

REFUND TO SAVINGS



Refund to Savings is a unique partnership between the University of North Carolina, Duke University, and Intuit Inc.

assets.web.unc.edu/r2s

ALLOCATION OF THE TAX REFUND: HOW TO ENCOURAGE SAVING AT TAX TIME

About R2S

The R2S Initiative pairs researchers from the Assets Research Group at the University of North Carolina and the Center for Behavioral Science at Duke University with Intuit Inc. The Initiative seeks to leverage Intuit's TurboTax software platform to expand financial security and opportunity.

For many households, the tax refund is the largest inflow of money they receive in a given year. R2S applies the insights of behavioral economics to encourage increased savings and debt clearing

using the tax windfall. In doing so, we not only want to generate new savings and promote financial well-being but also to better understand savings decisions, motivations, and mechanisms.

The "Intention Survey"

To begin to understand the motivations and mechanisms of tax-time saving, the R2S team fielded a survey of TurboTax users as they filed their 2010 taxes in March and April of 2011. The survey, integrated as a module in Intuit's extensive customer feedback survey, investigated the planned tax refund allocation of 1,720 Intuit customers. They were invited to

complete the online survey immediately after finishing their 2010 tax filing.

Respondents were randomly assigned to receive one of ten prompts, each grounded in behavioral research on saving behavior. They were then asked about the allocation of their refund to different types of saving, debt clearing, and spending. The goal of the survey is to identify prompts that affect the allocation choices and that promote increased saving and debt clearing.

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R2S's next steps and future efforts, Pg. 3



Prompts to Influence Allocation

Control: No prompt.

Goals: Respondents are given a list of common savings goals, and asked if they are saving for each one.

Social Proof: Respondents are told that most taxpayers at their income level save part of their refund.

100% Match: The respondent is told about a hypothetical account where, if they saved for two years, they would be given “an additional \$100 for every \$100” they saved.

Emergency: Respondents are shown a list of things that commonly cause financial strain. For each item, they are asked if they would like to save for the event.

Kids: Respondents, all of whom have children in the household, are told about a hypothetical “child savings account” they could use to save for a child’s education.

Random Match: Respondents are told about a hypothetical “prize-linked savings account” where they could win up to \$1,000 for every \$100 they saved for two years.

Future Self: Respondents were prompted to think about their lives at retirement and to form a vivid image of what they wanted.

Initial Deposit: Respondents were told about a hypothetical account where they would receive a \$100 initial deposit for opening the account.

Debt: Respondents were prompted to think about their debt load.

After being shown the prompt, the respondents are asked to distribute their refund, using percentages, among:

Spending in the next month or so ,

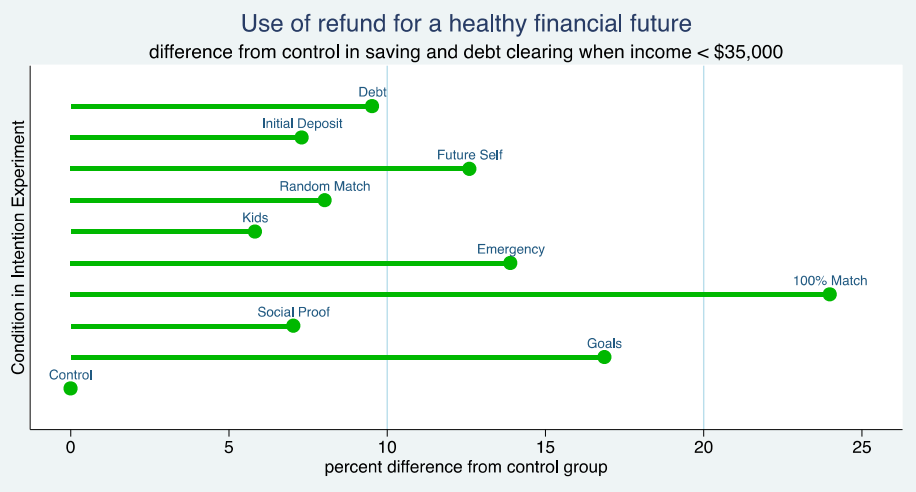
Savings they expect to keep for a few months,

Savings they expect to still have this time next year,

Savings for something in the future like retirement or a child’s education,

Paying off **debt** they owe now, or

Other



IN LOWER- AND MODERATE INCOME HOUSEHOLDS, REFUNDS CAN BE CONVERTED TO SAVINGS

The first R2S Intention Survey offers unique and valuable insights into savings behavior at tax time. The findings highlight issues that will be crucial to future work and demonstrate the validity of the premise that simple and scalable interventions can affect the allocation of the tax refund.

In particular, the allocation plan described by the portion of respondents whose household income is below \$35,000 demonstrate that there is a demand for tax-time savings in the low-income population and that the use of prompts grounded in research from behavioral economics and institutional theories of saving can increase the proportion of the refund devoted to saving and debt clearing, compared to the control group.

There is widespread demand for savings at tax time. In the control group, the average respondent chose to allocate 54% of her refund to saving or debt clearing. The analysis showed no effect of the prompts on the whole sample, but shows a strong effect on the lower-income population

Even at the small sample size available, the “Goals” and the “100% Match” prompts significantly increase the proportion of the average refund allocated to savings or debt clearing. The “Emergency” and “Future Self” prompts increase the proportion devoted to saving or debt clearing by more than 10%.

The prompts, in addition to increasing the total allocation to saving and debt clearing, also affect the allocation of

refund money between types of saving. All of the prompts except “100% match,” “Random Match, and “Kids” significantly increase the proportion of the refund allocated to debt clearing. Those who receive the “Debt” prompt, for instance, devote 24 percentage points more of their refund to debt clearing than the control group.

Respondents with an annual household income under \$35,000 show little demand for long-term savings at tax time. In the control group, the average

respondent allocates less than 1% of their refund to long-term savings. Several prompts, including “100% Match,” “Kids,” “Random Match,” and “Initial Deposit,” significantly increase allocations to long-term savings.

In all, though actual behavior may deviate from intentions, the Intention Survey demonstrates a large and increasable demand for tax-time savings in a low-income population. The R2S Initiative will craft an intervention to convert the intention to save into real savings at tax time.

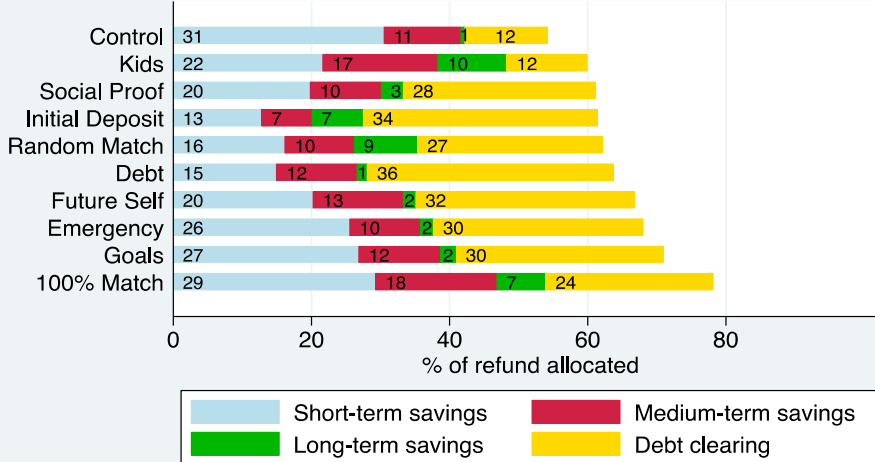


DIFFERENCES BETWEEN HIGHER AND LOWER INCOME POPULATIONS

- Low- and moderate-income households have different tax-time savings behavior than higher-income households
- The higher income population has more demand for long-term savings
- The low-income population has stronger demand for debt clearing
- Prompts may be more effective for low-income participants

Mean Allocation by Prompt

Income <\$35,000



SAVINGS TOOLS

- More research is needed to understand the tools that will best help Americans to save and build financial security
- Some savings tools that are needed may not currently exist
- We plan to investigate broadly to identify and refine tools for saving and debt clearing
- We plan to work with the Department of Treasury to develop new products that meet the needs and goals of Americans at tax time

NEXT STEPS FOR R2S

- A second round of the Intention Survey to refine prompts and increase the low- and moderate-income sample size
- An in-product demonstration pilot integrating prompts and an actual savings commitment mechanism in TurboTax using existing savings accounts and savings bonds.

For more information, visit our website:
assets.web.unc.edu/r2s