're going to focus on this distinction between 100 and 25, which hits at this threshold of $30,000 for married filing jointly returns.

What we want to do is compare the response to that change in match rate to the response that we got in our experiment. To do that, let me just show you this graph. Oh, sorry, one more point about the Saver's Credit. It is not refundable. And

that means that even if you qualify on the basis of income, you may not qualify for the credit because you've used up—either you don't have any tax liability to begin with, or your income tax liability is offset by the child credit or other credits. So within every income level there are people that are eligible for a Saver's Credit and people that are not eligible for a Saver's Credit up to the $50,000 max.

So what this figure shows is the numbers on the bottom represent income ranges. So, for example, 29.5 represents anyone with income between 29,500 and 30,000. So that's the highest range of income that qualifies for the 100 percent match rate. So basically anyone to the left of the red line with income below 30,000 qualifies on an income basis for 100 percent match rate. Anyone to the right qualifies on an income basis for a 25 percent match rate.

Now, within each income group there are people that are eligible and not eligible. The eligible are the dark lines. The ineligible are the light lines. So there's two interesting facts here. One is as you cross over—look at the dark lines for a second—those are the Saver's Credit eligible taxpayers. As you cross over the red line, the match rate drops from 100 to 25. Roughly speaking, the participation rate drops from something like 6 or 8 percent down to 3 or 4 percent, if you just take sort of rough averages around there.

That's a much smaller effect than the experiment we ran where going from 20 to 50 raised the participation rate from 10 to 17. It's a much bigger change in the effective match rate here, but a much smaller change in the participation rate.

The other way to see that there's not an enormous impact here is to look within the group that's lower than 30,000. Here the eligibles are eligible for a 100

percent match. The ineligibles are eligible for no match. And yet, contribution rates conditional on income are really not that different in that range. So what we're finding is that the incentives embedded in the Saver's Credit are not as powerful as the incentives that are embedded in our experiment.

Let me say that one more time but a little differently. The incentives embedded in the Saver's Credit are not as powerful as the incentives plus the information provided in our experiment, and that makes us think that the provision of information is actually a very important part of getting people to participate in these accounts, and it points to the important role of basically third parties, in this case, tax preparers, in highlighting options for saving, in getting people to actually use the federal tax incentives that already exist.

Let me just summarize then. We have basically two broad sets of results. One is that in this controlled experiment with randomized match rates, we do find that higher match rates significantly raise participation and contribution levels. We believe very strongly, the evidence suggests very strongly, that that shift is due to the differential incentives, not to confounding third factors.

The other result is that a variety of results that we have, the Saver's Credit results, the tax preparer results, the lack of gaming that we found, all suggest that the provision of information is actually central to people's take up of these saving incentives, and that when we think about what works and what doesn't work in tax policy, we can't just look at the formal incentives. We need to look at the delivery mechanism also.

I will stop there and turn it back to Peter.

MR. ORSZAG: Thank you. I think we can now take questions or comments from the audience, or responses, or we can keep [inaudible] if you'd like us to.

Yes?

QUESTIONER: [Inaudible].

MR. ORSZAG: No. And in fact, the normal $15 set-up fee for the product called the X-IRA, which is the IRA that H&R Block uses for this purpose, was waived for all three groups.

QUESTIONER: [Inaudible].

MR. ORSZAG: Which wasn't the same for—across all the groups and the same for the people in this project as other H&R clients.

MR. : Tax preparation fees were not altered at all.

QUESTIONER: Did the match go into the IRA account or was that something [inaudible]?

MR. ORSZAG: The match went into the account, and in fact, we suspect that that's another potential difference with the Saver's Credit. There is one paper with regard to charitable contributions suggesting that a match for the same effective purely rational economic incentive—Bill had already mentioned that the 50 percent credit rate offered by the saver's Credit is implicitly a 100 percent effective matching rate. For that equivalency, that the matching contribution is more effective at inducing changes in behavior.

We suspect, but don't know—and this is something that we may be able to tease out in future work, that the same thing holds with regard to retirement contributions. In any case, the match went into the account just like a 401(k) match goes

into an account. It is worth noting on that point that new legislation that both Representative Portman and Representative Cardin—or I guess soon-to-be U.S. Trade Representative Portman—have introduced, involve transforming the existing Saver's Credit so that it also goes directly into the account rather than back into someone's pocket.

QUESTIONER: Was there any attrition with your program or people that declined that declined to participate from the beginning?

MR. : The 3, 10 and 17 percent rates are the people that actually contributed. The—it was only a one-off deal though, so there's no attrition in the usual sense.

QUESTIONER: But people had a [inaudible] allowing their information to be used by you for the study? I mean, like is it possible that people that were more receptive to saving incentives chose to accept the offer to participate, and those that weren't going to be interested in the savings declined and just—

MR. : That would be exactly what you would expect. That doesn't buy us the results in any way. I mean that's—you offer a subsidy for saving, you expect people—

QUESTIONER: Well, I mean—

MR. ORSZAG: Let me try to clarify it. The take-up rates were not among those who chose to participate. They were among those who were offered—made the offer, and basically as you move through time the vast majority of people were made an offer, and there was no bias across the match groups in terms of those offer rates.

QUESTIONER: Okay. And those people that were made an offer, they're still included in your data so they didn't have to make a decision to be in the data, so they were just automatically included.

MR. : No, no. There was a questionnaire that all tax pros let the clients know that there was a study going on, and those that got zero match also received the $15 offer, $15 off for the set up for the express IRA. They are indeed included. If they said yes, they want to participate, they're included in the study as the control group.

MR. ORSZAG: Yes?

QUESTIONER: It seems that the level of information that was provided, based on the fact that it was a one-on-one conversation, it was pretty personalized and high level of information. Have you all looked into the quality and the level of information and how that might affect participation rates? I mean, for example, it was even a difference between preparers who were good at explaining versus preparers who weren't. Have you all explored what level of information would be needed in order to make a difference? Does that make sense?

MR. ORSZAG: Yeah. Well, let me comment on that, and then, Bernie, please feel free to jump in.

While there was a difference between the high experience tax pro and the low experience low pro, it's worth noting that even in that low experience tax pro series there was a very significant increase as you moved to the 50 percent match rate.

I take from that that you can get stronger effects with folks who are more experienced in the field and presumably therefore better adept at explaining the pros and

cons of saving or contributing to a retirement account. But even in the absence of that you're still getting a very significant increase.

QUESTIONER: [Inaudible] — actually having a conversation one-on-one, versus handing them a piece of paper with the information on it.

MR. ORSZAG: Oh. And maybe one of the questions is therefore how much can we extrapolate these results to a broader population that is not always walking into an H&R Block office? I think there are two responses to that.

One is we do need to remember that the vast majority of returns are prepared either with the assistance of a professional tax preparer or using popular tax software. So in both contexts one can imagine a sort of customized type of either pop-up screen or discussion going on. I'll let Bernie comment more on exactly how that works, but again, a vanishingly small share of Americans are filling out their tax returns all by themselves without the assistance of either a computer or another human being.

MR. WILSON: So we have found, you know, in training 100,000 plus tax pros, seasonal tax pros year after year that it's really, really easy to do, especially while you on the fly change a program in a given city overnight. It's really simple to do.

That's a joke.

[Laughter.]

MR. WILSON: The reality is, to get this kind of impact even when training is imperfect and there are different levels of readiness, the reality is an adviser for a low-income person who is not only inexperienced but is a typically chronic non-saver, the advice and that personal relationship indeed works. Now, that's from my

perspective. I think Peter and Bill may have a different opinion, but I think that's central to one of the conclusions.

Now, is there an opportunity to create a pop-up interstitial in an online application or a software application? Yes, and we've done that. But the impact is far less when you're face to face with someone. It's really no different than a high-income person working with a financial adviser who is advised to stay in the market, don't get out because things are going down, stay in the market, and it is again our experience that low-income savers haven't had that kind of one-on-one advisory relationship, and they respond just like high-income earners when they do.

MR. ORSZAG: One other comment worth making about this sort of—two other comments quickly on the extrapolations or potential extrapolations from this study to the overall U.S. population. One is, do remember that our sample is folks who file between March 5th and April 5th, and it's possible that they differ in some ways from people who file earlier or who file right at the end. We don't necessarily have any reason to suspect that's true, but that's just one word of caution.

Another thing that's worth noting is some of our academic colleagues actually had anticipated that we wouldn't get any effects here at all because the experiment lacked the sort of social network, people talking about the importance of this, the effect of the incentive and what-have-you, and that that would actually magnify the responsiveness. So there are potentially offsetting effects, but at least that one would suggest that if anything, these results underestimate the overall effect that you could potentially get.

Helen?

QUESTIONER: I have a couple of questions. First of all, there's always been a question with retirement accounts, although the Roth to some extent solves this, about whether people who might otherwise be willing to save don't want to lock it up.

MR. ORSZAG: Right.

QUESTIONER: And so I know Block does offer some non-retirement savings plans also. Do you have any comparable data?

MR. WILSON: Outside of this study?

QUESTIONER: Yes. Like compare that—

MR. WILSON: Over the last 4 years or so we've opened about 500,000 express IRAs, allowing the client to automatically deduct from their refund and move it into an IRA, FDIC-insured money market account, what we just used in this experiment. And we've seen asset persistency and account persistency in the 85 percent range year over year, very, very typical with a financial services company or a bank in terms of retention. So—

QUESTIONER: I'm actually asking a slightly different question.

MR. ORSZAG: Yeah. We don't—the experiment was only run on the IRA, so we don't know how much the ability to have certain pre-retirement withdrawal or liquidity—you know, more liquidity associated with the account, what effect that has. We do plan to do some future work with H&R Block and that's one of the types of things that we will, I think, be able to explore more. But the short answer is, at least within this experiment we don't have any direct evidence.

However, we do have some indirect evidence. The share of contributors choosing a Roth as opposed to a deductible was roughly 60 percent for the match groups

and only just slightly under that for the no match group. It doesn't seem to have varied in any significant way across the match groups. I don't know if you want to read too much into that, but if people were really strongly worried about that facet of things, you might expect that a higher share going into the Roth. It comes back to the gaming question that Bill also raised.

MR. WILSON: We also—we've run a couple of tests on non-IRA savings accounts. The initial take-up rate is higher than the IRA, but the runoff is much faster.

QUESTIONER: I also just have a technical question. When you divided the population into quartiles, was that the population of filers or is that the U.S. income population, the entirely U.S. population or what?

MR. WILSON: It was the U.S. income.

MR. ORSZAG: Although it's worth noting the means weren't that far off for our population versus the overall.

QUESTIONER: [Inaudible].

MR. ORSZAG: Oh, yeah. And also people without earnings. So there were people who were ineligible, but it was a very, very small share of the population.

QUESTIONER: [Inaudible].

MR. ORSZAG: Sure, go ahead and jump.

QUESTIONER: I just wondered if the match is considered income to the people that participated in the test for accounting in 2005 have to declare it in April?

MR. WILSON: It is.

MR. ORSZAG: Yeah, we—

QUESTIONER: I imagine you might follow up with [inaudible].

MR. ORSZAG: No. We struggled with that and there was a whole process of that, so, yes, it is. Don't worry; the tax preparation firm got the tax treatment right.

MR. WILSON: And they knew that.

QUESTIONER: I think that effectively changes the rate of [inaudible].

MR. ORSZAG: Yeah, it does, yeah.

QUESTIONER: Do you have plans to continue to monitor these accounts to see the extent of the withdrawals in the future.

MR. ORSZAG: Yes.

QUESTIONER: How often? What are plans?

MR. ORSZAG: As often as Bernie will give us the data.

MR. WILSON: So, you know, we'll continue to—we held focus groups with clients, and we're going to continue to check in both on, you know, the level of retention in the accounts that we have as well as ongoing panel analysis of, you know, surveys that clients filled out when they were in the office.

MR. ORSZAG: Let's go into the back. Okay. Beau?

QUESTIONER: Would you speak to the level of new savings instigated by this as opposed to people who had already contributed to an IRA earlier in the year and then came and were able to get a match versus people who had not had an IRA at all or not contributed to it until they sat down at the—for tax filing? And what those implications might be extrapolated.

MR. WILSON: The question is whether if someone had contributed to an IRA earlier in the year whether they then got the match at the tax preparation time.

MR. ORSZAG: How much is coming from new savers versus people who may [inaudible].

MR. WILSON: Oh. The short answer is we don't know. The longer answer is that we suspect that given the income groups involved that there's less shifting than there would be at very high-income levels. But that's also something that we'd like to pursue more closely in future research.

MR. ORSZAG: And just to sort of add to that, we obviously do know whether people had made prior IRA contributions before they filed their tax returns. What we don't know is whether they're displacing other saving to make these IRA contributions, and that's something that again we're hoping in both future work and through ongoing monitoring to get a better handle on. But our suspicion is that much of this is new saving—new contributions.

Yes?

QUESTIONER: [Inaudible.] and the experiment and if you expect to have a significant difference given a permanent income perspective or something?

MR. ORSZAG: We do now have—when we did the initial analysis, we did not control for age. We do now have age as an additional variable. I'm not sure that the results have changed in any significant way.

MR. WILSON: One of the nice things about truly randomized experiments is that if age is distributed randomly across these two groups, it's not going to affect the results. There's no reason a priori to think that it's not. I mean you could

have some sort of sample imbalance in age, in which case you need to control for it, but if it's distributed randomly across the groups, it's not going to affect the results.

QUESTIONER: [Inaudible] people did not [inaudible]?

MR. WILSON: No. The only—we don't, as Peter said, we don't have the age variable in, but you would expect that that kind of pattern, the question is would that bias the results? Would that affect the results? The answer is no if the distribution of young and old people is the same in the control group as it is in the 20 percent group as it is in the 50 percent group.

MR. ORSZAG: We are going to also be doing a revised version of this paper for an academic audience, and in that context, we'll include more analysis of age.

Come back up here.

QUESTIONER: Besides [inaudible] how much they contributed [inaudible] and the amount of refunds would they get?

MR. ORSZAG: Technically, no. But again only the contributions only up to $1,000 were eligible for the match. So you could put in more than a $1,000 up to the IRA limit, and just not have those additional funds being matched. And there were other ways of funding the IRA, not just out of your

MR. WILSON: They could write a check if they wanted to.

MR. ORSZAG: Or sign up for monthly

MR. WILSON: Monthly deposits.

MR. ORSZAG: Over on this side.

QUESTIONER: Did you look at all at the use of rapid refunds and whether people might have been less likely to choose that if they were at least told about the option of saving?

MR. WILSON: Controlling for whether—if someone got a refund that was $500 or more, which is big enough to fund the minimum contribution of $300 plus pay whatever state taxes you might need, there was a—I think there was about a five to six percentage point increase in their likelihood of participating in the IRA. Peter is actually going to get the numbers.

MR. ORSZAG: Well, no. And I was going to say—the short answer is we didn't directly analyze that. But we have sort of proxies, so one thing is the, you know, did you even have a positive refund. Did you have a large refund?

We also had a variable looking at whether you had a bank account, with the argument being that people who are more connected to the financial services industry may behave differently than those who are not. And that variable was significant. Those who have a bank account were more likely at least—I'm sorry—significant in one case at the 20 percent match rate were more likely to take up the 20 percent match. But interestingly at the 50 percent match, it was not significant.

In the back, over there?

QUESTIONER: Do you have any research that shows whether the current economic situation proportionately—well, if varying income levels are likely to save proportionately, so—I guess to rephrase it. Are lower income people less likely to save when the economic situation is bad as opposed to higher income people?

MR. ORSZAG: Well, we only did this study at a single point in time, so it's—we can't directly answer that. We did again find that high-income households were more likely to respond to the incentives than low-income households, but—and this a crucial but—low-income households also participated at quite significant rates when presented with a transparent and easily understandable match and an easy way to save. So I can't directly answer your question, but my strong suspicion is that those two key pieces—making it easy to save and presenting an effective transparent incentive to do so—are the keys to encouraging, along with professional assistance and all the other elements that were sort of surrounding this experiment are the keys to getting low- and middle-income households to save, and there may be some other effects regarding their expectations of future income growth and current economic conditions and what have you, but at least over the business cycle, these two keystone—sort of these two foundations will yield impressive results, I think.

Yep?

QUESTIONER: [Off mike.] —and it relates to the IRA question sort of the source of funds. The savers' credit is available for 401(k) contributions

MR. ORSZAG: Yeah.

QUESTIONER: I'm assuming this is only for IRAs.

MR. ORSZAG: Correct.

QUESTIONER: So are you—do you control for prior contributions to a 401(k)? And secondly, on the source of funds, you know, with the existing literature, some of Bill's research, you know, one of the differences between 401(k)s and IRAs is that you sort of—the IRA is sort of a one point in time. And so then it's more likely to

be transferred, so a little more detail on where they got the money or is it mostly coming from the refund or just in checks and so forth?

MR. ORSZAG: I think most—I mean again I think most of the contributions were coming directly from the refund.

MR. WILSON: They are.

MR. ORSZAG: That was

MR. WILSON: I mean our experience again with these half a million IRA accounts that we've set up overwhelmingly 90 plus, 95 plus percent are coming from the refunds so people don't feel the pain in having to write a check. So I don't know if that answers your question directly, but our experience has been it's mostly coming from the refund.

MR. : I'm sorry. It's late in the day. What was your first question?

QUESTIONER: Do you

MR. ORSZAG: 401(k)s versus

QUESTIONER: 401(k) contribution versus

MR. : Oh, we don't. We don't, but again this is one of those things—if the randomization worked, then we're okay.

QUESTIONER: [Inaudible] on that point, and [inaudible] questions you have here. I mean one question would be why didn't the people contribute, and so it would

MR. : It's unlikely that the answer is that 83 percent of them are contributing to their 401(k).

[Laughter.]

QUESTIONER: How can you be sure of?

MR. ORSZAG: But again, this is

MR. : No. The participation rate among eligibles in that—in low—you know, with 20,000 low isn't trivial, but maybe it's 30 or 40 or 50 percent among eligibles. But the eligibility rate is really low. So it's maybe 15 or 20 or 25 percent.

So it can't be that a large share of these households—or that the 401(k) contribution explains why 80 percent are not contributing to the IRA.

MR. ORSZAG: This is also something, though, that we—I mean again the randomization should take care of it, but that we can actually test for because the elective deferral. As long as—it will be in the

MR. : Oh, yeah. Certainly.

MR. ORSZAG: So it's doable. And I'm going to write myself a note to do it.

How about over here?

QUESTIONER: Just a question about the IRA. Is it invested? Do they have a choice about where to invest? Whether—what combination of—what mix of stocks and bonds to invest in or?

MR. WILSON: No. No. It's FDIC insured money market accounts. So it is simple bank interest. Again, the audience that we're talking about are chronic non-savers. It's not about investors who are looking to put their money at risk. Principal preservation is the most critical. It's really about helping people start to save.

MR. ORSZAG: In the back.

QUESTIONER: This is sort of a follow on to that question. You set up a simplified study in the sense that people don't have to make an investment decision. I wonder if you could just comment on what impact of acquiring that second level of decision making at the time of the contribution would—what impact might that have on participation decisions?

MR. ORSZAG: Yeah. I'll actually refer to another retirement security project brief that we've just put out that Bill Gale co-authored with Mark Iwry about audit—what we call automatic investment. And we think that it's critically important that on a much broader scale, including in 401(k)—especially including in 401(k) plans, but also in this context that default investments be sensible so that people who don't decide are put into—well, into various portfolios that make sense and so you don't force them to decide if they don't want to, because there is a variety of research suggesting that if you have too many choices, people freeze and pull back from it.

So if this kind of, you know, basic match were adopted on a broader scale, one would not want to have the individual to have to choose the match and then have to chose from one of 50,000 different investment portfolios as part of the requirement. I think that would significantly impeded access.

Again, the two key messages making it easy to save and then providing a transparent incentive—too many choices are conflict—are in conflict with that first point.

MR. WILSON: And the other point I would add to that is, as Jeff Brown said on the call yesterday, similar to life insurance accounts, products like these are sold, not bought. To the extent that the tax professional also has to learn four or five different

kind of offerings, they're—you know, the efficacy in that offer reduces because it's that much more confusing for them, and in turn that same confusion gets transferred to the client.

So a simple, easy here's one solution start to save. We'll worry about, you know, other investment choices later.

MR. ORSZAG: Just really quickly. This is part of a broader theme that the retirement security project and others are highlighting, which is we have to make the whole system, as Bill Gale often points out, you should not need a Ph.D. in financial economics to navigate the pension system. And so the whole thing should be a lot easier in terms of the defaults, with sensible things happening if you want to be spending your weekends with your kids instead of reading through thick manuals of financial options.

QUESTIONER: Peter, you had mentioned on a call yesterday, I guess in response to that question there about how do you consider [inaudible] for people who wouldn't participate. The zeros and the control group, and I thought that the focus group information of why people might not have contributed at all when they were getting a 50 percent match I thought was pretty interesting. I wonder if you wanted to repeat it here about if you had given these people notice several months ahead of time that they might get a match, and so.

MR. ORSZAG: Okay. I think you already—you just did. But I'll

[Laughter.]

MR. ORSZAG: Again, I think not only—you have to remember this experiment was run from March 5th to April 5th. People would often walk into the H&R Block office not having heard at all about this thing, and then be presented with

this offer. There wasn't time to plan ahead. There wasn't the social networks that can—or only limited social networks that kind of evolve, and in the focus groups that were done among those who were not—who did not chose to participate, some of them said, well, if you had told—you know, if I knew this was coming, then I could have arranged my affairs such that I'd be able to take advantage of it, but now I mean I've already committed that money to paying off this or that or what have you. I can't do it.

And that—I don't want to say that everything points in the direction of getting larger effects if this were done a broader basis and with more advance notice. But there are several thoughts, including that one that point in that direction.

MR. WILSON: Yeah. Could I just follow up on that. Again, the actions speak louder than words here, and the saving problem is a situation where people's intentions are systematically different from their actions.

So if someone says, oh, if you had told me three months ago, I would have said, you know, or if you told me three months ago, they'd say, oh, if you told me six months ago, you know, I would have said.

So I think it's right to be inherently skeptical of statements like that, but I think also there may be something to the statement in the following sense: There has been this whole—there's this whole industry that's evolved over sort of capturing people's refunds before anybody else does. So, you know, if some car dealerships fill out people's tax forms, and then let them use the refund as a down payment on a car. You know, and there's all sorts of—there's all sorts of competition to get the refund. So if the saving uses can get some advance notice and get in there on a, you know, a level playing field, that probably would actually help just by raising the visibility of the idea

that hey, you can save your refund. You don't have to blow it on—well, on anything. Or you don't have to blow it now. You can save it and blow it later.

[Laughter.]

MR. WILSON: So I think that's the mechanism through which advanced notice would help. I'm not entirely convinced that people would say, oh, I will let this money sit there and defer consumption for three months, because I know this option is coming up, even though in my entire life before this, I've never been able to defer consumption and save money, so.

MR. ORSZAG: Right here.

QUESTIONER: Have you looked at race?

MR. ORSZAG: We have not looked at race, and we do know that there is—and I'm not even sure—do you collect data on?

MR. : We do not. We do not.

MR. ORSZAG: Yeah. But there is—right so, there's your answer. There is an identifier for people—Latinos

MR. : Primary language.

MR. ORSZAG: A language identifier that we could examine, but in doing some of the preliminary analysis, it wasn't clear that that corresponded that well to aggregates that we have on the population of, say, Spanish speakers. So the short answer is no.

Any other questions? Yes?

QUESTIONER: Did you use a variable that [inaudible] have some kind of employer-sponsored plan, retirement plan?

MR. ORSZAG: No. We have not done that, but it's now on the list.

MR. : We have the data to know. We have the data to know.

QUESTIONER: I think that might be interesting.

MR. ORSZAG: Yeah.

MR. : Yeah.

MR. ORSZAG: Any other questions? Yep?

QUESTIONER: [Off mike.] [Inaudible] —you know, whether or not they participated on the amount of their refund?

MR. WILSON: No. We only looked at whether the refund was above or below $500, and the reason is—the reason we chose a threshold was because the amount of the refund is endogenous to a lot of other stuff that's going on, and so it's not an entirely kosher right hand side variable to begin with. The reason we chose the threshold of $500 was because those people were certainly—certainly had enough in the refund to fund the minimum contribution.

QUESTIONER: And then can you estimate how much in H&R Block's resources you put into this experiment?

MR. : Yeah. I think we mentioned it on the call yesterday. About $500,000.

MR. WILSON: Plus blood, sweat and tears.

MR. ORSZAG: Yeah. I was about to say. That—to their credit.

MR. WILSON: And in

QUESTIONER: [Off mike.]

MR. ORSZAG: Yeah.

MR. WILSON: Just the matching and

MR. ORSZAG: Direct matching.

MR. WILSON: And, you know, a little bit of administrative—there were training sessions that went on and some marketing materials in the office. And we should also note that obviously Peter and Bill and their team did an incredible job of putting it together, but also the 600 tax professionals who really, you know, had to learn this program and execute it—executed it flawlessly.

MR. : The conference calls alone were probably another half million dollars.

MR. ORSZAG: If you valued our time at 10 cents a minute; right.

[Laughter.]

MR. ORSZAG: Any other questions? Right here.

QUESTIONER: Is there any plan to replicate it to see if you yield the same results?

MR. ORSZAG: We are hoping that we can do actually an expanded version of this basic design next year, assuming that we can get funding and assuming that we continue to have the good graces of H&R Block.

MR. WILSON: Well, you know, that's actually a great point. I mean this is not dissimilar to a lot of things that H&R Block has been doing. Our client base is largely EITC recipients, low-and moderate-income families, unbanked families. So helping them learn how to save is a critical, you know, mission of ours. So these kinds of things are helping us learn how to do that and do it in a scale that we can actually make a difference in millions of people's lives.

MR. ORSZAG: All right. I think I will call this to a close and thank everyone for coming and—the meeting was adjourned.

[Applause.]

[END OF RECORDED SEGMENT.]