



**STATEMENT OF  
ROBERT WEINBERGER, VICE PRESIDENT, H&R BLOCK  
“ENCOURAGING SAVINGS AND INVESTMENT:  
STAY THE COURSE OR CHANGE DIRECTION?”  
SUBCOMMITTEE ON TAXATION, SENATE FINANCE COMMITTEE  
JUNE 30, 2005**

Mr. Chairman, thank you for the invitation to share H&R Block’s experience in helping low- and middle-income Americans save.

H&R Block serves nearly 20 million taxpayers at 11,000 offices across America (including 249 offices in Arizona and 21 in Vermont) and via online and packaged tax preparation software.

In our 50<sup>th</sup> year, we are evolving from a firm devoted to helping families deal with their tax filing responsibility to one that provides help with a broader range of financial issues, including advising our clients on how to save for college, home ownership, and retirement.

Americans face serious challenges in saving for retirement. Many are without work-related defined benefit pension plans and have little or no savings in tax-advantaged IRAs, 401(k)s, and other personal retirement accounts. Social Security benefits alone may be insufficient. With savings rates declining, the gap between what is needed and what is actually being saved is growing. The problem is particularly acute for low- and middle-income Americans.

**The “Saver’s Credit”**

As the Subcommittee considers ways to close the savings gap, it may find our recent experience with the Retirement Contributions Savings Credit, or “Saver’s Credit,” useful.

Enacted in 2001, the Saver’s Credit provides a tax credit of up to 50% for contributions to 401(k), IRAs, and similar retirement plans. It covers more than 60 million taxpayers with incomes up to \$50,000, to the extent of their income tax liability.

While its coverage is limited, the Saver’s Credit has been very successful in encouraging retirement savings for at least five reasons:

- First, the credit relies on personal responsibility. People can’t claim it unless they are willing to make a substantial commitment to their futures through their own contributions.
- Second, it uses tax time to promote savings. One hundred million tax filers have refunds averaging \$2,100. With nearly 60% using professional tax preparers, the run-up to April 15 is a once-a-year opportunity for a family financial check up and a chance to turn good intentions and savings advice into action.
- Third, it supports the existing private retirement system, leveraging the well-known structure of IRA, 401(k) and other vehicles and encouraging eligible taxpayers with low and moderate incomes to use them.

- Fourth, the credit rate of up to 50% (which can be an effective after-tax match of up to 100%) provides a large enough incentive both to strengthen savings and to encourage new savings behavior.
- Finally, the higher credit rate for those with lower incomes targets benefits at those who most need incentives to save. In contrast, the tax benefits from traditional retirement savings incentive formulas favor those in the highest tax brackets.

Saver's Credit effective matching rates by income					
Adjusted Gross Income		Credit rate (percent)	Tax credit for \$2,000 contribution	After-tax cost of \$2,000 contribution	Effective after-tax match rate (percent)
Married filing jointly	Singles and married filing separately				
0-30,000	0-15,000	50	1,000	1,000	100
30,001-32,500	15,001-16,250	20	400	1,600	25
32,501-50,000	16,251-25,000	10	200	1,800	11

Polls taken shortly after enactment showed that more than 80% of Americans had no idea what the Saver's Credit was. Because many of our tax clients are eligible, we provided extra training for our preparers. We also created a low-cost, low-minimum-deposit "Express IRA" to enable more clients use the credit to save. The results have been very positive.

- We have facilitated 1.2 million Saver's Credits yearly, about a quarter of the national total. Over the last three years, our clients who used the credit received more than \$603 million to help them save, an average of \$167 each per year.
- While most used the Saver's Credit to match contributions to an existing 401(k), IRA or other retirement plan, over 243,000 opened a new IRA through us. Among these tax clients, a majority are first-time retirement savers, average income is \$27,000, half have no bank account, and about two-thirds are Earned Income Tax Credit recipients.

As helpful as the Saver's Credit is, it also has limitations.

- First, it is somewhat complex, partly because Congress created three different credit rates and they, in turn, have different effective match rates. This can make the credit difficult to understand and claim.
- Second, benefits fall in steep cliffs as income rises, which substantially reduces the power of the incentive as a result of very small changes in income.
- Third, the credit is unavailable to many income-eligible taxpayers because it is not refundable: at the 50% credit rate, for example, five out of six taxpayers who would

otherwise be eligible based on income cannot use the credit because they do not have income tax liability. Families of four with incomes as high as \$41,000 may be shut out.

- Finally, families who use the credit to save may be penalized when their savings goes over about \$2,000, since that can trigger the denial of many Government benefits that have asset tests.

### **St. Louis Matched Savings Test**

To test alternative ways to encourage savings by low- and moderate-income families, H&R Block joined in a 2005 study initiated by scholars from University of California at Berkeley, Harvard University, the Massachusetts Institute of Technology's Poverty Lab, and the Brookings Institution.<sup>1</sup>

At 60 H&R Block offices in metro St. Louis, our tax professionals presented low- and moderate-income taxpayers with Block-funded matching incentives to open and save in a low-cost "Express IRA" account. About 15,000 clients were randomly offered no match (the control group), a 20% match, or a 50% match.

The match rate had a significant effect on savings and participation, with especially strong results among low- and middle-income married filers and those receiving an Earned Income Tax Credit:

- Take-up rates were 3% in the control group, 10% in the 20%-match group, and 17% in the 50%-match group – nearly six times the rate with no match. In addition to increasing the level of savings participation, the study also found larger amounts were saved as incentives increased. Average IRA contributions (excluding the match) for the 20% and 50% match groups were 4 and 8 times higher than in the control group, respectively.
- The study found that savings incentives are most effective if they are understandable and coupled with easily accessible savings vehicles, the opportunity to save using part of a tax refund, and encouragement and guidance from a knowledgeable tax professional.

### **Options to Increase Savings by Low- and Moderate-Income Families**

Based on our experience, we encourage the Finance Committee to consider extending the Saver's Credit beyond its 2006 expiration and expanding it to include more taxpayers. Because recent tax cuts have increased to 40% the number of American households who do not have income tax liability (families of four with incomes up to \$41,000), many low- to moderate-income families cannot take advantage of the Saver's Credit as it is currently structured. Making it refundable would extend important incentives to these taxpayers and is likely to provide a significant boost to retirement savings.

The Committee may also want to consider an option based on the results of the St. Louis study. It would provide a savings match for taxpayers with incomes under \$50,000. Savers could deposit between \$1,000 and \$2,000 in a 401(k) plan or IRA and receive a 50% matching contribution

<sup>1</sup> Full results are at <https://www.brookings.edu/dybdocroot/views/papers/20050509galeorszag.pdf>.

from employers or financial institutions, which would be reimbursed through a tax credit equal to the match and a small administration fee.

This “Saver’s Match” could have several advantages: it is based on what someone saves, not what he or she earns; its audience is broader than that of the Saver’s Credit but still under the same ceiling to ensure low- to moderate-income focus; the match is immediate and put into the savings account rather than delivered later as a tax refund that might be used for other purposes; and it encourages employer involvement and can combine with employer 401(k) matches.

We applaud the Committee’s efforts to help Americans achieve more security in retirement. Our experience shows that a combination of factors – available assets in the form of a tax refund, a financial match from the Federal Government, a low-cost savings vehicle, and professional guidance – can have a significant impact on retirement savings, especially at lower income levels.

We look forward to assisting the Committee as it considers the best means to encourage savings by all American families.

Celebrating its 50th anniversary in 2005, H&R Block is the world’s largest tax services provider, having served more than 400 million clients since 1955. The sixth largest retailer in the world, H&R Block has more than 12,500 locations serving taxpayers in the United States, Canada, Australia and other countries. Headquartered in Kansas City, H&R Block served more than 19 million U.S. clients during fiscal year 2004 at approximately 11,000 H&R Block U.S. retail offices and through software and online services. Over 167,000 company and franchise employees deliver tax services including preparation of one out of seven individual tax returns filed with the IRS. H&R Block tax schools trained 250,000 students including 84,000 enrolled in our 66-hour basic tax course. H&R Block served 3.2 million tax clients through its *TaxCut*® software and through online tax preparation services.

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