CLOSING THE WEALTH GAP

After more than six years leading Marquette Law School's Volunteer Income Tax Assistance Program and decades of experience as a tax attorney, Vada Lindsey, associate professor of law, became convinced that the Earned Income Tax Credit was not incentivizing low-income people to save and, therefore, create wealth.

The EITC was created as a refundable tax credit to encourage low-income people to work. However, Lindsey noticed that because the credit is refunded as a lump sum, many people spent it on non-necessities. And because many did not have bank accounts, none of these funds went into savings. "There are many barriers to savings for poor people, including lack of access to 401(k)s and the fact that they may be receiving other means-tested benefits like food stamps that limit eligibility based on assets," Lindsey says. "But giving them a relatively large check once a year was also not helping many people put some of this money away."

In an article, "Encouraging Savings Under the Earned Income Tax Credit: A Nudge in the Right Direction," published in the University of Michigan *Journal of Law and Reform* last fall, Lindsey proposes several key changes to encourage long-term saving. First, 10 percent of the individual's tax refund should automatically be put into an IRA or a retirement plan. People can opt out, but Lindsey notes that research shows far higher participation if a program is automatic. Second, if a person contributes his or her own money in addition to the 10 percent, the government would match those additional funds. "The individual can always pull out his or her original 10 percent if it is needed without penalty," says Lindsey. "But he or she will pay a penalty for pulling out matched funds." Vesting requirements would be symmetrical with IRAs to encourage long-term savings resulting in forfeiture of the government match upon premature withdrawals. The maximum amount of the governmental contribution would be capped at $1,000 for individuals.

"We want people to have a nest egg," Lindsey says. She targets retirement savings as a critical need because empirical evidence shows more elderly individuals live below the poverty level. She hopes lawmakers in Congress will review her plan and that more can be done to help close the wealth gap. — BM