

Pew Analysis Finds That Nearly 3/4 of Children of Low-Income Parents With High Savings Move Up From the Bottom

WASHINGTON—Children born to low-income parents with savings above the median level are more likely to move up the income ladder as adults (71 percent do) than those whose parents are low-income and low-saving (only 50 percent move up from the bottom rung), according to a new report released today by Pew’s Economic Mobility Project. *A Penny Saved is Mobility Earned: Advancing Economic Mobility through Savings* similarly shows that within an individual’s lifetime, savings increases one’s chances of being upwardly mobile – 34 percent of the adults who had low-savings and were in the bottom income quartile from 1984-1989 had moved up from the bottom by 2003-2005, whereas 55 percent of those who had high-savings moved up by the same time period.

“It is clear that having savings is important to Americans’ ability to realize the dream of upward mobility, particularly for those who start at the bottom of the income ladder. Federal policy can and should be better designed to ensure that it does not deter individuals from saving, and to enable more Americans to access the significant incentives the government currently makes available to people to save,” said Ianna Kachoris, manager of the Economic Mobility Project.

The report also found that states often apply differing eligibility rules for access to public assistance programs, such as Medicaid and food stamps. These conflicting standards can create powerful disincentives for low-income populations to save money. Reid Cramer and Rourke O’Brien, both of the New America Foundation and two of the report’s authors, suggest that by making asset limits across public assistance programs more consistent, many barriers to savings for low-income populations can be removed. Ultimately the report’s evidence suggests that with greater savings, low-income Americans will have an easier time moving beyond public assistance programs.

The federal government is estimated to spend \$130 billion in fiscal year 2010 on tax incentives that encourage Americans to save for retirement, education, and health needs. These benefits flow largely to higher income households. For example, tax filers in the top income quintile in 2004 received 70 percent (\$1,838 per tax filer) of the total federal tax benefits associated with 401(k)-like plans and IRAs, while those in the lowest income quintile received only 0.2 percent (\$6 per tax filer) of the benefits.

“There are numerous options the government could explore to help those at the bottom of the income ladder begin a culture of savings, including creating savings incentives, simplifying tax rules and special accounts, and providing broader access to retirement plans. These adjustments could make a significant difference in the lives of those who need it most,” said Reid Cramer, Director of the Asset Building Program of the New America Foundation.

The policy suggestions outlined in *A Penny Saved is Mobility Earned* reflect those that the Economic Mobility Project recently released in *Renewing the American Dream: A Road Map to Enhancing Economic Mobility in America*, and do not necessarily represent the views of The Pew Charitable Trusts.

Comprised of a Principals' Group of experts from the American Enterprise Institute, the Brookings Institution, the Heritage Foundation, the New America Foundation and the Urban Institute, with guidance from an Advisory Board of leading academics and economists, Pew's Economic Mobility Project seeks to investigate the health and status of the American Dream.

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