

Early Concept Document

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# CONCEPT DOCUMENT

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## INTRODUCTION

The current structure of retirement incentives does little to help those who have the fewest resources. The vast majority of the nation's \$367 billion in asset incentives helps households earning more than \$80,000 a year according to *Build Wealth and Reward Savings: Expand the Saver's Credit (HR 1961)*. While taxpayers making less than \$48,000 (60% of Americans) share a little less than 3% of these benefits, the top 1% of households, whose average income exceeds \$1.25 million, receive more than 45% of the subsidies.

Consider these shocking statistics:

- Only 52% of households now own a retirement savings plan.
- Low-income workers are much less likely to save for retirement than their higher income counterparts.
- More than 92% of low income workers are not participating in a 401(k) type plan because many of them are not offered a retirement plan by their employer.
- Only 37% of those earning under \$30,000 annually have access to a retirement account at work.
- 50.6% of those in the lowest income quintile who were eligible to save for retirement through an employer sponsored plan declined to participate. By contrast, only 5% of eligible workers in the highest income families (those with incomes in the top 10% of the distribution) declined to participate.
- Of households in the lowest quintile, only 10% even have retirement accounts. Only 35% of households in the second lowest quintile have retirement accounts. Thus, more than one in five households is asset poor.

## EXECUTIVE SUMMARY

The Savings Exchange empowers low income individuals with valuable financial literacy and ongoing support while providing small businesses with a low-cost financial service alternative. Using the Weight Watchers concept of monthly support meetings to reinforce savings practices, the Savings Exchange also provides participants with an IRA savings plan which may not have been available in the past. This savings club concept is to encourage retirement savings and maximize savings opportunities for the consumer.

## OPPORTUNITY

The financial challenge introduced above provides credit unions with an opportunity to serve the underserved while creating a differentiation from other financial services providers. This supports member relationship development and the credit union philosophy of "people helping people". In addition, this opportunity presents credit unions with a chance to build relationships with small business services clients, community organizations (such as churches), or select employee groups (segs) within the credit union's field of membership. The avenue for this connection is the Savings Exchange program.

## ENVIRONMENTAL SCAN

There is a lack of financial education about the Saver's Tax Credit. The Saver's Tax Credit was designed to provide a saving incentive for low- and moderate-income households. However, its final structure has led to its complete under utilization. More than 50 million households are eligible for the Saver's Tax Credit, yet only 5.9 million individual income tax returns claimed the credit. This underutilization is due to the complexity of the credit and its inability to reach the vast majority of low-income households. Saver's Tax

Credit claims were \$997 million in 2007. In 2006, the most recent year for which complete figures are available, the average savings for those filing jointly averaged \$213.<sup>1</sup>

Under current law<sup>2</sup>, low-and middle-income taxpayers may claim a Saver's Tax Credit of up to \$1,000 (\$2,000 for couples) if they contribute to retirement savings plans. The credit equals the credit rate times up to \$2,000 of contributions to IRAs, 401(k)s, or certain other retirement accounts by each taxpayer and spouse.

See credit rates and income levels in chart below.

Saver's Credit Rates by Tax Filing Status and Adjusted Gross Income			
Credit Rate (%)	Income Tax Filing Status		
	Married filing jointly	Head of household	Single, Married filing separately, or Qualifying widow(er)
50	Up to \$33,000	Up to \$24,750	Up to \$16,500
20	\$33,000 - \$36,000	\$24,750 - \$27,000	\$16,500 - \$18,000
10	\$36,000 - \$55,500	\$27,000 - \$41,625	\$18,000 - \$27,750
No credit	Over \$55,500	Over \$41,625	Over \$27,750
Source: Internal Revenue Service Form 8880: Credit for Qualified Retirement Savings Contributions, 2009			

At the same time, employees of small businesses lack access to retirement accounts that could make them eligible for the Saver's Tax Credit. In fact<sup>3</sup>:

- Almost 72% of workers in small companies have no retirement plan available through the company; an additional 9% have a company-sponsored plan available but do not participate. Only 19.5% of workers in small private sector companies report participating in a retirement plan.
- Age, marriage, and educational attainment positively affect the likelihood of participating in a firm's retirement plan. This holds true for full-time and part-time workers.
- Defined benefit plans are most likely to be sponsored by large businesses; almost 32% of workers in large firms report the availability of a defined benefit plan compared to 25% of the workers in small

<sup>1</sup> C. Wayman. (2010) *Build Wealth and Reward Savings: Expand the Saver's Credit (HR 1961)*. Washington, DC: CFED.

<sup>2</sup> IRS Form 590

<sup>3</sup> K. Kobe. (2010). *Small Business Retirement Plan Availability and Worker Participation*. Washington DC: SBA.

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businesses. Defined contribution plans are the type of plan most often reported by both groups. About 75% of small business workers and 70% of large business workers report that their firms sponsor such a plan.

- One of the reasons why smaller firms may not offer retirement plans to their workers is the cost of setting up and running a retirement plan. Workers who do not participate in employer-sponsored plans frequently cite eligibility requirements and an inability to afford contributions as reasons why.
- A number of government programs have sought to simplify retirement plans in order to encourage more small businesses to sponsor them. These efforts have met with limited success and come with a cost.

On April 2, 2009 *H.R. 1961: Savings for American Families' Future Act of 2009* was introduced in Congress. This bill is to amend the Internal Revenue Code of 1986 to include the following:

- Expand the availability of the Saver's Tax Credit to additional middle-income working families by raising the income eligibility form families from \$55,500 to \$65,000;
- Match 50% of the first \$1,000 of savings for families (\$500 for singles);
- Automatically deposit matching funds into designated personal retirement accounts by using account information listed on IRS tax filings through IRS form 8888; and
- Index contribution limits for inflation.

President Obama has promised to ensure that savings incentives, like this bill, are available for all workers by creating a savings match for low- and middle-income Americans. The bill has been referred to the House Committee on Ways and Means to be deliberated, investigated, and revised before going to general debate.

## SOLUTION

**Automated IRA Savings:** An IRA designated club savings account with a low minimum balance of \$10 specifically designed to take advantage of the Saver's Tax Credit. The IRA account will have the option to convert to an IRA certificate once the savings has reached a certain balance. Members will have the ability to automate this savings through direct deposit offered at the member's employer.

**Savings Exchange Program:** A savings club similar to a Weight Watchers style program. The purpose of Savings Exchange is to get low-income savers to accelerate their retirement savings by taking advantage of the Saver's Tax Credit and to empower participants with strong financial habits.

Participants may be given a savings guide map to mark progress and reward goal achievements or milestones. Just like Weight Watchers, participants will "weigh in" with savings before a meeting and be given special tools to help save. Each meeting will focus on a theme with tracking tools to make saving easy and fun. On-going motivation, support, savings tips, videos and encouragement from savings coaches will guide members to build retirement savings, maximize their tax advantages, and enhance their financial lives. Each meeting will have a theme. For example:

- What is a Budget?
- Filing Tax Returns
- Savings Habits
- Home Buying
- Earning the Saver's Credit
- Preventing Fraud
- Cash vs. Credit

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- Avoiding Payday Loans
  - Credit Scoring Game
  - The Power of Interest

In addition to the lesson plans, each sponsoring organization will have pre- and post-test/checks available for participants to gauge their general financial knowledge as well as rewards for achieving savings goals. Rewards are defined by the participating credit union (or employer) and can be an additional dividend on savings in the specified IRA savings account, time off for participating in a Savings Exchange event (as defined by the employer), or simply a badge/star for achieving specific goals. Employers will also receive guidebooks of “why” and FAQs of the program (statistics, how to help, why get involved) as well as themed posters and handouts for each event type. Sponsoring organizations can be employers for “at work” programs (or clubs or churches) in local communities. These organizations will have access to [www.savings-exchange.com](http://www.savings-exchange.com) for additional support, videos, or downloads.

To give the program scale, we created a turn-key pilot kit for credit unions so they can easily implement the program in their own shops. The kits include all the materials including passbooks, instructions, financial literacy materials, games and presentations.

## MEMBER BENEFITS

- Valuable financial literacy
- Ongoing support and encouragement to save
- Opportunity to automate retirement savings via direct deposit
- Savings for retirement

## CREDIT UNION BENEFITS

- Add small business services clients to membership
- Potential new select employee group (seg) growth
- Serve an underserved market
- Increase member loyalty
- Increase deposits

## TARGET MARKET

The identified need for savings requires a program that includes behavioral change. Consumers within the field of membership of a pilot credit union who may be in low- and middle-income tax brackets are ideal for this plan and are the primary target market for the Savings Exchange program. Those consumers in small employee groups without an opportunity to save through an employer program are of the greatest need for Savings Exchange. A secondary target market is small business services clients, community organizations (such as churches), or select employee groups (segs) within the credit union’s field of membership.

## OPERATIONAL AND OTHER CONSIDERATIONS

### Emergency Funds

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According to a recent Harvard Business School study, 46% of Americans have reported they cannot get their hands on \$2,000 in 30 days. This leads to the concern that participants in the Savings Exchange program will need access to funds in the event of an emergency. Since these funds are designated for retirement, they are not easily accessible. An ideal solution is to marry this program with the “Two Grand Plan”, another Filene i3 program. The “Two Grand Plan” offers a savings plan to assist the member in establishing a \$2,000 savings goal and provide the participant with a low-interest loan in case of a qualifying emergency.

### Compliance with IRS Requirements

Savings Exchange program offers education on completing a tax return and filing for the Saver’s Tax Credit. This program should be partnered with the IRS Volunteer Income Tax Assistance Program (VITA) or CFED’s Self-Employment Tax Initiative for tax related questions.

### Grant Request

On June 30, 2010 the team submitted an innovation grant request to the National Credit Union Foundation (NCUF) to bring this program to scale so that kits can be fully developed / deployed and so that more credit unions are able to take advantage of the program. This grant request supplements an endowment of seed money from Filene Research Institute and is endorsed by the Corporation for Enterprise Development (CFED).

On September 28<sup>th</sup>, we received word that the National Credit Union Foundation has identified Savings Exchange as a project for partial funding! The official amount and date of funding are to be determined.

## PROOF OF CONCEPT

Through local chambers of commerce, select employee groups, and community organizations; we strategically interviewed and surveyed business owners and employees from across the U.S. regarding the program. The results were not broken down by type of respondent. We found that 17% do not or are not offered a retirement plan while 17% are offered a type of retirement plan other than a 401(k) plan. When asked about Savings Exchange 11% really liked the program as described while an additional 17% liked the program but think it needs some changes to fit their specific needs. Of the respondents, 61% stated they understood the program as described. Those who indicated they did not understand the program had questions regarding the Saver’s Tax Credit and the specific benefits to the employee or employer. The topics considered most beneficial are budgeting, avoiding payday loans, preventing fraud, learning savings habits and understanding credit.

The grant from the National Credit Union Foundation will fund materials for Savings Exchange pilot programs to further test the proof of concept.

## GETTING STARTED

1. Ensure your organization supports an IRA savings account with a low minimum balance to open.
2. Identify target select employee groups (segs), employers, departments, or organizations.
3. Gather supporting information and schedule visits with specified HR groups to get endorsement for regularly scheduled events.
4. Identify savings coach to conduct regularly scheduled events.
5. Visit [www.saving-exchange.com](http://www.saving-exchange.com) for supporting documents/instructions.
6. Market the program.

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## MARKETING TACTICS

A simple and inexpensive method to generate leads is to train front-line staff to pre-screen potential participants as part of conducting daily transactions. Once an employee group or business is identified, approach the specified HR department or business owner to discuss needs and describe what the credit union is able to offer.

Another option, depending on your field of membership, is reach out to the Chamber of Commerce in your market area. The Chamber may allow you to present an overview of the program detailing features and benefits.

Lastly, a credit union could use traditional marketing channels, such as statements stuffers, branch signage, websites, and mass media, such as radio and television. It is recommended that a credit union apply some level of segmentation to reduce overall marketing costs, as the program is unlikely to generate significant income (more goodwill and loyalty than profitability).

A website was also designed to promote the program and provides credit unions with supporting documents: [www.savings-exchange.com](http://www.savings-exchange.com).

## PROJECT TEAM

Filene i<sup>3</sup> is a creative group of insightful and energetic credit union professionals who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit [filene.org/home/innovation](http://filene.org/home/innovation) or email [innovation@filene.org](mailto:innovation@filene.org) to learn more. The team members from Filene i<sup>3</sup> and innovation partner CFED who developed this idea are:

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