INCLUSIVE WEALTH BUILDING INITIATIVE

ECONOMIC INNOVATION GROUP

What If Low-Income American Workers Had Access to Wealth-Building Vehicles Like the Federal Employees' Thrift Savings Plan?

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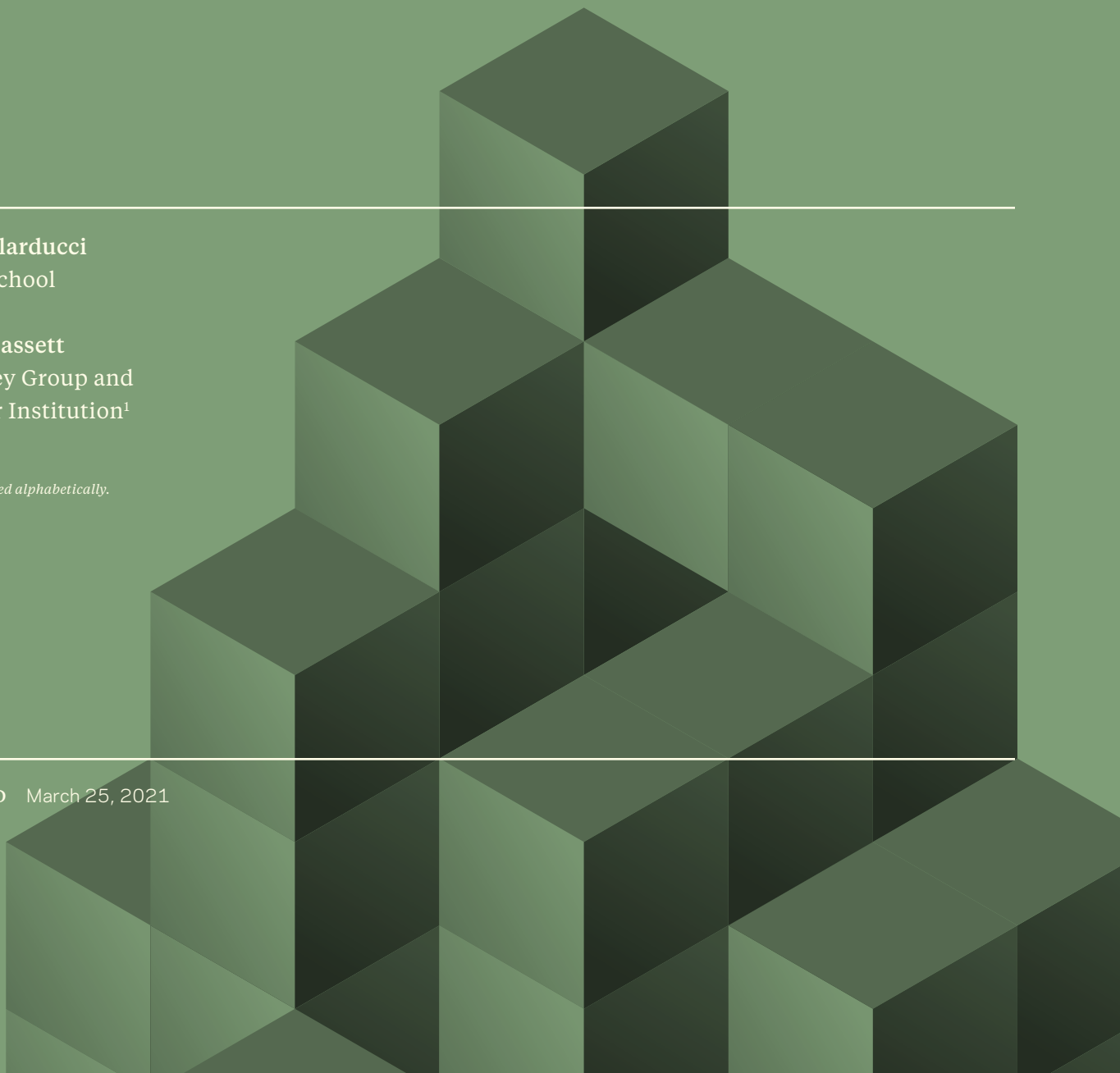

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SECTION I

The COVID-19 recession has laid bare the reality and consequences of the lack of wealth among millions of workers in the bottom half of the income distribution, who have disproportionately lost their jobs with no meaningful assets to fall back on absent emergency aid.

Although America's market economy has been the global leader in wealth creation, a large share of Americans nevertheless have no direct stake in rising national growth and prosperity. Specifically, the bottom 50 percent of households own only 1.5 percent of total U.S. wealth (World Inequality Database n.d.). The situation is particularly troubling for families at the bottom of the wealth distribution: The bottom 25 percent of all Americans have a median net worth of merely $310, leaving them without the security and well-being that wealth bestows (see table 1). Thus, it is a small wonder that sentiments regarding capitalism are so mixed given how little capital a large share of the population owns.

Table 1 Distribution of Wealth and Income by Wealth Percentiles, 2019 (thousands)

Wealth percentiles	Median net worth	Mean net worth	Median income	Mean income
Bottom 25%	$0.31	-$13.63	$29.53	$37.91
25-49.9%	$57.60	$58.18	$46.83	$58.21
50-74.9%	$224.20	$236.28	$70.25	$80.57
75-89.9%	$653.10	$703.59	$101.81	$129.94
90-100%	$2,598.40	$5,710.34	$262.20	$425.85

Source: Board of Governors of the Federal Reserve System 2019b.

A major component of this lack of wealth among middle- and low-income families is that millions of Americans have little to no savings set aside for retirement. For the bottom 50 percent of the wealth distribution, the median retirement savings account balance is $0 (Board of Governors of the Federal Reserve System 2019b). The United States continues to have one of the highest elder poverty rates among rich nations in the world (OECD n.d.). Furthermore, the retirement system exacerbates embedded gender and racial wealth disparities: Women are 80 percent more likely than men to be impoverished at age 65 and older (Brown et al. 2016). Moreover, only 41 percent of Black families and 35 percent of Hispanic families, respectively, had any amount of retirement account savings in 2016 (Morrissey 2019). According to some estimates, the retirement plan coverage rate among American workers in 2019 was between 35 and 49 percent (Radpour, Papadopolous, and Ghilarducci 2021). Even some high-income earners—through no fault of their own—lack access to a dependable, convenient, and affordable way to practically save for retirement.[2]

For the bottom 50 percent of the wealth distribution, the median retirement savings account balance is $0.

(Board of Governors of the Federal Reserve System 2019b)

For the most part, tax policies regarding retirement savings hinge on granting tax benefits through deductions, as opposed to credits or direct matches. The deduction approach is regressive because those with the highest incomes and the highest marginal tax rate gain the most. Two workers saving the maximum amount allowed in their retirement accounts have wildly different levels of financial help from the government. The minimum wage worker whose income is so low that they do not deduct or pay income taxes gets no additional benefit for saving. By contrast, a worker earning enough to pay the top marginal rate can shelter large amounts of money (since they put the money away pre-tax) and receives an implicit 37 percent subsidy to do so. A dollar saved today is a dollar that does not face taxation.

Federal, state, and local governments have been successful in providing efficient and adequate savings vehicles for their workers, as have some private firms. One program stands out as remarkably successful in stimulating wealth creation for low- and middle-income individuals: The federal employees' Thrift Savings Plan (TSP) system is designed with the latest scientific research about savings behavior and insurance demand in mind. The TSP's superior bargaining power yields low expense ratios that allow for higher expected returns than in the commercial 401(k) and IRA market. TSP participation jumped when matching and automatic enrollment, respectively, were introduced, suggesting that these features could have similar effects on all workers, especially those with a high school degree or less and those who are in the bottom one-third of the earnings distribution.[3] The positive impact of the plan has also been shown to be high for African Americans and women.

In this policy brief, we (1) summarize the academic literature that explores the impact of different policies on the savings behavior of low-income individuals, (2) relate the lessons from this literature to evidence regarding the effectiveness of the TSP program, (3) sketch a policy that makes TSP available to all low-income individuals, and (4) simulate the wealth creation that such a policy could generate. We find that this policy could significantly increase wealth for those at the bottom.

2. By the time workers are in their 50s, many have found it nearly impossible to have saved enough for their looming retirement (Ghilarducci, Papadopoulos, and Webb 2018). Among workers nearing retirement,15 percent of high-income workers (those who earn $115,000 plus per year), 20 percent of middle-class workers, and 50 percent of lower-income workers have no retirement savings and will rely only on Social Security (Ghilarducci, Papadopoulos, and Webb 2017). And many older workers won't be able to work longer. They are already being pushed out to a too early retirement. Sixty percent of older workers leaving the labor force in April say they were retired, up from 53 percent pre-pandemic (Miller 2020).
3. TSP participants without a high school degree on average contribute 5.1 percent of their income into their TSP plan, while those in the bottom one-third contribute 4.6 percent (Falk and Karamcheva 2019).

SECTION II

Policies to Stimulate Savings

The question of whether fiscal policy can be used to address savings inadequacy has been one of the key focuses of the economics profession for decades. The research has had an additional urgency because, beginning with the seminal work of Feldstein and Horioka (1980), individual and household savings behavior has been documented as being crucial for national-level capital formation and growth. The link between tax policy and savings, thus, is one of the key links relating government policy to the welfare of nations. Throughout that time, policymakers have given academics an enormous panoply of policies to study, and the research has exploded in numerous directions.

An important and path-breaking early corner of the literature involved the impact of employer defined-benefit plans and wealth. By the 1970s, a substantial portion of the private and public sector workers were covered by employer retirement plans. Though not liquid, these plans provided substantial retirement wealth to workers who likely would not have otherwise had long-term savings.

A proposal that boosts savings among low-income households—who are statistically unlikely to save otherwise—will likely increase savings at the aggregate and household level, respectively.

In the 1980s, Individual Retirement Accounts (IRAs) made savings for retirement tax deductible and thus, in theory, provided a strong government incentive for increasing savings. However, there were theoretical and empirical reasons to suspect that the effects of IRAs on the overall level of savings in the economy could be ambiguous. At the aggregate level, a government incentive to increase household savings could have an offsetting effect: The resulting reduced tax revenue and increased fiscal deficit could offset some of the increased private household savings. Also, adding to the ambiguity, at the household level, saving into an IRA might simply be transferring existing savings from a taxable to a non-taxable account, and thus, a tax deduction for IRAs might not increase savings in the aggregate. A series of papers documented that tax-favored accounts, such as an IRA, do not increase aggregate savings (e.g., Engen, Gale, and Scholz 1996), while another set of papers (e.g., Poterba, Venti, and Wise 1996) documented that they do. In addition to the ambiguous aggregate impact of savings incentives, the impact on individuals from this first round of literature is also uncertain. But in any case, to the extent that there was an impact on household savings, the distributional effects were regressive. The action in the accounts reviewed in this literature was at the middle to higher-end of the income distribution, where households are already more likely to be active savers. As such, a proposal that boosts savings among low-income households—who are statistically unlikely to save otherwise—will likely increase savings at the aggregate and household level, respectively. More recent evidence, discussed below, suggests that modern policy innovations have had more success at generating positive net savings.

A second related body of research explored the impact of policies that incorporate behavioral insights. An important early contribution is attributable to Laibson (1997), who shows that an individual's

shortsightedness and bias towards the present may undermine savings decisions, and thus make policies to stimulate savings ineffective if they ignore behavioral effects. Laibson's original insight set off an explosion of work that suggested that savings behavior is modifiable by policy. For our purposes, there are two main strands of that literature that are impactful.

First, because people might be especially focused on their short-run well-being, as Laibson suggested, it could be that increasing the immediate benefit of long-term investing has a positive impact on savings. If you put $1.00 away today and only get $1.10 tomorrow, maybe your desire for immediate gratification makes that option unattractive. But if you put $1.00 away today and get an immediate match from your employer, perhaps you would respond differently, even if the matching amount is the same in present value as the long-run tax savings from a more traditional vehicle.

Empirical studies were able to investigate such scenarios beginning in the early 1990s (e.g., Andrews 1992) because employers began to sponsor defined contribution savings plans that contained employer matches. Focus only on today and you get the satisfaction of consuming today, but you do not get the generous match that the employer provides if you place the money in a retirement account. An explosion of papers (e.g., Papke and Poterba 1995; Clark and Schieber 1998; Mitchell, Utkus, and Yang 2007) demonstrated a strong link between employer matches and increases in savings. Perhaps the canonical and most decisive paper in this area was produced by Duflo et al. (2006), who analyzed a controlled experiment. They offered some participants a chance to use their tax refund to create a retirement account with a match, while others were randomly assigned the same opportunity, but without a match. The percentage of participants opening an IRA increased dramatically with the level of the match.

The second strand of savings research explored another implication of the original Laibson (1997) observation. If people have limited attention, maybe individuals will be more willing to contribute to retirement accounts if they are automatically enrolled in accounts and can only not save if they opt out of the default program. The first and pioneering study of this approach was performed by Madrian and Shea (2001), who found that participation in retirement plans increased by 50 percent when employers automatically enrolled new employees. Madrian (2015) reviews the now ample literature that followed, and the evidence is clear that automatic enrollment has a large effect. Madrian (2015) also finds that the parameters of the employee's retirement plan—such as the percentage of income contributed and the portfolio choice—are highly responsive to the default parameters chosen by the employers. Other work has shown that the lack of retirement savings could be motivated by lack of wage growth and that fear, more than inertia, prevented voluntary savings (Ghilarducci, Saad-Lessler, and Reznik 2018).

SECTION III

The Thrift Savings Plan for Federal Employees

The Thrift Savings Plan (TSP), created in 1987, is a defined contribution savings plan available to federal employees and members of the uniformed services. Several elements of the TSP (e.g., the level of the employer match) have evolved significantly over time. The recent implementation of a higher automatic match is relevant for our argument that lower-income workers need an automatic and relatively generous match. For employees hired after October 1st, 2020, 5 percent of their pay is automatically contributed to the TSP account with a government match. For those who began their federal service between August 1st, 2010, and September 30th, 2020, their agencies automatically enrolled them at a rate of 3 percent (TSP n.d.). Contributions into the accounts are matched by the employers, with the first 3 percent of contributions matched 100 percent, and the next 2 percent of contributions matched at a 50 percent rate. The matches stop for contributions above 5 percent. Employees' own contributions to the accounts are vested immediately, whereas the matching contributions are gradually vested over time.

The TSP funds can be invested in what plan administrators refer to as five "core" funds, or in a "lifecycle" fund that varies the mix of the five core funds depending on the expected retirement date of the plan participant.[4] Employees that are automatically enrolled have their funds placed in a diversified lifecycle fund that is appropriate for the age group, and thus, will usually have their assets spread out among the various funds. For example, most younger participants are in the lifecycle fund, and most older participants are in the "G fund," which is guaranteed by the federal government not to lose money and only available to federal employees in the TSP (TSP 2020). Participants are able to roll over or transfer qualified money from other individual or employer-sponsored retirement accounts into the TSP, but without the match.

The TSP funds are distinct from other investments because of their enormous scale, with their combined assets easily making up the largest employer-based defined contribution plan in the country. As such, plan managers are able to keep administrative costs exceptionally low, with the latest estimate for expenses being only 0.042 percent, compared to an expense ratio of 0.91 percent for similar funds (The Vanguard Group n.d.). Second, the plan's "G fund" is an unusually attractive cash-like vehicle that offers investors exposure to risk, but pays an interest rate that matches the average yield on intermediate term treasuries.

The TSP system is designed to incorporate the following best practices:

- Low expense ratios;
- Automatic enrollment;
- Employer match up to 5 percent;
- Simple asset allocation option for automatically enrolled;
- Allows roll-overs to help retirees consolidate all retirement accounts;
- Non-conflicted managers and not for profit administration; and
- Bargaining power is used to get the best funds at the lowest prices.

4. The five core funds include the "G" fund ($243.8 billion under management as of 12/31/2019), which invests in government securities, the "F" fund ($33.5 billion under management as of 12/31/2019), which invests in fixed income securities that track the Bloomberg Barclays U.S. aggregate bond index, the "C" fund ($226.9 billion under management as of 12/31/2019), which invests in common stocks that are expected to match the performance of the S&P 500, the "S" fund ($74.1 billion under management as of 12/31/2019), which invests in smaller capitalization stocks, and the "I" fund ($54.3 billion under management as of 12/31/2019), which invests in international stocks.

Its low expense ratios promise higher expected returns. Automatic enrollment has been shown to be highly effective at stimulating plan participation. The matching by the employer at a relatively high share of income (now 5 percent) signals to workers that such a contribution is "correct," so even if the impact of matching is itself not so large, it is likely that automatically enrolled individuals would "anchor" at the matching limit and save that amount. The matching of the contribution up to 5 percent of income makes the default contribution financially attractive as well, while the IRA-like structure (which can take either standard or Roth treatment) provides a tax incentive and subsidy.

The simplicity of the program, wherein the automatically enrolled individual is given a carefully documented and predetermined asset allocation option from a very simple set of assets, makes the system more transparent and trustworthy. The TSP also helps people consolidate all their retirement accounts because the TSP allows retirees to transfer qualified money (meaning retirement accounts) from other individual or employer-sponsored retirement accounts into the TSP. Research shows that trust matters in a participant's desire to invest. Key to the trust that participants have in the TSP system is that they know their employer—the federal government—is working with the asset managers to eliminate conflicted advisors and remove the profit motive from the administration of the fund (Turner, Klein, and Stein 2016). Finally, the federal government uses its size and expertise to bargain for the best funds at the lowest prices.

Put it all together, and extending the TSP model would have four major advantages for the American worker, especially those in the lower end of the earnings distribution, relative to current law:

1. The efficiency of a large fund would yield higher, risk-adjusted benefits compared to plain IRAs or 401(k) plans because of lower fees and professionally-managed diversified portfolios;
2. The availability of non-commercial government annuities would yield cost-effective benefits for life;
3. Participants would gain peace of mind from non-commercial, transparent governance; and furthermore
4. Contributions could be consistent during times of unemployment, informal work, and unpaid care work (i.e., the expanded TSP plan could accept money from people who do not have a regular employer).

SECTION IV

TSP Serves as A Promising Model for Building Wealth

The TSP's success, as the largest defined contribution plan in the country, is documented by a 2019 Congressional Budget Office (CBO) study, which showed that employee participation rates increased by 22 percentage points after the introduction of the employer match and by 19 percentage points after the introduction of automatic enrollment (Falk and Karamcheva 2019).

The positive impact was especially prominent for those in the bottom one-third of the earnings distribution, many of whom are nonwhite and have lower educational attainment. Among federal employees who have a high school degree or less, the participation rate in the TSP is 64 percent for those who were not offered the match and 86 percent for those who were offered (Falk and Karamcheva 2019). The participation rate for employees with some college experience increased from 64 percent to 90 percent when the government match increased. Low-income workers seem especially responsive to employer matches, with only 55 percent of those in the bottom one-third of the income distribution participating in the program before the match, and fully 85 percent participating after the match (Falk and Karamcheva 2019).

As for the impact of automatic enrollment, it also appears to significantly boost participation among traditionally marginalized workers (e.g., workers with less educational attainment and lower-wage workers). Fully five years after the TSP automatic enrollment began, those with a high school degree or less increased their participation from 79 percent to 95 percent, while those in the bottom one-third of earnings increased their participation from 74 percent to 95 percent. Furthermore, these changes were also associated with large changes in average contribution rates, jumping from 4.7 to 5.1 percent for those with a high school degree or less, and from 4.0 to 4.6 percent for those in the bottom one-third of earnings. Higher participation and higher contributions lead to larger TSP balances relative to pay, with these increasing by 3 percentage points for workers with a high school degree or less, and 4 percentage points for workers in the bottom one-third of earnings (Falk and Karamcheva 2019).

> A TSP program study showed employee participation rates increased by 22 percentage points after the introduction of the employer match and by 19 percentage points after the introduction of automatic enrollment.
>
> (Falk and Karamcheva 2019)

Finally, the simplicity of the program, wherein the automatically enrolled individual is given a carefully documented and predetermined asset allocation and picks from a very simple set of assets, is also likely a positive. Indeed, Choi, Laibson, and Madrian (2009) studied a specific policy "Quick Enrollment," which to some extent mimicked this feature of TSP, and found that simplicity significantly increased participation. Accordingly, a consumer of the literature might expect that the plan would be quite successful at inducing federal employees to save, just as the evidence suggests.

This evidence suggests that if a plan like TSP, combined with government matches, were available to everyone, then households at the middle and the low end of the income and wealth distribution would have significantly more financial wealth. The TSP system takes advantage of best practices identified in the literature discussed in the previous section. Finally, it is important to add that these conclusions follow only under the assumption that the savings accumulated in the TSP account do not disqualify savers from receiving other government benefits that are sometimes subject to asset tests. This would be an important factor to include in any prospective policy.

Would a TSP-like program for lower-income Americans work? Lessons from other policy experiments

The federal workforce eligible for TSP skews higher-income than the population in general, but recent evidence suggests that the behavioral economic factors driving the success of the TSP are also impactful for people in the left tail of the income distribution. McKernan et al. (2020), for example, reviewed evidence of a randomized evaluation of a program called "Assets for Independence" (AFI), which divided a sample of low-income individuals up into treatment and control groups, with the treatment group receiving a match (up to a limit) of the savings they place in an account. The authors concluded that the AFI program increased savings, reduced financial hardships, increased homeownership among renters, and even increased access to health care. The authors review the broader literature on similar programs and find many promising results; for example, they find that a program called "SaveUSA," which provided matches to individuals who agreed to put a portion of their tax refunds into a savings account, induced most participants to open an account and increase their savings (Azurdia et al, 2014).

SECTION V

Simulating the Wealth Generation Effects of the Proposal for Low-Income Individuals

How might a more widely available TSP model impact the finances and wealth of low-income Americans? In this section, we perform straightforward simulations of asset growth and wealth accumulation assuming that people participate in the matching program. The second half of this section presents a similar simulation that allows for some "leakage" from retirement savings (i.e., for some money to be taken out prior to retirement to pay for an emergency expense). Given the uncertainties over participation and leakage, these estimates are designed to provide reasonable bounds of the possible impact of this policy on wealth accumulation.

For the sake of determining the match percent, we assume that a household with median wealth also has median income, and that the income is composed of eligible earnings. This allows us to, based on the tax files at OSPC.org, simulate the likely savings going forward of low-income workers should the policy be adopted. We also assume that all of the income is match-eligible earnings. This could be improved with further analysis of the microdata. We consider two alternative rate-of-return scenarios, one in which the nominal return on financial assets is 3 percent, and one in which it is 7 percent.

> After 40 years, the household would have $20,660 with no match and no additional savings, $374,380 with 3 percent of earnings matched, $492,280 with 4 percent matched, and $610,190 with 5 percent matched.

Based on the latest wealth data, the median household in the bottom 25 percent of the wealth distribution starts with $1,380 of financial assets and $29,530 of income. Under the 3 percent nominal return scenario, the household would have $1,850 of financial assets after 10 years with no match and no additional savings, $22,170 with 3 percent of earnings matched, $28,940 with 4 percent matched, and $35,710 with 5 percent matched (see table 2). A key target of this policy, of course, would be young earners starting out their working lives, so a look at longer time horizons is instructive as well. After 40 years, the household would have $4,500 with no match and no additional savings, $138,100 with 3 percent of earnings matched, $182,630 with 4 percent matched, and $227,160 with 5 percent matched.

Under the 7 percent return scenario, the household would have $2,710 of financial assets after 10 years with no match, $27,190 with 3 percent of earnings matched, $35,350 with 4 percent matched, and $43,510 with 5 percent matched. After 40 years, the household would have $20,660 with no match and no additional savings, $374,380 with 3 percent of earnings matched, $492,280 with 4 percent matched, and $610,190 with 5 percent matched. These figures are pre-tax and exclude the minimal fees a TSP-inspired model would levy.

Table 2 Financial asset projections: median family in the bottom 25 percent of the wealth distribution (thousands)

Year	3 percent nominal return				7 percent nominal return			
	No match	3% match	4% match	5% match	No match	3% match	4% match	5% match
0	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38
5	$1.60	$11.01	$14.14	$17.28	$1.94	$12.12	$15.52	$18.92
10	$1.85	$22.17	$28.94	$35.71	$2.71	$27.19	$35.35	$43.51
15	$2.15	$35.10	$46.09	$57.07	$3.81	$48.33	$63.17	$78.01
20	$2.49	$50.10	$65.97	$81.84	$5.34	$77.98	$102.19	$126.40
25	$2.89	$67.49	$89.02	$110.55	$7.49	$119.55	$156.91	$194.26
30	$3.35	$87.64	$115.74	$143.84	$10.50	$177.87	$233.66	$289.45
35	$3.88	$111.01	$146.72	$182.43	$14.73	$259.66	$341.30	$422.95
40	$4.50	$138.10	$182.63	$227.16	$20.66	$374.38	$492.28	$610.19

A key factor to consider as we simulate possible wealth creation is that individuals, especially lower-income individuals, tend to need to access the wealth accumulated in the accounts as emergencies arise, so that the wealth "leaks" from the accounts over time at a rate of up to 40 percent (Argento, Bryant, and Sabelhaus 2015). Table 3 below presents financial asset projections for the median household from the bottom quarter of the wealth distribution with a 40 percent annual leakage from savings. Again, the household starts with $1,380 of financial assets and $29,530 of income. Under the 3 percent nominal return scenario, the household would have $1,850 of financial assets after 10 years with no match and no additional savings, $14,040 with 3 percent of earnings matched, $18,100 with 4 percent matched, and $22,170 with 5 percent matched. After 40 years, the household would have $4,500 with no match and no additional savings, $84,660 with 3 percent of earnings matched, $111,380 with 4 percent matched, and $138,100 with 5 percent matched. Thus, even when there is leakage, the assets accumulated under this plan would be significant.

That point is even more dramatic, of course, if the rates of return are higher. Under the 7 percent return scenario, the household would have $2,710 of financial assets after 10 years with no match, $17,400 with 3 percent of earnings matched, $22,300 with 4 percent matched, and $27,190 with 5 percent matched. After 40 years, the household would have $29,660 with no match and no additional savings, $232,890 with 3 percent of earnings matched, $303,640 with 4 percent matched, and $374,380 with 5 percent matched.

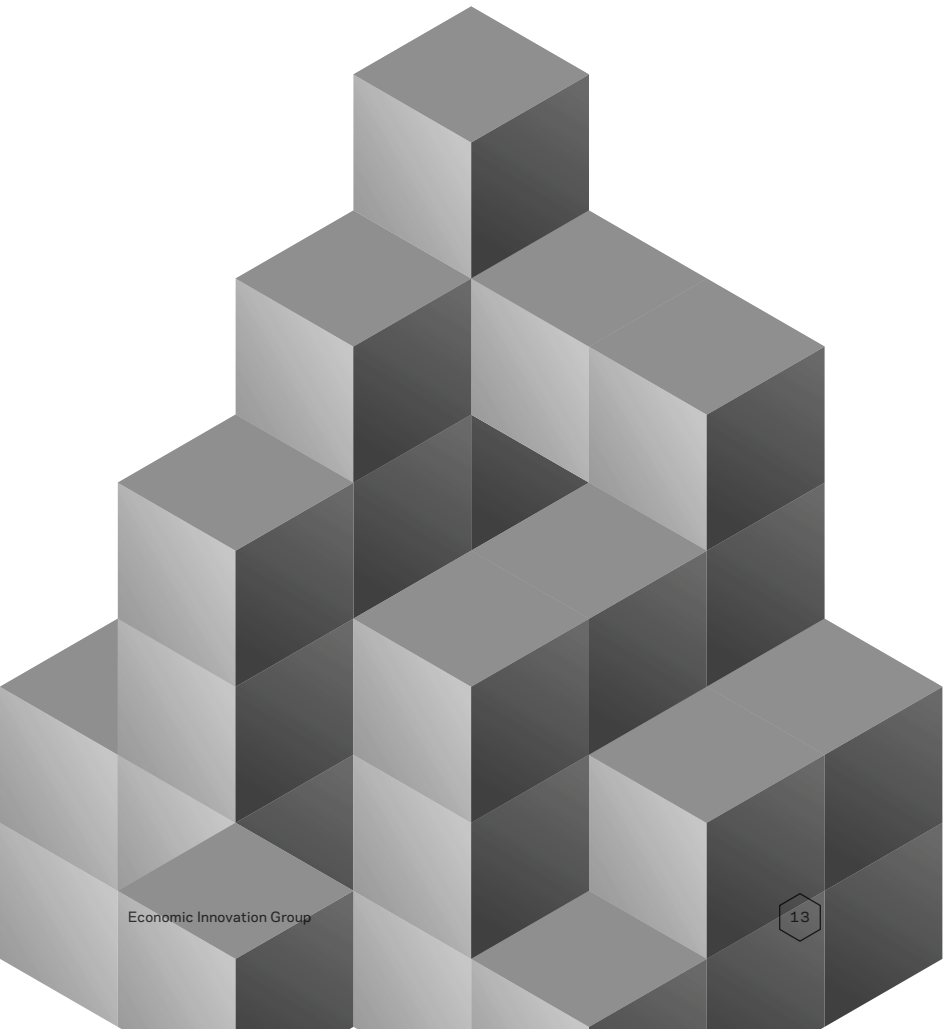
Table 3 Financial asset projections with leakage: median family in the bottom 25 percent of the wealth distribution (thousands)

	3 percent nominal return				7 percent nominal return			
Year	No match	3% match	4% match	5% match	No match	3% match	4% match	5% match
0	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38	$1.38
5	$1.60	$7.24	$9.13	$11.01	$1.94	$8.05	$10.09	$12.12
10	$1.85	$14.04	$18.10	$22.17	$2.71	$17.40	$22.30	$27.19
15	$2.15	$21.92	$28.51	$35.10	$3.81	$30.52	$39.43	$48.33
20	$2.49	$31.06	$40.58	$50.10	$5.34	$48.92	$63.45	$77.98
25	$2.89	$41.65	$54.57	$67.49	$7.49	$74.73	$97.14	$119.55
30	$3.35	$53.93	$70.78	$87.64	$10.50	$110.92	$144.40	$177.87
35	$3.88	$68.16	$89.58	$111.01	$14.73	$161.69	$210.68	$259.66
40	$4.50	$84.66	$111.38	$138.10	$20.66	$232.89	$303.64	$374.38

In addition, the benefits of wealth creation go beyond financial, as individuals with access to wealth have a higher sense of well-being and are able to avoid emergencies such as cut-off utilities (D'Ambrosio, Jäntti, and Lepinteur 2020). Almost half of American survey respondents said they would not have enough emergency cash available to respond to a $400 emergency (Board of Governors of the Federal Reserve System 2019a). Access to a retirement security plan like TSP could change that substantially if it were designed in a manner that included emergency savings features or minimized early withdrawal penalties for the exigencies of life. A smart design that balances long-term wealth-building and access to emergency savings promises to dramatically alter the wealth distribution in the United States.

A final consideration would, of course, be the possible budgetary costs of such a policy. In work in progress, the Economic Innovation Group is developing interactive tools to allow policymakers to modify the parameters of the TSP proposal and estimate the budget costs. It is beyond the scope of our paper to describe these estimates in detail, but assuming that the take up rates match existing CBO estimates, and to foreshadow the results, a match capped at 3 percent for individuals making up to median household earnings of around $52,000 would cost roughly $60 billion in tax year 2021, an amount that would rise to $100 billion should the policy match rise to 5 percent. These cost estimates will, of course, change considerably as the income thresholds and match levels vary.

Would creating a widely-available TSP-style program add to an exploding government deficit? Well, yes, and no. Many of the plan's would-be beneficiaries pay little in federal income taxes today, so the cost in foregone taxes is smaller than one might think. The government match does cost more, but the government currently borrows at close to a zero percent interest rate, money which would be given to workers to invest in private capital that has a higher return. In the short run, the government spending increases the deficit, but so long as the private return on capital is higher than the Treasury Department's borrowing cost, the policy is a positive for American well-being as a whole, and promises significant positive revenue feedback in the future. When that hypothetical 25-year-old starts to take her $600,000 out of her TSP account when she retires, she will pay tax on the withdrawal, as well.



SECTION VI

Conclusion

The unfortunate fact that most Americans lack adequate wealth and retirement savings has been a consistent reality in the U.S. economy for decades. One major driver of this phenomenon is that the United States does not have effective retirement savings programs for low-income individuals. Another part of the dynamic is that even for those workers who do have access to a plan, those savings programs are voluntary, ad hoc, and usually initiated by employers. As such, reforms to provide more retirement plan access to less well-off families would not only increase the retirement security of millions of low-income Americans, but would also boost their overall wealth and allow them to pass it along to future generations, thereby helping close the wealth gap in the process.

Reforms to provide more retirement plan access to less well-off families would not only increase the retirement security of millions of low-income Americans, but would also boost their overall wealth and allow them to pass it along to future generations, thereby helping close the wealth gap in the process.

To achieve the goal of more equitable wealth distribution and retirement security, we view a plan modeled off of the Thrift Savings Program (TSP) with a government match and the potential for a private employer match as a hopeful way to expand retirement coverage to low- and middle-income workers. Our estimates suggest that for the average household in the poorest 25 percent of the wealth distribution, 40 years of participation in the TSP could provide them with retirement account balances anywhere between $138,000 and $610,000 before fees and taxes, depending on the level of the government match and the rate of return on investment. These estimates, while wide ranging, would mean a significant infusion of wealth to millions of Americans. Policymakers should choose liberally from menus of options to ensure high participation rates and maximize savings. A widely available program modeled after the TSP has the potential to significantly increase financial well-being for low-income workers.

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