

BUSINESS

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Saving may not pay off for poor

Low-income families — could lose benefits and face more taxes if they set aside money for retirement, a study says.

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The federal government has been urging people to sock away money for their retirement, but many low-income families would be foolish to take that advice, according to a report released Wednesday by a Washington think tank.

Low-income households face "astronomical" penalties for saving, according to the report by the National Center for Policy Analysis. For example, each \$1 saved by a single mother earning \$15,000 a year could cost her \$2.60 in higher taxes and lost government benefits.

"We're constantly told that we need to save early and often to prepare for retirement," said Laurence Kotlikoff, professor at Boston University and author of the study. "Yet government policies tell low-income families, 'If you save for the future, you won't get our help today.'"

Over the last decade, the government has sharply increased the amounts that Americans can set aside on a tax-favored basis for retirement, created a tax credit for low-income people who fund retirement accounts and launched public campaigns urging people to save.

But those efforts are hindered by incentives created by the government, Kotlikoff said. For example, the tax credit for saving for retirement is wiped away when the taxpayer also qualifies for the earned income tax credit.

Meanwhile, putting a few dollars aside in a retirement plan can disqualify families for food stamps, healthcare benefits and assistance given to poor families with children. The loss of benefits is felt year after year, compounding into a huge loss over time, the report says.

In Massachusetts, for example, anyone with assets of \$2,500 or more is disqualified from get-

ting federal assistance to families with dependent children. That asset test includes retirement accounts and even the cash value of a life insurance policy, the report says. As a result, a single parent with two children who earns \$500 a month would lose \$133 a month in benefits if the family saved more than a nominal amount for retirement.

"People start saving, thinking that they are going to be treated fairly, and then they get clobbered. They don't know what happened," Kotlikoff said. "There are ways to achieve our objectives without kicking people in the head if they try to work and save."

Most of the benefit programs looked at in the study are federally funded. But because eligibility rules vary by state, the study focused on Massachusetts.

The National Center for Policy Analysis, which promotes private alternatives to government regulation, is active on savings issues. It developed what are now known as health savings accounts.

Kotlikoff said the only way to fix the problems described by the report was to overhaul the U.S. Tax Code and the way benefit programs are administered. Sen. Max Baucus (D-Mont.), chairman of the Senate Finance Committee, is aware of the issues highlighted by the study and is seeking to address them, an aide to the senator said.

Baucus plans to reintroduce a bill to exclude retirement savings from assets used to determine eligibility for housing and food stamp assistance, his aide said.

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