

Savings proposals provide incentive for improvement

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Don't blame Americans' negative savings rate on Marie Anderson.

Despite supporting a family of four on her \$18,000-a-year job, the longtime Chicago resident has socked away \$900 since April.

"I'm not eating fast food. Whatever I eat at lunchtime is from home," said Anderson, a billing coordinator for the Lawndale Christian Health Center, where uninsured residents in her neighborhood can go for medical attention.

Gone, too, are pricey sodas at work, and junk food at home. She has started walking to work instead of taking the bus, and buying secondhand clothes.

There's an added purpose behind the belt-tightening: Anderson is racing to save \$2,000 before an April 2007 deadline. If she can do it, she will qualify for \$4,000 in matching funds under Chicago's Save Up program, one of about 500 individual development account programs around the country that mix government and private dollars to help low-income families save to buy first homes. Funding for many of the local programs expires next year.

Under a pair of congressional proposals--one introduced last month in the House--such programs could see massive growth. Under the bill, known as the Savings for Working Families Act of 2006, banks and other financial institutions would be given tax credits to offer savings accounts with matching funds to 900,000 low-income families. Over a decade, the total cost would be \$1.2 billion in tax credits.

The plan, however, has died in Congress twice before.

Skeptics, including some economists, long argued that poor people would be unable to save in the matching programs because so much of their income must go to pay necessary expenses.

But while it would appear the programs are a success--more than 30,000 individual development accounts have been opened around the country--some believe the benefits are mixed.

O.S. Owen has been counseling low-income people about their debts for more than a decade, first with consumer credit agencies and today as financial education director for Chicago's Center for Economic Progress (www.centerforprogress.org), one of the community organizations administering these programs.

The Chicago-based center, a 15-year-old non-profit organization, offers free tax-preparation services, savings programs and other economic assistance to low-income families.

Skyrocketing home prices, even in poorer neighborhoods, are rendering the savings useless to many potential home buyers, Owen said.

"A few years ago no one had any idea housing costs would escalate this much. Now we have people who have accumulated \$6,000 in these accounts, but it's still not enough" to finance a down payment, Owen said.

When the programs end next year, any matching money not spent is returned to the government.

Still, Owen believes the efforts have value in their ability to force change in personal savings habits.

"People often assume you have to save money in big chunks, but in our classes we get them to see that even saving \$55 a pay period can help people build wealth," he said.

Another key is not to shame someone about overspending on a particular type of item, he said.

"When people are driven, they find their own ways to make things happen. I call it thinking in ink. We have them track their spending so they can see for themselves where they can cut back," Owen said.

Like Anderson, Elaine Austin is one of the driven ones.

Released from prison in 2003 after serving two years on a drug conviction, Austin volunteered at the North Lawndale Employment Network for four months until winning a paid job as an assistant there. Seven months later, she was promoted to the position of client services manager.

Today she makes about \$26,000 a year, which she uses to support herself and her three daughters, ages 16, 7 and 5. Though she still has a negative cash flow some months, she has managed to pay down \$5,000 in debts in the last two years.

"Every seminar" the Center for Economic Progress gave, Austin said, "I was there. They helped me get a checking account and avoid currency exchanges."

For more information on individual development accounts, go to www.cfed.org, a national clearinghouse of data and news on the programs.

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