



## NEW AMERICA FOUNDATION

### **Saver's Bonus Act (S. 3372)**

#### **Overview**

Each year the federal government provides hundreds of billions of dollars in incentives for families to save and build wealth through the tax system. Low-income families, however, are not eligible for most of these tax incentives because they are poor. Low income families, like any other household, need to save to gain economic mobility and financial stability. Research has also shown that despite their low incomes, poor families can and do save when presented with the right incentives and methods to do so.

The Saver's Bonus Act, introduced in 2008, directly addresses this issue by using the federal tax system to provide a monetary incentive for low-income families to save. Low-income families would receive a dollar for dollar match for each dollar that they contribute to a designated savings product, up to a maximum of \$500 a year. Families would apply for the Saver's Bonus at tax time on their federal income tax form. The bonus would then be deposited directly into the savings product.

#### **How Would the Saver's Bonus Work?**

Families with incomes of up to 120 percent of eligibility for the Earned Income Tax Credit would be eligible for the bonus. Eligible households would qualify for the bonus by making a commitment to deposit all or part of their tax refund into a designated savings product directly on their federal income tax forms. Using tax form 8888, families could divide their refund into a maximum of three accounts. They could also receive the bonus for deposits made into designated savings products over the course of the tax year, subject to the \$500 a year maximum.

Designated savings products include IRAs, 401(k)s, 529 College Savings Plans, Coverdell Education Accounts, U. S. Savings Bonds and certificates of deposit (minimum 6 month term). In addition to the designated savings products enumerated in the Act, the Treasury Secretary would be authorized to identify additional savings products eligible for the Saver's Bonus. Families would also be able to purchase U.S. Savings Bonds directly on their federal income tax returns.

### **What are the Benefits of the Saver's Bonus Act?**

Individuals are more likely to save when provided with the proper incentives and accessible mechanisms. The Saver's Bonus would help millions of poor families build wealth and move towards greater financial stability. It also allows them to do this in a very easy and convenient manner by either funding an existing designated savings product or opening a new one (in the form of a U. S. Savings Bond) directly on their federal income tax return.

### **What is the Legislative Status of the Saver's Bonus?**

On July 31, 2008, Senator Menendez introduced the Saver's Bonus Act (S. 3372). The bill was then referred to the Committee on Finance.