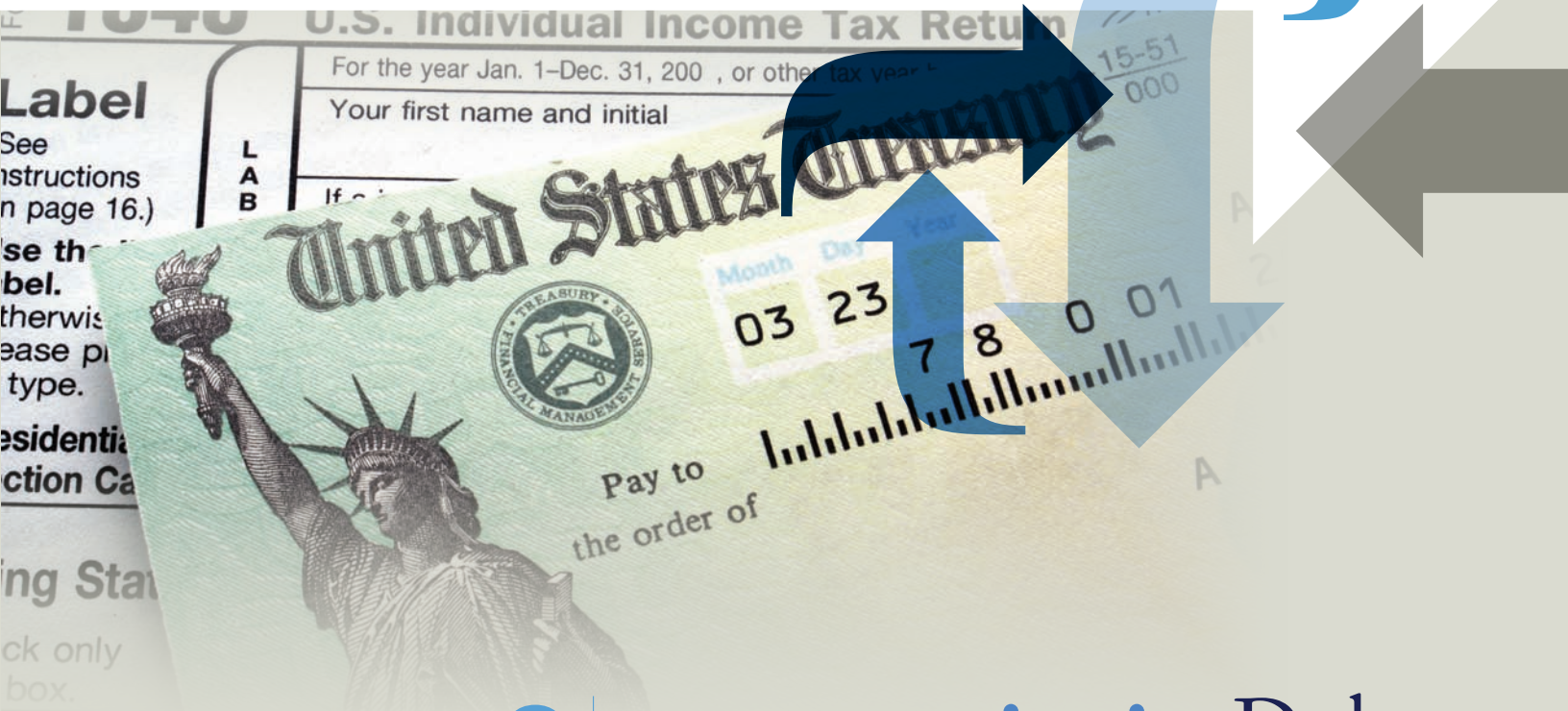


Refund → Savings

Exploring the intersection of behavioral economics and asset building at tax time and beyond.

Report from a Research Development Meeting | Chapel Hill, North Carolina | February 2011

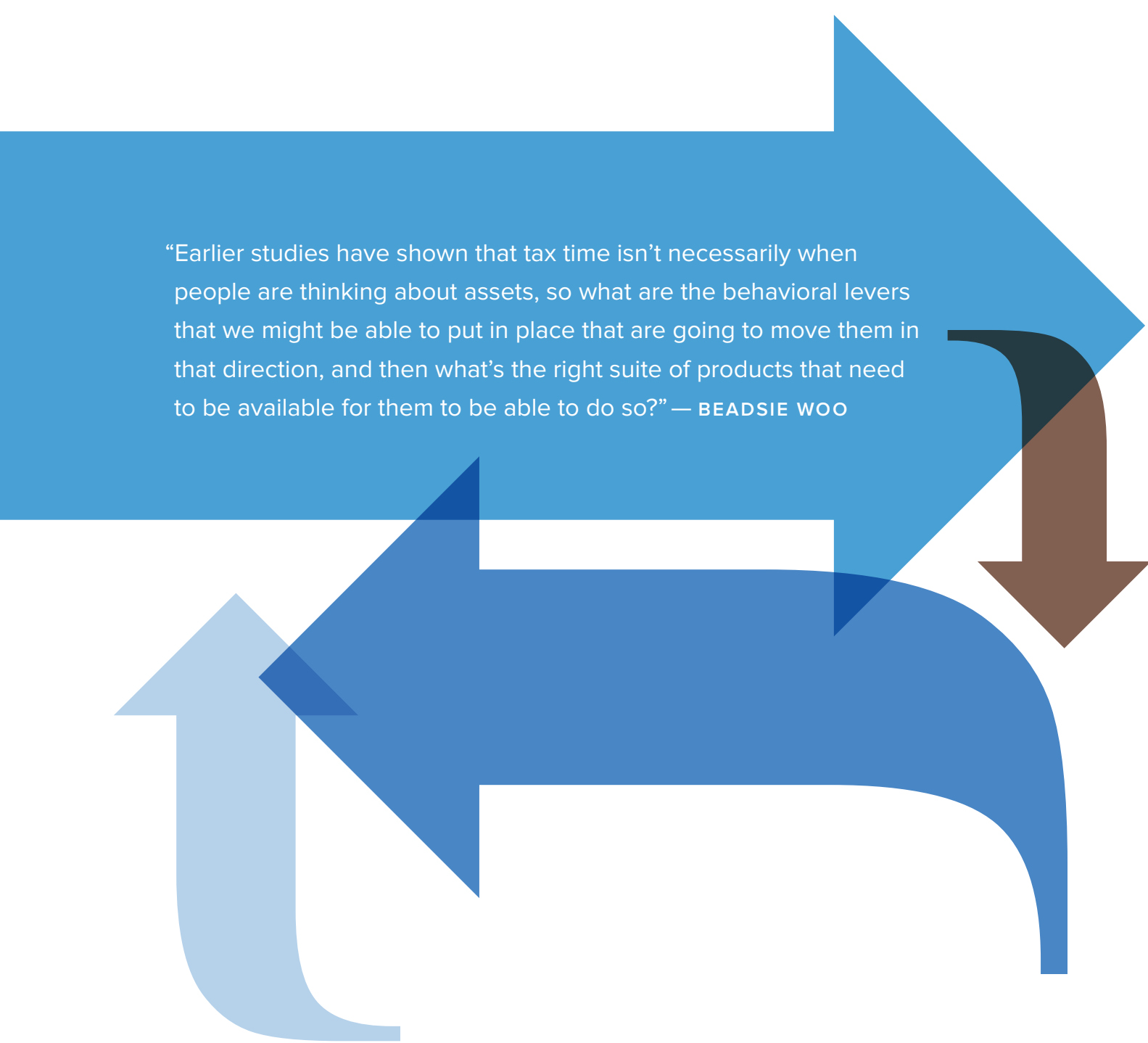


THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

intuit®

Duke
UNIVERSITY

Refund ↪ Savings



“Earlier studies have shown that tax time isn’t necessarily when people are thinking about assets, so what are the behavioral levers that we might be able to put in place that are going to move them in that direction, and then what’s the right suite of products that need to be available for them to be able to do so?” — BEADSIE WOO

Acknowledgments

For financial support to make this meeting possible we are thankful for the generous funding from the University of North Carolina (UNC) at Chapel Hill. We especially want to thank Dr. Barbara Entwisle, UNC Vice Chancellor for Research, and Dr. Jack Richman, Dean of the School of Social Work.

We extend gratitude to all of the meeting participants who took the time to engage in the R2S meeting discussion and share their insights and experience. We are especially thankful to Beadsie Woo, for suggesting that we host this meeting and helping organize it; Amy Brown and Irene Skricki for their help convening the meeting; and Ray Boshara for playing an important role in planning the meeting.

We also wish to acknowledge Laurie Graham, Clinton Key, Andrea Taylor, and Diane Wyant for their invaluable contributions to both the meeting and report. And finally, we wish to extend our deepest appreciation to Krista Holub for her leadership writing this proceeding report and planning for the meeting.

Michal Grinstein-Weiss
Associate Professor
Director, Assets Building Group
School of Social Work,
University of North Carolina

Dan Ariely
James B. Duke Professor of
Psychology and Behavioral
Economics, Duke University
Founding Director, Center for
Advanced Hindsight

Phil Poirier
Vice President, Government,
Consumer Division
Intuit Inc.

Table of Contents

What We Have Learned from Past Research 6

Emerging Issues and Questions of Urgent Interest in the Field 13

Implications for Policy and Practice 20 Conclusion 23

APPENDIX A Participant List 24 APPENDIX B Agenda 25



Introduction

Americans' personal savings rate has declined steadily over time leaving families vulnerable to economic insecurity. Recent research reveals that 47% of Americans report they could not raise \$2,000 within 30 days for an emergency expense, such as a major car repair or medical bill (or just paying the rent in the event of a job loss).¹ The "Refund to Savings" (R2S) Initiative, a collaborative effort between the University of North Carolina at Chapel Hill, Duke University, and Intuit Inc. was developed to address this issue and to capitalize on the potential to increase savings during the unique opportunity presented through tax refunds.

Michal Grinstein-Weiss, associate professor at the University of North Carolina at Chapel Hill (UNC) School of Social Work and director of the Assets Building Group, and Dan Ariely, the James B. Duke Professor of Psychology and Behavioral Economics at Duke University and the founding director of the Center for Advanced Hindsight, began a discussion on the gaps in knowledge within the field of asset and wealth accumulation. As Grinstein-Weiss explains, "[Dan Ariely and I] got together to see how we could keep expanding the empirical evidence and leverage behavioral economics for asset building. We both are eager to better understand how to increase saving behavior in general and at tax time and to use innovative tools to reach a greater scale." The potential of such an initiative was equally intriguing to Intuit, the maker of TurboTax, Quicken, Mint.com and QuickBooks, and a leader in the creation of financial products and services for individuals as

well as small businesses. Intuit joined the project, lending their capacity to reach a broad cross-section of American tax filers to further the project goals.

Grinstein-Weiss laid out three reasons why the R2S Initiative is so promising. First, the initiative is timely because of the current national policy focus on savings and finding solutions to increase savings that are not dependent on federal resources. Second, R2S is innovative because it brings together different fields of research with private industry to test ideas and products. Third, the partnership with Intuit creates the potential for scalability and impact, which is a challenge the field currently faces.

To further this initiative, the project partners hosted a multidisciplinary, one-day research development meeting with leaders in the field of asset building and behavioral economics to discuss the R2S Initiative. This document presents the proceedings, process, and outcomes of that meeting.

¹ Lusardi, Annamaria, Daniel Schneider, and Peter Tufano. 2011. Brookings Papers on Economic Activity.

Section 1 provides an overview of R2S, including a description of the project partners and the meeting's purpose. Section 2 summarizes information learned about tax-time savings and other savings initiatives in the past, noting key information discussed during the meeting and the gaps in knowledge that the R2S Initiative is likely to address. Next, Section 3 provides insights about savings behavior by Intuit customers through savings bond, survey, and split refund data. Section 4 provides information on current questions and issues of interest in the broad field of savings and wealth accumulation that were noted by meeting participants. Section 5 discusses both potential policy and practice implications of the R2S Initiative. Finally, Section 6 provides a brief summary, and discusses the current status of R2S as well as the next steps for this initiative.

Refunds to Savings Initiative

OVERVIEW OF R2S

The R2S Initiative is designed to encourage Americans to save part or all of their tax refunds. This initiative will apply the principles of behavioral economics to design and test savings prompts, financial incentives, and various financial products integrated into the customer experience in TurboTax's online tax preparation software. The prompts are simple and target psychological motivators for saving. For example, prompts could be designed to stimulate participants to think about a specific savings goal (e.g., a home renovation project or a child's education) while other prompts could provide an estimate of how much their peers are saving each year. These prompts would appear before or coincident with participants being asked about their interest in saving a part of their refund if given an easy way to do so. Tests of R2S might also include financial incentive prompts, such as offering a monetary match for every dollar saved or a match for an initial deposit (e.g., \$100 bonus for opening a savings account). This research will also assess the interest in and take-up rates among different financial products of-

ferred to research participants (e.g., dedicated savings accounts targeted to a personal savings goal, retirement accounts, and others).

PARTNERS

R2S is a collaborative effort of the University of North Carolina, Duke University, and Intuit Inc.

University of North Carolina Under the direction of Dr. Michal Grinstein-Weiss, a leading researcher in the asset-building field, the Assets Building Research (ABR) Group at the UNC School of Social Work is a primary partner in the R2S initiative, working in conjunction with other leading researchers from UNC. The ABR Group is at the forefront of social policy innovation both in the United States and internationally. The ABR Group works with diverse partners in academia, government, non-profits, and the private sector to develop, identify, evaluate, and improve initiatives that reduce inequality in society and increase opportunity for all peoples, with a primary focus on the financial mobility and well-being of individuals and families.

Duke University Dr. Dan Ariely is the James B. Duke Professor of Psychology and Behavioral Economics at Duke University and a leading researcher in the field of behavioral economics. Ariely is a primary partner in the R2S initiative. Ariely is also the founding director of the Center for Advanced Hindsight and author of *Predictably Irrational* and *The Upside of Irrationality*. His work is dedicated to helping people live more sensible, rational lives by answering the question, "Why is it, despite our intentions that we so often fail to act in our own best interest?"

Intuit Inc. Intuit Inc., well known as the maker of TurboTax, Mint.com, Quicken, and QuickBooks, is a premier provider of financial products and services for individuals as well as small businesses. Dedicated to innovation that helps small businesses and individuals manage their finances and improve their financial lives, Intuit's Consumer Group has joined as a partner in R2S, offering its product, TurboTax, as well as technology and expertise that will provide



R2S a unique and powerful opportunity to reach millions of potential participants for this study.

Intuit considers its participation in this research to be important for three primary reasons: 1) the initiative's focus on solving an important consumer and national problem of increasing personal savings; 2) the initiative's focus on tax time as a key opportunity to intervene positively in the lives of consumers to promote saving; and 3) the logical fit between the goals of R2S and Intuit's mission to improve the financial lives of its customers.

MEETING PURPOSE

On February 25, 2011, a multidisciplinary, one-day meeting was held in Chapel Hill, NC to discuss the R2S initiative. The purpose of this meeting was to bring together leaders in the field of savings and

asset building from foundations, government, policy, practice, academia and private industry to discuss the R2S project components and the project's potential implications for policy and practice. Through a combination of presentations by representatives from R2S key partners and roundtable discussion, these experts collaborated to establish a description of what this field already knows and what remains to be learned, which included a collective identification of the next leading topic of inquiry in the field of asset building and savings. Those who attended the meeting gave input on how to shape the R2S Initiative to push the field forward by structuring the research to answer questions of greatest urgency for researchers, experts, policymakers, and practitioners working in this field.

What We Have Learned from Past Research

Several programs have endeavored to help low-income individuals build assets, and a review of these programs helps to shed light on viable options for moving forward in this area of research and practice. Two outstanding experts in the field of economics, Peter Tufano, who is with the Doorways to Dreams (D2D) organization, the Sylvan C. Coleman Professor of Financial Management at the Harvard Business School and dean-elect of the University of Oxford Said Business School; and David Marzahl, who is president of the Center for Economic Progress, recapped some of their major findings on tax-time savings and low and moderate-income tax filers. Several themes emerged regarding intent to save, matching incentives, framing and information, first-time savers, lotteries, and gifting.

Lessons

INTENT TO SAVE

Early studies specific to tax-time savings and intentions showed that people intended to save at least a portion of their tax refund.² Based on this research, it is likely that with the right product and timing, it would be possible to transfer some of that intent into actual savings. Moreover, Tufano explained their study also showed that even some participants who had “negative” (as a measure) intent to save actually achieved real savings at tax time.³

MATCHING INCENTIVES

Research on matching incentives as a mechanism to encourage savings has shown that saving outcomes vary by how the incentive is structured. For example, Michal Grinstein-Weiss, associate professor at the University of North Carolina at Chapel Hill (UNC) School of Social Work and director of the Assets Building Group explained that empirical evidence from the research on IDAs suggests that matching incentives is what brought people into the IDA program but was not a strong predictor of individual savings. Raising the match cap (i.e., the level of savings for which someone would be eligible to receive a match) was a much more powerful and consistent predictor of savings rates in IDAs.

² Tufano, Peter; Schneider, Daniel; and Beverly, Sondra. (2005). Leveraging Tax Refunds to Encourage Saving. The Retirement Security Project.

³ Tufano, Peter. (2010). Just Keep My Money! Supporting Tax-time Savings with US Savings Bonds. Harvard Business School. Working Paper 09-059. Available at <http://www.hbs.edu/research/pdf/09-059.pdf>.

Such matching incentives are used in the \$aveNYC tax-time savings program, Clinton Key, research director with the UNC Assets Building Group which is evaluating \$aveNYC explains the function of the incentive saying, “It seems to draw people in the door, but [is] likely not what keeps them in the program.” The maximum match cap also has been found to serve as a target savings goal, which has implications for savings behavior.

FRAMING AND INFORMATION

The framing and information provided about tax-time savings opportunities has been found to be of critical importance to tax filer’s reception of savings programs. Specifically, researchers have found that the tax preparer plays a significant role in rate of consumers’ take-up of tax-time savings products. For example, Peter Tufano explains the H&R Block tax-time saving program had wide variability in consumer take-up by office because not all tax preparers saw their role as including offering or encouraging savings options.

FIRST TIME SAVERS

Not surprisingly, given the low rate of savings among LMI individuals, many of the savings bond purchasers and filers who open saving accounts through the refund process report having no prior savings or investment of their refunds.⁴ Tax-time savings programs such as these, which intervene before the refund is spent, may in fact help LMI filers save for the first time.

LOTTERIES

Dan Ariely offered a brief synopsis of a study that examined ways to increase patient compliance with medication regimens by exploring the effects of offering various incentives, including the option of participation in a lottery. In this study, researchers created several conditions, one of which included an attempt to give study participants access to a lottery

with a certain chance of winning money, while making them regret medication non-compliance. In this condition, all participants were given a lottery ticket regardless of whether the person had taken his or her medication that day. Lottery winners who had not taken their medication that day were told that although they had won the lottery, they could not have the prize due to their medication non-compliance. Though there are limitations to this study, the researchers found that the offer of lottery participation combined with regret was very effective in getting people to comply with taking pills, even more so than the lottery alone. Participation in the lottery was also found to be more effective than simply offering study participants a per diem money reward for taking their medication appropriately. As this research shows, lotteries may be an effective incentive in the promotion of savings.

GIFTING

Going hand-in-hand with the notion that having children is an especially salient reason to save money is the mechanism for gifting savings. Recent evidence on savings bond purchases at tax time suggests that many bonds are purchased as gifts for both dependent and non-dependent children. In addition, evidence from lottery ticket sales around the holidays also suggests that a large portion of such lottery ticket sales is for gifting. The potential for gifting savings at tax time could increase the take-up rate of such programs. Such interventions should be designed and tested to understand the power of gifting savings.

Challenges

Research on tax-time savings has generated important insights on how to help low-income individuals build assets. Such efforts have subsequently been used to create evidence-based public policy. For example, research has helped generate new IRS options

⁴ Ibid; and Doorways to Dreams Fund, Inc. (2008). America’s Best Kept Secret: Testing U.S. Savings Bonds to help Low-income Tax Filers Begin Saving. Available at <http://www.d2dfund.org/files/publications/Americas%20Best--SavingsBond%20Final.pdf>.

for splitting refund monies to different accounts and for purchasing savings bonds with refund monies. Policy successes such as these are important mechanisms for helping families save at tax time.

Nevertheless, there are still challenges to tax-time savings that demand attention going forward. Some challenges are specific to helping LMI individuals and families save, including take-up rates, decisions concerning how much is a significant or useful amount of savings, and engagement with financial institutions. Other challenges stem from the unique nature of saving at tax time such as the complexity of the process and the common negative perception of tax time.

TAKE-UP RATE

Tax-time saving programs to date have not spurred large increases in the number of people choosing to save all or part of their tax refund. In part, this response is likely due to people's general savings mindset and pre-filing intentions to spend their refunds for other purposes, e.g., to make large purchases, such as a new appliance, or that people have an immediate need for their refund money for everyday consumption or to pay down debt. Likewise, barriers to tax-time savings, such as the cognitive and administrative burden needed to open a savings account, may prevent some filers from fulfilling their intention to save. Going forward, tax-time savings programs should seek to understand each step of the "savings process" that impacts take-up rates in order to improve upon these programs.

HOW MUCH SAVINGS IS SIGNIFICANT?

Determining the level of increased savings that is significant—that is, the level of savings that positively changes the financial security of an individual—is a difficult task. The low dollar amount of savings in past tax-time savings programs might suggest such programs are insufficient for helping LMI tax filers. But in follow-up interviews, participants suggested otherwise, indicating that even a small amount of savings is beneficial to them. For first-time savers, this small nest egg could poten-

tially encourage future savings, change spending behavior, and increase self-confidence. As research demonstrates, there is no current consensus on what level of increased savings meets the criterion of being significant, though even small increases may ultimately be very influential in the lives of individuals, especially LMI individuals.

COMPLEX PROCESS

The income tax preparation process is complex and can be confusing. Intervening in this process to help tax filers save their refunds automatically becomes intertwined with issues of taxpayer expectations, legal compliance, confidentiality, and other barriers. As seen with split refunds and savings bonds programs, making changes to the administration of the tax process to facilitate tax-time savings requires a substantial effort and, potentially, a long lead time and policy changes. The complexities of the tax preparation process will affect the R2S Initiative and the implications of this research upon its conclusion.

FINANCIAL INSTITUTION ENGAGEMENT

In the past, it has been difficult to engage financial institutions in the tax-time savings process. In addition to the complicated process, financial institutions may be wary of programs that attract LMI individuals who traditionally represent a bigger risk for banks due to their accounts typically having low deposits and an increased potential for overdrafts. Further, savings deposits made at tax time tend not to be "sticky" or long-term deposits, which means getting these short-term deposits is less attractive to financial institutions. In order for tax-time savings programs to bridge unbanked individuals to mainstream financial services, continued efforts to engage financial institutions will be important.

NEGATIVE PERCEPTION OF TAXES

As Dan Ariely explains, the tax preparation process is often associated with "the pain of paying" or the discomfort associated with surrendering money, making it a challenging time to intervene in the lives of tax filers even though many Americans actually

Figure 1: 2010 Savings Bond Purchases by TurboTax Customers

TYPE OF RETURN	# PURCHASERS	EIC CLAIMANTS	AVERAGE TOTAL INCOME	AVERAGE REFUND AMOUNT
Form 1040	6,978 (~60%)	20%	\$77K	\$3,819
Form 1040A	3,507 (~30%)	55%	\$28K	\$2,715
Form 1040EZ	1,186 (~10%)	15%	\$17K	\$790
Total	11,671			

Statistical compilations disclosed in this presentation relate directly to the bona fide research of and public policy discussions concerning the promotion of increased savings in connection with the tax compliance process. All compilations are anonymous, and do not disclose cells containing data from fewer than ten tax returns. IRS Reg. 301.7216

Source: TurboTax 2010 e-file data through 4/20/2010

receive a refund. The confusion surrounding withholdings, legal reporting requirements, and general fear of being audited by the IRS may deter participation in savings programs. These challenges may suggest the need to prompt savings sooner than the tax preparation process, perhaps starting with the delivery of W2 forms.

In addition, to overcome this negative perception of taxes there needs to be incessant and consistent year round messaging about tax-time saving from nonprofits, government, and the for-profit sector. Phil Poirier, vice president with the Government and Consumer Division of Intuit Inc. further suggest that the messaging needs to be consistent for the right segments of the population—that is, messaging may be different in order to target certain population segments in order to help tax filers understand that the tax process can be a vehicle for savings.

Despite these challenges, there is much to be learned from tax-time savings programs.

Savings Behavior and Intentions of Intuit Customers

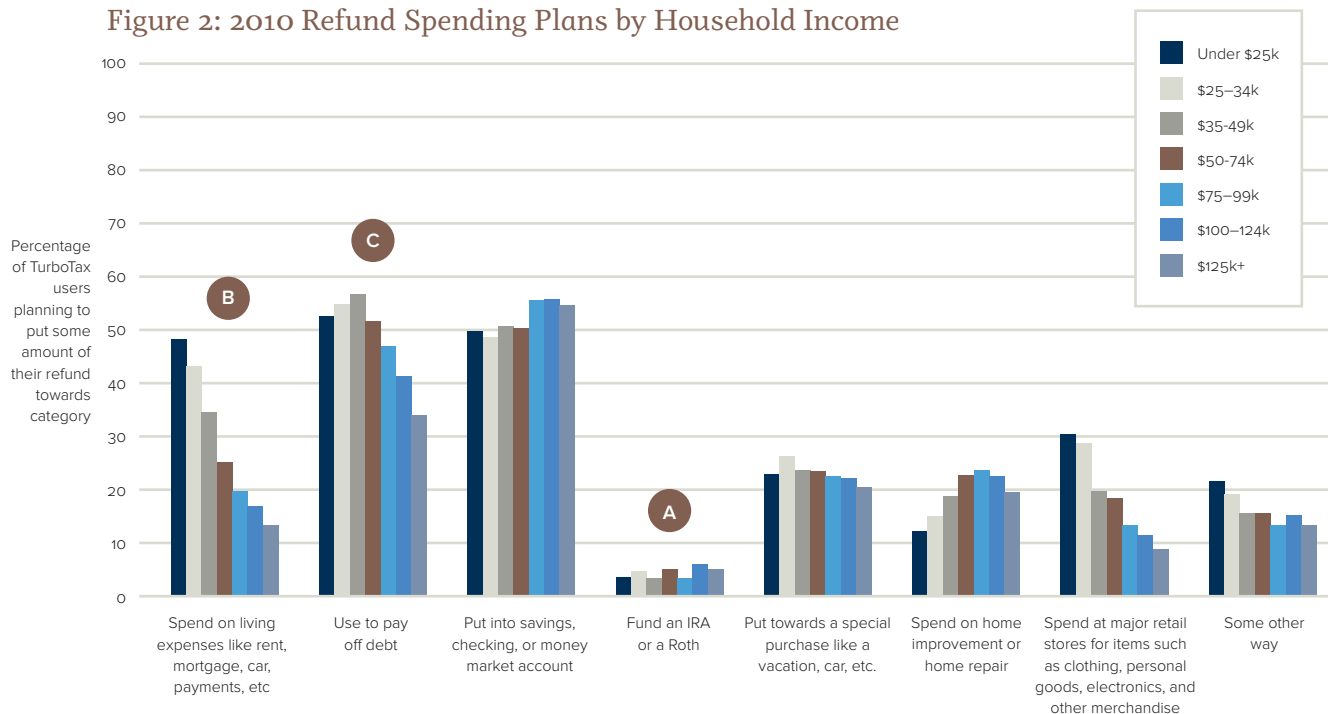
At the R2S meeting, Intuit’s Group Product Manager John Green, presented data collected from their customers regarding their purchase of savings bonds, how customers reported their intentions to save or spend their tax refunds, and their usage of the IRS split refund feature. These data represent what Intuit customers currently say and, in some cases, do related to their tax-time savings behavior, and thus shed light on existing conditions and trends regarding tax-time behavior.

SAVINGS BOND PURCHASES DURING THE 2010 FILING SEASON

According to the Treasury Inspector General for Tax Administration (TIGTA), “As of May 28, 2010, 24,636 individuals chose to use \$12.2 million of their tax refunds to purchase savings bonds.”⁵ Aggregated data compiled from anonymous Intuit e-file information of savings bonds purchases in last year’s tax season (through April 20, 2010) reflected that Intuit customers purchased 11,671 savings bonds, which accounted for about half of all savings bonds purchased through the tax refund process during the

5 For further information, see RECOVERY ACT : Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season, a 2010 report of the Treasury Inspector General for Tax Administration (TIGTA). The reference number for this report is: 2010-41-128.

Figure 2: 2010 Refund Spending Plans by Household Income



- A Intent to spend on retirement is low for all income levels
- B Lower income taxpayers have less flexibility to spend on “optional” purchases
- C Debt is one of the largest considerations for all income levels

Source: TurboTax 2010 Customer Survey

2010 filing season. Interestingly, as shown in Figure 1, many tax filers who purchased savings bonds in 2010 also claimed the EITC.

HOW CUSTOMERS INTENDED TO SAVE OR SPEND THEIR REFUNDS

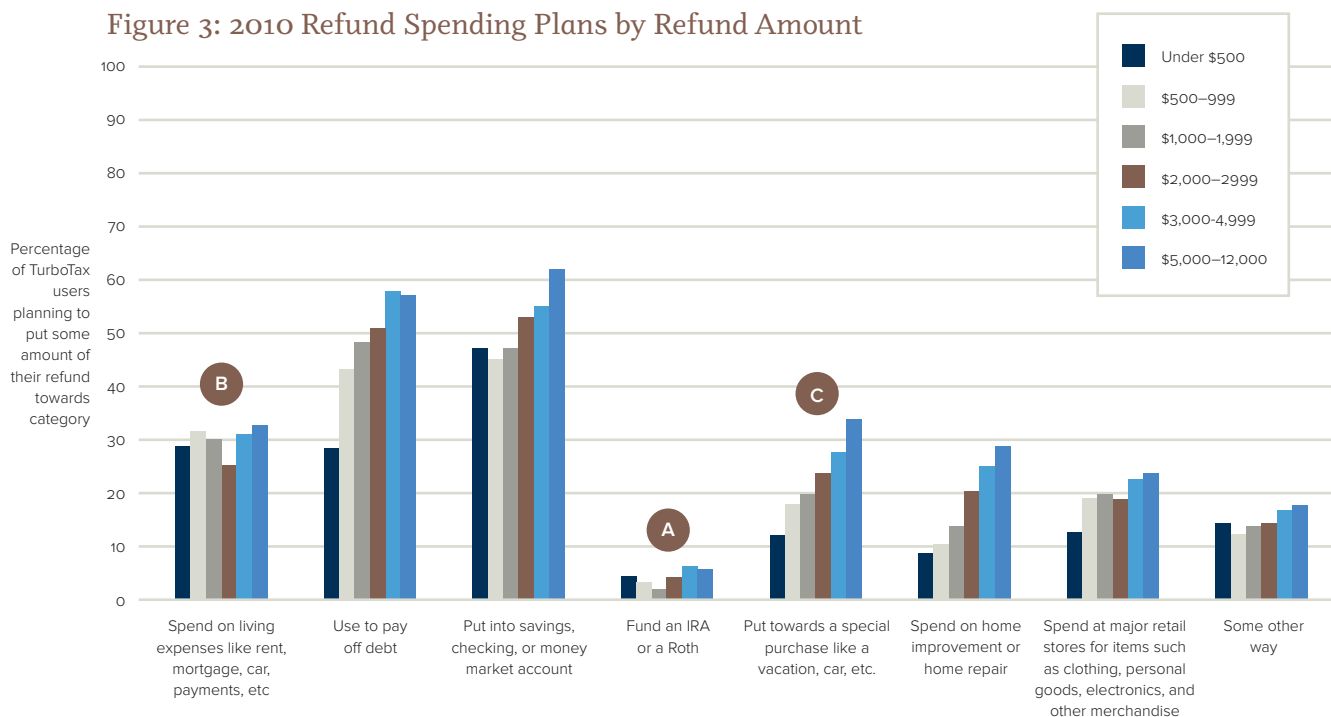
A separate TurboTax survey question offered to consumers by Intuit essentially asked, “You just learned you got a refund, what are you planning to spend it on?”⁶ A variety of categories were then provided from which customers could indicate their spending plans; categories included living expenses, debt payments, savings or checking account, and others. However, as John Green noted during his presentation, there are

limitations to the question and the available responses. First, the survey question measures intent, not actual behavior, which would be expected to differ at least slightly in reality.

Second, some of the response categories offered in this question may potentially overlap or may be confusing. For example, checking and savings are combined into a single option and the option to spend the refund at major retail stores could be interpreted as including living expenses. Also according to Green’s presentation, a customer might answer, “Well, I’ll put it in checking first, but then spend it on something later.” Therefore, caution should be used when

6 The exact survey question was worded: “Below are several categories in which some people spend their tax refunds. Thinking about the tax refund you are going to receive, to the best of your knowledge, what percentage of your refund do you plan to spend in the following categories?” Responses: a. Spend on living expenses like rent, mortgage, car payments, etc; b. Use to pay off debt; c. Put into savings, checking or money market account; d. Fund an IRA or Roth; e. Put towards a special purchase like a vacation, car, etc; f. Spend on home improvement or home repair; g. Spend at major retail stores for items such as clothing, personal goods, electronics, and other merchandise; or h. Some other way.

Figure 3: 2010 Refund Spending Plans by Refund Amount



- A Intent to save for retirement does not change significantly based on refund amount
- B Plans to spend on living expenses are relatively consistent
- C Flexibility to spend on non-essential items goes up as refund amount gets larger.

Source: TurboTax 2010 Customer Survey

interpreting these survey responses. Nevertheless the responses are intriguing.

With those caveats, as Figure 2 illustrates, an examination of refund spending plans by household income shows that retirement savings (funding an IRA or Roth IRA as shown in Figure 2, Circle A) are not something people are thinking about, regardless of income level. In addition, but perhaps not surprisingly, lower-income households are planning to spend more on living expenses (see Figure 2, Circle B). Last, debt (see Figure 2, Circle C) is one of the largest considerations for all income levels.

Examining refund spending plans by refund amount shows the same behavior in terms of saving for retirement (see Figure 3, Circle A). Plans to spend

on living expenses are relatively consistent across the refund amount (see Figure 3, Circle B). The third point, again perhaps not surprisingly, is that flexibility to spend on non-essential items goes up as the refund amount increases (see Figure 3, Circle C).

SPLIT REFUNDS DURING THE 2010 FILING SEASON

According to a TIGTA report, as of May 28, 2010, 567,255 individuals chose to split their tax refunds of \$2.5 billion between two or three different accounts, out of a total pool of 101 million tax refunds totaling \$291.7 billion that the IRS had processed by this date.⁷ TIGTA also reported that the number of individuals using the split tax refund option in

7 For further information, see Recovery Act : Verifying Eligibility for Certain New Tax Benefits Was a Challenge for the 2010 Filing Season, a 2010 report of the Treasury Inspector General for Tax Administration (TIGTA). The reference number for this report is: 2010-41-128.

Figure 4: 2011 Turbo Tax Split Refund Usage

AGI	% THAT SPLIT THEIR REFUND	AVERAGE REFUND AMOUNT	AVERAGE REFUND AMOUNT FOR THOSE THAT SPLIT
Under \$25k	1.86%	\$2,567	\$2,386
\$25k but less than \$35k	1.20%	\$3,008	\$2,354
\$35k but less than \$50k	0.86%	\$2,713	\$2,068
\$50k but less than \$75k	0.71%	\$2,926	\$2,030
\$75k but less than \$100k	0.70%	\$3,502	\$2,384
\$100k but less than \$125k	0.67%	\$4,022	\$2,633
More than \$125k	0.44%	\$5,023	\$3,306
Total	1.43%	\$2,776	\$2,340

Statistical compilations disclosed in this presentation relate directly to the bona fide research of and public policy discussions concerning the promotion of increased savings in connection with the tax compliance process. All compilations are anonymous, and do not disclose cells containing data from fewer than ten tax returns. IRS Reg. 301.7216

Source: TurboTax 2011 e-file data through 2/19/11. Data is preliminary and needs to be validated.

12

2010 increased 49 percent over the same time period in 2009.⁸ On a rough percentage basis, the increase equates to about 0.4 percent of taxpayers splitting their refund in 2010.

Preliminary anonymous, aggregated Split Refund Usage data for TurboTax customers in 2011 (through February 19, 2011), as presented in Figure 4, shows that on average 1.4 percent of the Turbo Tax cus-

tomers base is choosing to split their refund. Interestingly, lower-income TurboTax users appear to have split their refund at a higher rate than higher-income tax payers. It is also notable that people with lower refund amounts have a slightly higher rate of using split refunds. Although the expectation might be that higher refund dollar amounts would be split more frequently, the opposite is shown here.

⁸ Ibid.

Emerging Issues and Questions of Urgent Interest in the Field

There are many questions and issues of interest regarding which prompts and mechanisms help people accumulate savings. During the February 2011, R2S meeting, participants brainstormed ideas for future research and discussed the merits and limitations of prompts and mechanisms that have been used in other projects. The compiled list is rich with ideas, and although some are beyond the scope of the R2S Initiative, the project will test some of the ideas to help advance research and practice related to savings and wealth accumulation.

Saving Prompts

The first area of interest relates to the use of prompts to promote savings. For instance, what communication approaches would be useful in the promotion of saving at the “golden opportunity” of tax time? What approaches seem to be most persuasive at that point in a person’s life? What is the mindset that you want people to have at that moment that could actually push them to save their refund? Empirical evidence from the field of behavioral economics demonstrates that the message, or prompt, that is given is important in the promotion of actual behavior change; and seemingly small changes can have a large impact on the behavioral outcomes. Thus, these savings prompts demand careful consideration. Numerous types of prompts are available for testing with regard to their impact on savings behavior, and the R2S Initiative will help shed light on the nuances of this messaging and what impacts can be expected based on those variations.

SOCIAL PROOFS

The use of social proofs represents one way in which persons may be prompted to save. A social proof prompt could consist of offering information on the savings behavior of other filers in a peer group. This information would enable tax filers who are unsure about saving to see what others who are similarly situated are doing and benchmark themselves anonymously against these peers. For example, telling a tax filer the percentage of people in his or her home ZIP code who chose to save part of their refund could influence the filers’ decisions regarding savings in the tax return process. Another example would be to ask a tax filer “How much are you going to save?” and then tell the customer if he or she is ahead or behind the saving curve relative to similar filers. During the meeting, Dan Ariely offered a caution about social proofs, noting that social proofs encourage social conformity and thus are effective; however, they can also be difficult to create. The difficulty in creating a social proof stems from the decision regarding what information to use to create a useful



social comparison; that decision may be problematic because there are many possible matrixes through which to compare people. As noted by meeting participants, exploring how to effectively and ethically use social proofs to promote savings should be a critical part of the tax-time savings research agenda.

DEFAULTS

Defaults would function to automatically create a certain level of savings of the tax refund. A tax filer would then have to “opt-out” if he or she did not want to save in this way. Research has shown that making savings automatic helps people fulfill their intentions to save because it offers a path of least resistance. In addition, automatic defaults create an implicit recommendation about what amount should be saved. However, there are concerns regarding defaults, namely that the right amount to save largely depends on individual circumstances. In a recent experimental study done on tax-time savings defaults

among low-income tax filers, defaults had no effect on savings behavior.⁹ These results are likely due to the fact that tax filers had already made plans to use the money, and thus their refund was not available for saving. Additional research should test the impacts of various default scales and levels.

TARGETING WITH CONSUMER DATA

David Marzahl, president of the Center for Economic Progress, suggested building on tax filers’ information, such as tax-advantaged savings deductions, to affect savings behavior. For example, a potential prompt drawn from consumer data could be, “We notice you’re saving for retirement (or education) based on your W2 Form. Would you think about saving for this also?” The use of consumer data to inform savings prompts would likely be useful to explore further in future research on savings and wealth accumulation.

⁹ Bonchetti, Erin Todd; Dee, Thomas; Huffman, David; Magenheim. (2011). When a Nudge Isn’t Enough: Defaults and Savings Among Low-Income Tax filers. National Bureau of Economic Research. Working Paper 16887. Available at <http://www.nber.org/papers/w16887>.

Potential Savings Prompts

SOCIAL PROOFS | DEFAULTS | TARGETING
WITH CONSUMER DATA | TARGETED SAVINGS GOAL/RECOMMENDATIONS | AFFIRMATIONS |
SOCIAL INTERACTION | REGRET OPPORTUNITY | PRE-COMMITMENTS | REGULAR ON-GOING
SAVINGS GOALS | MATCHING FUNDS | TARGETED SAVINGS GOAL/RECOMMENDATIONS

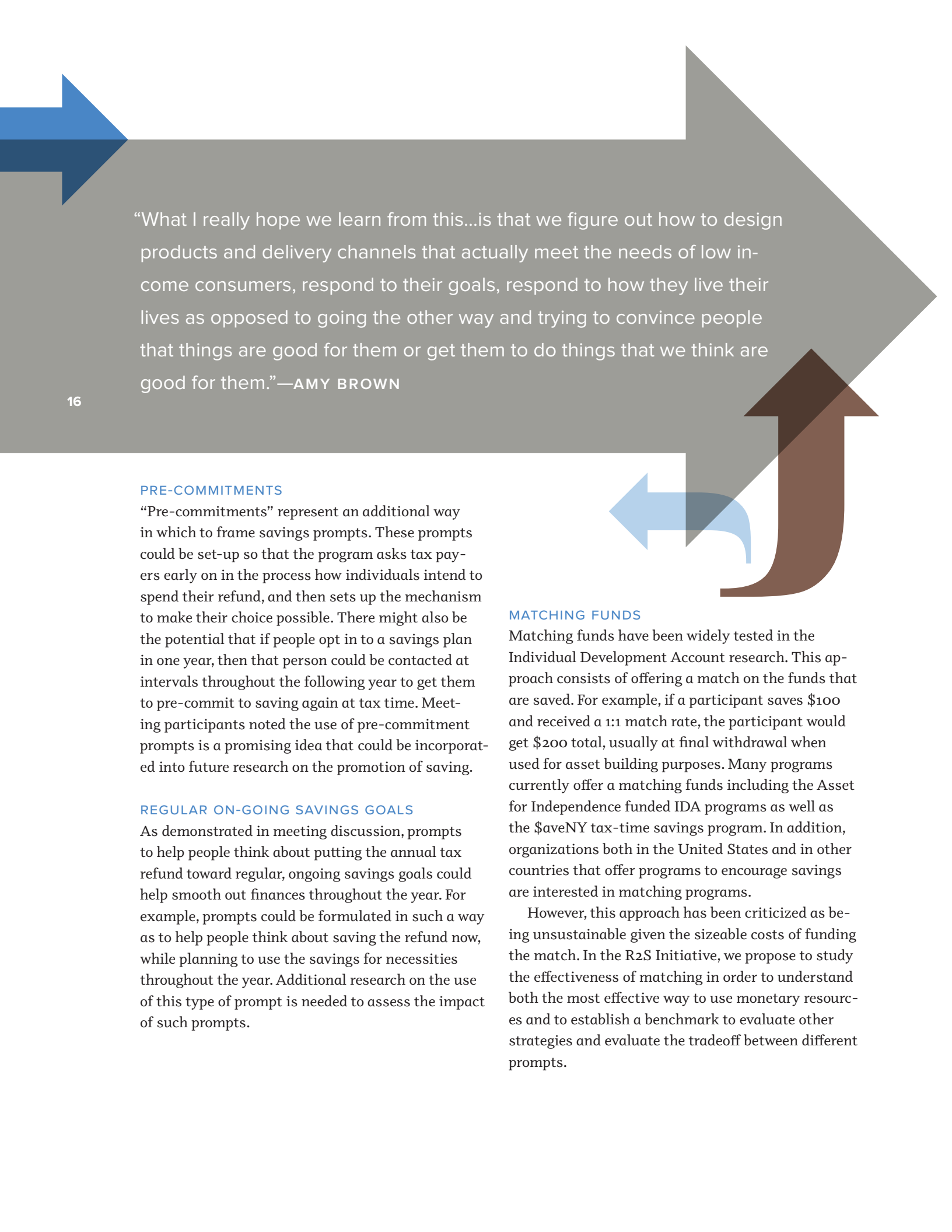
TARGETED SAVINGS GOAL/RECOMMENDATIONS
During the meeting, Amy Brown program officer with the Ford Foundation suggested prompting savings by offering a recommended savings amount based on a certain savings goal. For example, if a tax filer indicated that he or she was saving for a down payment on a home, the savings recommendation would be relative to this particular savings goal. Alternatively, translating the monthly or yearly savings amount into a tangible total could help tax filers visualize the purpose for which they are saving. For example, if a tax filer says he or she is saving for an emergency, a prompt could relate that people typically experience spending \$500-\$1000 a year for emergencies. In previous research about retirement savings, this type of framing around accumulated savings has been persuasive in changing people's thinking from the immediate foregone consumption to the longer-term goal for retirement. This same framing principle is often how refund anticipation loans are marketed; for example, the advertising says "Get \$2,500 today," rather than "It will only cost \$300 today." Meeting participants noted that further research on this type of savings prompts would be beneficial to this area of research and practice.

AFFIRMATIONS
Irene Skricki, senior associate with the Annie E. Casey Foundation, recommended testing the use of affirmations. An affirmation-based prompt would consist of telling people to think of something happy and/or successful that they did yesterday and then asking them about refund savings. The notion behind this type of prompt is to make people feel good

and then to see the effect the positive feeling has on savings behavior. Additional research should be done to test the impacts of using affirmations to promote saving.

SOCIAL INTERACTION
Meeting participants recommended that social interaction prompts could be used to promote saving. An example of this type of prompt would be to provide positive, personal testimonies about the program/products offered, with the rationale being that people may listen to the experiences of others like them who have participated rather than an expert telling them what to do. This would be similar to the social media websites such as the Trip Advisor model where people seek advice about travel and vacations from other travelers, not travel agents, who post advice based on their own experiences. This model could be useful in informing future research on savings prompts, demonstrating the potential utility in testing the impacts of similar forms of prompting in the realm of savings.

REGRET OPPORTUNITY
The provision of a prompt related to "regret opportunity" is meant to cause people to think about what may happen if they do not save money now. For example, a program could provide a prompt stating, "If you don't save now for retirement, you will have to keep working past your 60s." Meeting participants discussed the potential use of incorporating regret opportunity prompts into research promoting savings accumulation.



“What I really hope we learn from this...is that we figure out how to design products and delivery channels that actually meet the needs of low income consumers, respond to their goals, respond to how they live their lives as opposed to going the other way and trying to convince people that things are good for them or get them to do things that we think are good for them.”—AMY BROWN

16

PRE-COMMITMENTS

“Pre-commitments” represent an additional way in which to frame savings prompts. These prompts could be set-up so that the program asks tax payers early on in the process how individuals intend to spend their refund, and then sets up the mechanism to make their choice possible. There might also be the potential that if people opt in to a savings plan in one year, then that person could be contacted at intervals throughout the following year to get them to pre-commit to saving again at tax time. Meeting participants noted the use of pre-commitment prompts is a promising idea that could be incorporated into future research on the promotion of saving.

REGULAR ON-GOING SAVINGS GOALS

As demonstrated in meeting discussion, prompts to help people think about putting the annual tax refund toward regular, ongoing savings goals could help smooth out finances throughout the year. For example, prompts could be formulated in such a way as to help people think about saving the refund now, while planning to use the savings for necessities throughout the year. Additional research on the use of this type of prompt is needed to assess the impact of such prompts.

MATCHING FUNDS

Matching funds have been widely tested in the Individual Development Account research. This approach consists of offering a match on the funds that are saved. For example, if a participant saves \$100 and received a 1:1 match rate, the participant would get \$200 total, usually at final withdrawal when used for asset building purposes. Many programs currently offer a matching funds including the Asset for Independence funded IDA programs as well as the \$aveNY tax-time savings program. In addition, organizations both in the United States and in other countries that offer programs to encourage savings are interested in matching programs.

However, this approach has been criticized as being unsustainable given the sizeable costs of funding the match. In the R2S Initiative, we propose to study the effectiveness of matching in order to understand both the most effective way to use monetary resources and to establish a benchmark to evaluate other strategies and evaluate the tradeoff between different prompts.

Saving Mechanisms

Once tax filers decide to save part of their tax refund, the question becomes how to facilitate that decision. A variety of financial products is available for putting away money for the future and range from savings accounts, to bonds, to Individual Retirement Accounts. Ray Boshara, senior fellow at the New America Foundation explains, “IDAs have shown us that you can’t expect one product to meet everyone’s needs.” Many questions exist concerning savings mechanisms, such as queries related to what financial products are demanded and how products should be structured. The meeting participants discussed each of these topics, as well as the types of savings products already available and how these products could be linked to the tax filing and refund process. A summary of this discussion is provided in this section.

WHAT FINANCIAL PRODUCTS ARE DEMANDED?

As Amy Brown, program officer with the Ford Foundation explains, the R2S research can help “Design products and delivery channels that actually meet the needs of low-income consumers, respond to their goals, and respond to how they live their lives.” Understanding the demand for new savings products, and the preferred structure for those products, will be an important learning from future research, particularly for the low-income and unbanked populations who have far fewer options for saving.

On the other hand, using existing products has significant advantages given the enormous effort entailed in familiarizing policy makers and the public with new products. Thus, an unanswered question remains; To what extent are new, separate accounts or products for saving needed versus using existing accounts? Similarly, rather than creating new products, how can the existing products be modified, expanded, and tweaked for better savings success? This information will not only be valuable for tax-time savings programs but also for the broader field of savings and asset accumulation.

HOW SHOULD SAVINGS PRODUCTS BE STRUCTURED?

Of course, not every savings product needs be structured in the same fashion, yet it would be helpful to understand how particular elements of savings vehicles affect behavior and financial well-being. The following information provides insight into important elements of savings products that arose in the meeting discussion.

FRICTION

Testing how much friction, in this context meaning the amount of intention and effort required to prevent withdrawal of funds, is essential to helping people preserve their savings. A fine balance exists between facilitating ongoing savings by making withdrawals difficult and understanding how much resistance is too much or is actually detrimental to savings goals. As Peter Tufano noted, “If you allow people easy liquidity of their financial products, they’ll drain their accounts. But if you allow people easy liquidity of their financial products, they’re more likely to put money in, in the first place.” Participants brainstormed on this topic at the meeting, and their ideas included requiring waiting periods between requesting the funds and receiving the money, requiring affidavits stating for what purpose the money will be used, requiring the customer to go to the financial institution to make a withdrawal, or requiring a separate PIN to take money out of the account.

The \$aveNYC program set-up a liquid savings product to facilitate savings for low-income customers. The customer can add to the account or take money out at any time; however, withdrawals are made more difficult by requiring the customer to go in person to the financial institution to make a withdrawal. In addition, as an incentive, if the initial deposit remains in the account for one year, a match is provided. This and future programs share a key research question: What level of friction is enough to create the desired savings behavior?



RESTRICTED OR UNRESTRICTED SAVINGS?

Restricted-savings programs often create legal barriers to help direct savings to long-term asset accumulation (i.e. home purchase, education). However, research on IDAs and other restricted-savings programs has demonstrated that there is a need for other types of savings as well. “The field is certainly encouraging long-term savings that lead to productive assets,” says Peter Tufano, “but the movement has been increasingly toward less restricted savings, more flexible savings, more emergency savings.” Moving forward, it will be critical to evaluate whether legal barriers or consumer self-restrictions are needed to create successful savings products.

DEBT REDUCTION AT TAX TIME

According to previous studies on H&R Block customers and preliminary data from Intuit customers, a major use of the tax refund, across all income levels, is for debt reduction. To facilitate debt reduction at tax time, mechanisms to allow for easy and direct credit card and other debt payments are needed.

EXISTING PRODUCTS

Participants at the R2S meeting discussed existing products that could be more closely linked to the tax refund process to reduce the obstacles to saving; namely, once a tax filer has the money in hand, it is much more likely that the money will be spent than put in savings. Existing products discussed included savings bonds, money market accounts, 30-year T-Bonds, Roth and regular IRAs, IDAs, and 529s. In particular, detailed discussion ensued concerning Treasury Direct accounts and prepaid debit cards; a brief summary of each of these products and their relation to tax time saving is offered here.

Treasury Direct/Savings Bonds According to David Starck, external communications advisor with the Bureau of the Public Debt at the U.S. Treasury Department, last year \$3 million worth of tax refunds were deposited into personal Treasury Direct accounts, which are essentially unrestricted electronic savings bonds with a one-year holding period. The Treasury Direct option is potentially useful for tax time savings programs because it does not

require the types of IRS 7216 consents (discussed in detail later in this document) that other products may require, and offers minor accounts and gift-ing accounts. However, consumers have to sign up for a Treasury Direct account, and the extra effort required to create the account may make this option somewhat less appealing to consumers.

Debit Cards One option that could address the need for emergency savings, and be particularly appealing to the unbanked, is the debit card loaded with their tax refund money. The debit card, which could also have an attached savings account, would be available for use at any time, with the idea that if the sav-ings are kept for a year, the savings amount would be matched. “It could be just the right amount of lever- age to get people to not use it [tax refund] on option- al or frivolous spending but truly use it only when the car breaks down, etc.,” explains Amy Brown, program officer with the Ford Foundation.

Other Issues Raised

To the extent that existing products are used at tax time, Melissa Koide, vice president for policy at the Center for Financial Services Innovation, explains that tax time is still potentially a “non-traditional way of actually delivering bank products, savings products, transaction products, credit products where it’s not the consumer walking into the bank branch in order to access those products, but literally getting it through third parties. The supply chain can look radically different.” In addition, meeting partici- pants raised questions about the consent process for participation in tax-time savings research.

TAXPAYER CONSENT:

INTERNAL REVENUE CODE 7216

The protection of taxpayer privacy is an important policy objective. According to the Internal Revenue Service, “Code §7216 is a criminal provision enacted by the U.S. Congress in 1971 that prohibits preparers of tax returns from knowingly or recklessly disclos- ing or using tax return information.”¹⁰ Accordingly, many types of tax refund savings programs would likely require separate use and disclosure consents before any use or disclosure of tax return informa- tion could be used to offer or transact savings prod- ucts. In past tax time savings programs, the current form and mechanics of the §7216 consent have been found to be cumbersome and confusing and, thus, po- tentially create an unnecessary barrier to increased savings in appropriate, safe savings vehicles. R2S may identify opportunities to clarify 7216 require- ments in a way that both protects taxpayers’ privacy while enabling the policy goal of increased savings.¹¹

WITHHOLDING PROCESS

While much of the discussion focused on tax-time savings once a filer has gotten a tax refund, there is also potential to help individuals save through the withholding process. Increasing the amount of money withheld from a paycheck for taxes is an inefficient savings because the money does not earn interest during the withholding year. However, if the withholding system is a good mechanism to help people save more at tax time, perhaps it should be considered in the discussion of savings mechanisms. As Phil Poirier, Vice President, Government, Con- sumer Division of Intuit Inc. said, “The reality is a lot of people have already done the hard part, they did save [through the withholding process], but they are not thinking of it that way.” Therefore, helping people increase their withholdings and then provid- ing a savings vehicle at tax time would allow people to accumulate savings year-round.

¹⁰ Internal Revenue Service. 2010. Section 7216 Frequently Asked Questions. Retrieved May 9, 2011 from <http://www.irs.gov/efile/article/0,,id=188398,00.html>.

¹¹ For more information on the challenges of the consent process please see Doorways to Dreams Fund, Inc. (2009). Yes We Can: Inclusive Saving at Tax Time. Available at http://www.d2dfund.org/research_publications/yes_we_can_inclusive_saving_tax_time.

Implications for Policy and Practice

The R2S Initiative has the potential to affect a broad array of both policy and practice implications in the area of savings and asset building. Participants in the R2S meeting brainstormed these potential implications, identifying possible impacts on the tax regulation and process, financial products, and the financial well-being of individual tax filers.

Implications for the Tax Regulation, Process and Procedures

PURPOSE OF THE TAX PROCESS

There are differing opinions within and outside the IRS about whether the tax process should be used for anything other than collecting taxes. One perspective argues that the tax process should be about compliance only. Others agree with this perspective on compliance, but also think the tax process should administer the other social benefits and economic stimulus activities associated with the tax process, such as earned income and homebuyer's tax credits. Even others think the tax process can be used to promote things like savings, even though there may not be a statutory requirement to do so. According to Josh Wright, director of Financial Access Innovations in the Office of Domestic Finance with the U.S. Treasury Department, "To the degree that [this project] shows that there are no- or low-cost ways to encourage people to save, very much helps contribute to this policy debate about whether you should use the tax process for anything other than tax administration." The R2S Initiative is likely to provide evidence on modifications that could be made to the tax process that would aid in savings.


ASSET LIMITS DEBATE

For many low-income people who receive federal or state benefits, there is a concern that they could lose such benefits if they accumulate more than a certain amount of assets. The R2S Initiative could help inform the debate about raising the federal assets cap to allow for low-income families to participate in tax-time savings programs and other savings programs without being negatively impacted by the loss of their public assistance benefits.

Implications for Financial Products

NEW FINANCIAL PRODUCTS

Currently, the Department of Treasury is putting thought into the design of tax-time savings products and the R2S Initiative could potentially shed light on the design of financial products, such as the level of friction needed to effectively promote savings at tax-time and beyond. In addition, the R2S Initiative is designed to identify what products tax filers actually select instead of what they say they want or prescribing a particular type of savings or product.



“I think we’re looking at a whole lot of people, and we’re able to put them through a prism and see some of the different ways in which different kinds of households in different positions can be motivated and helped to save in different ways.”— JANNEKE RATCLIFFE

With this and other information discovered through the R2S Initiative, this project has the potential to influence products offered by the Treasury as well as products offered by other financial institutions.

ENGAGING FINANCIAL INSTITUTIONS

The R2S Initiative will test what types of products meet consumer demands; but it also could potentially work with financial institutions to develop such products. According to experts at the meeting, there has been a failure in the market at the intersection of the tax process and good, responsible accounts for people to save their refund. The R2S Initiative could encourage financial institutions to be innovative based on the insights from the research. For example, innovation could be encouraged through the bundling of products, such as the combination of a transaction vehicle and a savings vehicle, or new approaches for overcoming barriers to savings, including regulatory issues and impediments of some financial products such as those requiring ID verification.

ALTERNATIVE DELIVERY OF FINANCIAL PRODUCTS

The R2S Initiative will consider a variety of ways in which financial products and other mechanisms can be used to promote savings at tax time. Moreover, using the tax process as a delivery channel for savings products will be a departure from the way people traditionally access such products (i.e. through the branch office of a financial institution). This delivery channel could reduce barriers to saving by providing a “one stop shop” for people to get and then save their refund. The knowledge gained by R2S could also include ways to better protect consumers from predatory alternative financial services.

Implications for Consumers

PERSUASIVE COMMUNICATION

The findings on the savings prompts have the potential to translate from the tax-specific savings programs to broader savings opportunities. The rigorous evidence generated from the intention surveys, the in-product offers, and the follow-up survey will provide invaluable information on the key motiva



tions for saving and how these motivations can be manipulated to help people reach their savings goals and aspirations.

Further, tax time is often considered a frightening or stress-inducing period of the year for those filing taxes. R2S has the potential to aid in the reframing of tax time as a less adversarial and complicated process, and instead painting this time as a helpful period during which consumers can open savings accounts, gain information on the process of saving, and begin to actually save funds that will increase their financial stability. This reframing could potentially be most successful if the reframing starts prior to tax process itself, providing tax filers the opportunity to become familiar with tax-time savings before they are asked to save part of their refund.

LONG-TERM SAVINGS IMPLICATIONS

Findings from the R2S Initiative are likely to influence the way in which asset-building strategies are designed and implemented, including the way in which consumers are prompted to save, which financial products are offered to individuals, and how asset-building strategies are funded and sanctioned within the United States. With greater knowledge of what products and mechanisms promote saving, broad asset-building initiatives will be better equipped to effectively promote the long-term savings of individual consumers during tax time as well as other times throughout the year. These implications for the long-term savings of individual R2S participants may then be expanded to reach the broader population. With the promotion of long-term savings, these initiatives will thus have a positive impact on the long-term financial well-being of these individual consumers.

Conclusion

The R2S Initiative was developed to capitalize on the potential of the tax refund process to be an opportunity for many individuals to create savings. R2S is a collaborative effort of the University of North Carolina, Duke University, and the Intuit Inc. This collaboration applies the principles of behavioral economics to design and to test savings prompts, financial incentives, and various financial products that will be embedded into TurboTax's online tax preparation software in order to encourage and facilitate saving.

To further this initiative, the project partners hosted a multidisciplinary, one-day meeting in Chapel Hill, NC to discuss the R2S Initiative. The purpose of this meeting was to bring together leaders in the field of savings and asset building from foundations, government, policy, practice, and academia to discuss the project components and the project's potential implications for policy and practice. Following this

meeting in early 2011, the R2S Initiative has progressed quickly and the results of the first intention survey (completed in April 2011) are now being analyzed. Project partners are also working to plan the future implementation of R2S Initiative based on the survey learnings. Moving forward, the next steps for the R2S Initiative include expanding interest in the project and identifying additional partners.

APPENDIX A

Participant List

DAN ARIELY

James B. Duke Professor of Behavior Economics,
Duke University

RAY BOSHARA

Senior Fellow, Asset Building Program,
New America Foundation

AMY BROWN

Program Officer, Ford Foundation

REID CRAMER

Director of the Asset Building Program,
New America Foundation

DONALD DILL

Senior Tax Analyst, SPEC,
Internal Revenue Service

MARY FANT DONNAN

Executive Director, The Alleghany Foundation

JOHN FRANCIS

Fellow, Z. Smith Reynolds Foundation

LUCY GORHAM

Senior Program Director, MDC, Director, EITC Carolinas

LAURIE GRAHAM

Research Assistant, Assets Building Group,
School of Social Work, UNC

JOHN GREEN

Group Product Manager, Intuit Inc.

MICHAL GRINSTEIN-WEISS

Associate Professor,
Director, Assets Building Group
School of Social Work, UNC

KRISTA HOLUB

Research Assistant, Assets Building
Group, School of Social Work, UNC

CLINTON KEY

Research Director, Assets Building Group,
School of Social Work, UNC

MELISSA KOIDE

Policy Director, Center for
Financial Services Innovation

SUSAN MASON

Director, Intuit Financial, Freedom Foundation

DAVID MARZAH

President, Center for Economic Progress

MIKE MCBRIDE

Acting Director, SPEC Headquarters Operations,
Internal Revenue Service

PHIL POIRIER

Vice President, Government,
Consumer Division, Intuit Inc.

JANNEKE RATCLIFFE

Associate Director, Center for Community Capital

CARL RIST

Vice President of Programs, CFED

IRENE SKRICKI

Senior Associate, Annie E. Casey Foundation

DAVID STARCK

External Communications Advisor, Bureau of
the Public Debt, U.S. Treasury Department

ANDRÉA TAYLOR

Project Manager, Assets Building Group
School of Social Work, UNC

PETER TUFANO

Professor, Harvard Business School
Chairman, D2D Fund
Dean (elect), University of Oxford, Said Business School

BRENDA WILLIAMS

Director of Financial Literacy,
NC Department of State Treasurer

BEADSIE WOO

Senior Associate, Annie E. Casey Foundation

JOSHUA WRIGHT

Director of Financial Access, Innovations, Office of
Domestic Finance, U.S. Treasury Department

APPENDIX B

Agenda

Refund to Savings | February 25, 2011 | UNC Chapel Hill
School of Social Work | Tate Turner Kuralt Building, Room 300

8:15–9:00 am	Continental Breakfast
9:00–9:50	Welcome Jack Richman, Dean Purpose of Meeting & Initiative Goals Participant Introductions Michal Grinstein-Weiss
9:50–10:10	Behavioral Economics and Tax Time Savings Dan Ariely
10:10–10:30	Intuit Overview and Survey Data Phil Poirier and John Green
10:30–10:40	Break
10:40–11:10	Discussion: What have we already learned about tax-time savings? Peter Tufano and David Marzahl
11:10–12:30 pm	Discussion: Research questions and project strategy for this initiative Michal Grinstein-Weiss and Dan Ariely
12:30–1:15	Lunch
1:15–2:30	Discussion: Implications for policy and Implications for broad savings strategies Joshua Wright, Melissa Koide, Amy Brown, and Ray Boshara
2:30–3:00	Wrap-up, Summary, and Next Steps Michal Grinstein-Weiss



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

intuit®

Duke
UNIVERSITY