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GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

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Characteristics and Hardships Associated with Bank Account Ownership Among Refund to Savings Participants

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Bank account ownership serves as a key component to financial capability.¹ Having a bank account is one important way for households to securely accumulate savings, build credit, and earn interest on assets.² Households without accounts cannot use them to build credit, and many turn to alternative financial services in the absence of other banking services.³ Nationally, 7.7% of households are unbanked—lacking both a checking and a savings account.⁴ Given the 9.6 million unbanked U.S. households and the far-reaching consequences of being unbanked, many initiatives have tried to entice or enable more households to open and hold bank accounts.⁵ One proposed step toward financial inclusion for unbanked households is to encourage people in those households to open accounts and deposit refunds into savings at tax time, when many low-income households receive the year's largest lump sum of cash.⁶

Background

The Refund to Savings (R2S) Initiative tests innovative strategies to increase the number of low- and moderate-income tax filers who deposit their tax

refunds into savings vehicles. The initiative is an ongoing collaboration among Washington University in St. Louis, Duke University, and Intuit, Inc., the makers of TurboTax.⁷ Using a randomized controlled trial, R2S tests the effect of behavioral interventions on depositing decisions. The R2S experiment is embedded in the TurboTax Freedom Edition filing software. At the completion of filing their taxes, filers are invited to participate in the first wave of the Household Financial Survey (HFS1). Participants are invited to take part in the second wave of the HFS (HFS2) 6 months after completing HFS1. The surveys provide insights into the assets and liabilities of the tax filers, use of the tax refund, and financial and material hardships. This brief summarizes differences between banked and unbanked households, discussing each group's characteristics and financial situation. It outlines results from an in-depth analysis of 2013 online tax-filing data and from R2S's Household Financial Survey.⁸

The 2013 sample included 20,816 participants in HFS1 and 8,484 in HFS2. About 5.6% of HFS1 respondents and about 3.7% of HFS2 respondents were unbanked. Banked

Key Findings

Compared with participants who have a checking or savings account, unbanked participants have

- higher prevalence of financial shocks, material hardship, and alternative financial service use;
- higher prevalence of unsecured debt obligations but lower prevalence of secured debt obligations;
- lower rates of ownership across most types of examined assets and lower asset values.

A substantial proportion of unbanked respondents indicated interest in directing their tax refunds to new checking or savings accounts at tax time.

Table 1. Sample Characteristics by Banked Status at the Time of Filing Taxes

Characteristic	Banked	Unbanked
Sample size (N)	18,935	1,123
Age, in years (SD)	36.2 (14.3)	35.0* (11.5)
Adjusted gross income, in dollars (SD)	16,946 (10,225)	12,001** (8,671)
% female	61	58*
% minority race or ethnicity	25	33**
% college educated	44	19**
% with dependents	37	49**
Filing status		
% single	63	58**
% head of household	20	31**
% married filing jointly	15	10**
% married filing single	1	1

* Significantly different from banked respondents, $p < .05$.

** Significantly different from banked respondents, $p < .001$.

and unbanked respondents differed on most demographic characteristics captured in the survey (see Table 1). On average, unbanked respondents were younger and had lower incomes. Minority races and ethnicities were slightly overrepresented among the unbanked. The percentage of male respondents was higher among the unbanked than among the banked. Compared with banked respondents, unbanked respondents were more likely to file as head of household and less likely to file as single or married filing jointly. A greater percentage of unbanked participants claimed dependents.

A substantial percentage (44%) of those who were unbanked at HFS1 reported being banked 6 months later at HFS2. A small percentage (1.6%) of those who were banked at HFS1 were unbanked 6 months later. The fluidity of bank account ownership, represented by the high proportion participants who were unbanked at HFS1 and banked at HFS2, is worth noting, even when we consider attrition bias.⁹ Among participants who were banked at HFS1 but unbanked at HFS2, half indicated at HFS1 that they have incurred overdraft fees and 24% reported that their credit card has been declined. The tendency to view unbanked people as a population chronically isolated from traditional financial institutions may not be accurate, since some unbanked people, if not many, evidently move in and out of the financial mainstream as their situations, needs, and habits shift. People may also migrate in and out of the mainstream as services and products change. High, unpredictable fees are cited as a primary reason why households choose to forgo bank account ownership.¹⁰ As a result of high overdraft fees, service charges, and minimum balance requirements, some households move between banked and unbanked status.

Experience of Financial Stress by Banking Status

Overall, unbanked participants found it more difficult than banked households to afford everyday expenses. About half of unbanked respondents (52%) reported

at HFS1 that it was “very difficult” to afford regular household expenses in a typical month; only 23% of banked respondents reported the same. Unbanked participants were also significantly more likely to experience income volatility and other, unexpected, financially stressful events. In the 6-month period after they filed taxes, unbanked respondents were more likely to experience unemployment, to be hospitalized, and to have legal fees (see Figure 1). The prevalence of experiencing any shock is also noteworthy: Although households with bank accounts were not immune to financial shocks, the rate of experiencing any financial shock was 28% higher for unbanked households.

The burden imposed by an unexpected expense is determined in part by the resources available to meet that expense, and unbanked participants reported having fewer resources to handle such expenses. Only about one in 10 unbanked participants reported that they could come up with \$2,000 in the event of an emergency, but about four in 10 banked participants reported this.

Many households are forced to forgo payments on regular household bills, skip necessary medical care, or experience food insecurity as a result of inadequate resources. At HFS1, researchers asked households to report whether they could not afford to meet certain basic needs in the previous 12 months, and unbanked households were more likely to report experiencing all but one of the measured hardships. As Figure 2 shows, 87% of unbanked respondents skipped a bill payment, 77% could not afford the type or amount of food they wanted, 75% skipped necessary dental care, 67% skipped necessary medical care, 57% could not fill or postponed filling necessary prescription medications, 55% skipped housing payments, and 33% overdrawn an account; 27% had a credit card declined. On average, unbanked respondents reported experiencing 4.75 of the eight examined hardships in the 12 months prior to filing their taxes.

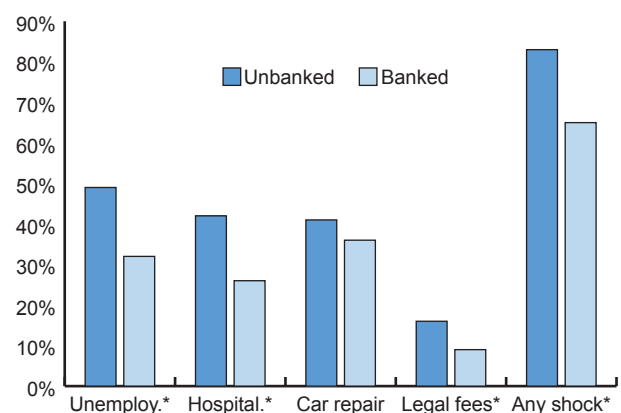


Figure 1. Financial shocks during the 6 months between HFS1 and HFS2, by banking status ($n = 8,137$). Unemploy. = unemployment; Hospital. = hospitalization.

* Difference is significant, $p < .001$.

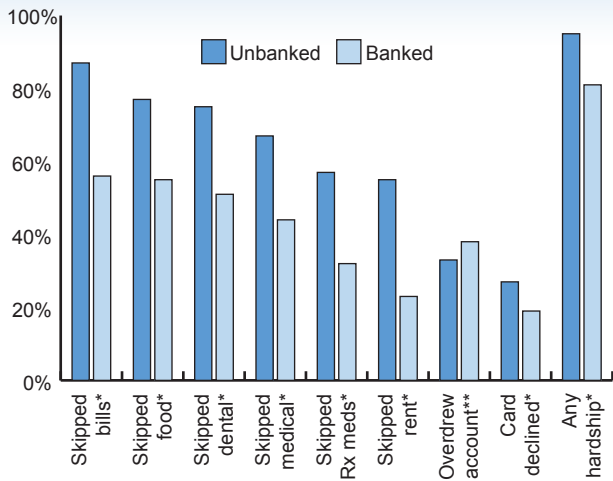


Figure 2. Material hardship by banking status at HFS1 (n = 19,641). Rx meds = prescription medications.

* Difference is significant, $p < .01$.
 ** Difference is significant, $p < .001$.

Debt and Assets by Banking Status

Overall, banked and unbanked households differ in the types of unsecured debt they owe.¹¹ As Figure 3 shows, the two most common types of unsecured debt among unbanked households were from overdue medical bills (reported by 63%) and other past due bills (reported by 59%). Among banked households, the most common unsecured debts were from credit cards (67%) and education loans (52%). Banked respondents in this sample were more likely to have a college education. However, the percentage of banked respondents with a college degree and education debt was equivalent to the percentage of unbanked counterparts with a degree and education debt. This suggests that unbanked college graduates were not any more or less likely to obtain education debt than banked college graduates were.

Although the rates at which unbanked households reported unsecured debts were generally higher than the rates reported by banked households, the opposite was true of the rates at which they reported secured debt (Figure 4). Since credit factors into banking institutions' decisions about whether to disburse secured loans, unbanked households likely have less access to loans that require collateral.

On the assets side of the balance sheet, participants' reports of asset holdings showed that, compared with banked participants, unbanked participants were only more likely to have unused balances on prepaid cards (19% vs. 14%). Banked households were more likely to hold assets in each of the other examined asset categories. Notably, no unbanked participant reported having a certificate of deposit, mutual fund or hedge fund, brokerage account, or annuity. Very few unbanked households reported having stocks (1%), savings bonds (1%), or money market accounts (1%).

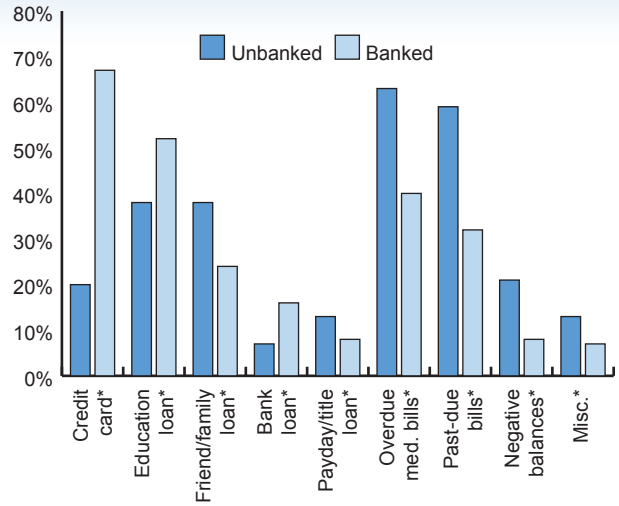


Figure 3. Prevalence of unsecured debts by banking status, HFS1 (n = 18,666). Med. = medical; Misc. = miscellaneous.

* Difference is significant, $p < .001$.

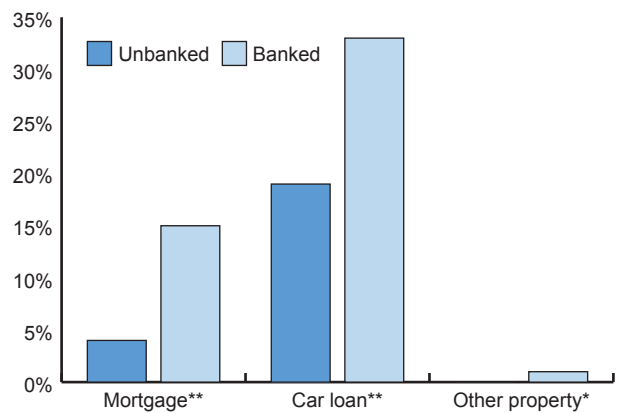


Figure 4. Prevalence of secured debts by banking status, HFS1 (n = 19,925). Banked households consistently hold more secured debts than unbanked households.

* Difference is significant, $p < .005$.
 ** Difference is significant, $p < .001$.

As Figure 5 shows, the assets most commonly reported by unbanked participants were unused balances on prepaid cards, cash saved at home, and retirement accounts such as an IRA or 401(k). The greatest difference between banked and unbanked participants is found in the rate at which they reported owning retirement accounts: 40% of banked participants and only 11% of unbanked participants owned retirement accounts. However, the moderate percentage of unbanked participants who hold retirement accounts suggests that institutional mechanisms to open and maintain funds in the accounts may be somewhat effective.

In addition to being more likely to own assets, banked households also reported having more funds in those accounts. Excluding the value of property and funds in checking and savings, the sum of the average values of examined monetary holdings at HFS1 was 25 times greater for banked households than for unbanked

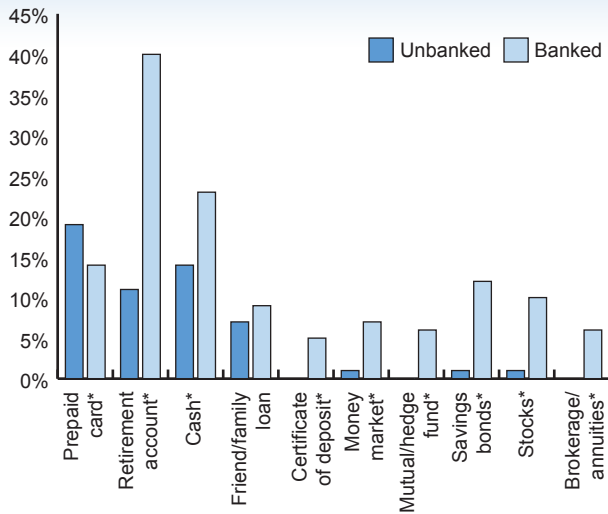


Figure 5. Ownership of nonproperty assets by banking status, HFS1 (n = 18,003).

* Difference is significant, $p < .001$.

households (\$22,519 vs. \$892). Even among households with assets, there were differences in the value of holdings. For example, the average for reported funds in a retirement account was \$38,229 among banked respondents with such accounts and \$5,662 among unbanked counterparts with retirement accounts. This evidence probably reflects that limited assets are a major reason people remain unbanked.

Use of Alternative Financial Services by Banking Status

When assets and income are insufficient to cover necessities, many low- and moderate-income households turn to alternative financial services. Results from HFS1 confirm this: 76% of unbanked participants reported using an alternative financial service in the 12 months prior to tax time, but only 40% of banked participants reported the same. Moreover, the rate at which participants reported use of each alternative financial service is higher among unbanked respondents than among banked participants. As Figure 6 illustrates, unbanked households especially rely on money orders, pawning, and check cashing services.

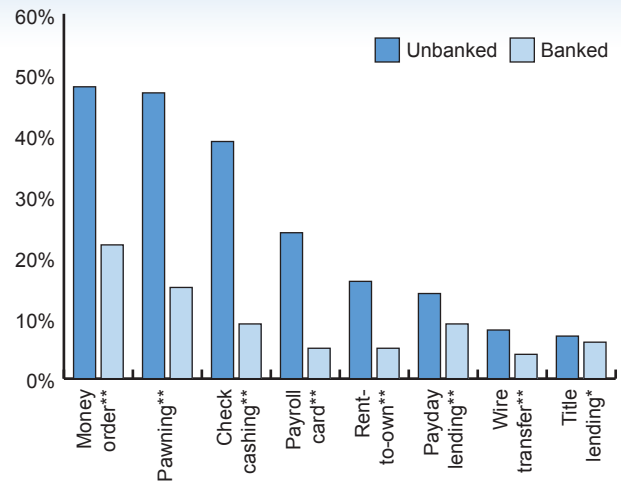


Figure 6. Use of alternative financial services in the 12 months prior to HFS1, by banking status (n = 19,258).

* Banked and unbanked are significantly different, $p < .05$.

** Banked and unbanked are significantly different, $p < .001$.

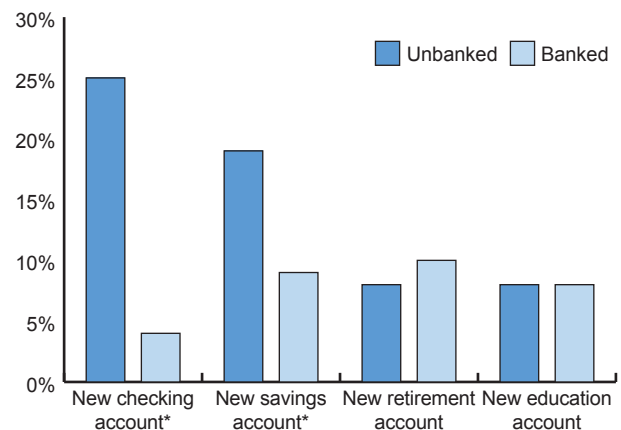


Figure 7. Percentage of participants interested in opening new account at tax time, by banking status (n = 16,429).

* Difference is significant, $p < .001$.

to express interest in opening one of the four savings vehicles probed on the HFS1 (see Figure 7). Among unbanked respondents who expressed interest in opening a new account (32% of the unbanked), 25% expressed interest in opening a new checking account.

Refund Savings by Banked Status

Unbanked participants were half as likely to save any of their tax refund for 6 months: 27% of banked respondents reported having some refund left at HFS2, but only 12% of unbanked respondents reported this. However, unbanked and banked households that saved any tax refund money for 6 months reported saving a similar amount (\$998 by banked vs. \$991 by unbanked).

Although being unbanked seems to serve as a barrier to long-term and contingency saving, survey results suggest that unbanked households are interested in opening accounts at tax time. Unbanked respondents were more than eight times as likely as their banked counterparts

Conclusions and Policy Implications

The results of this analysis are consistent with others from nationally representative data in showing that lacking a bank account is often a sign of additional hardship.¹² The percentages of households that experienced financial shocks and material hardships were respectively higher for the unbanked than for their banked counterparts, and unbanked respondents were more likely to rely on alternative financial services to meet their transactional needs.

Participants in R2S revealed that many households dip in and out of participation with traditional banking services. An indication of financial instability, this should also signal

the need for practitioners and policymakers to reignite efforts to help unbanked households become banked and keep their bank accounts. In addition, the finding that many households move in and out of account ownership suggests that traditional bank accounts are not meeting the needs of many low- and moderate-income households. Instead, those households resort to alternative financial services.

Encouragingly, numerous, promising programs and products are designed to increase access to and use of financial services among households that would otherwise use alternative financial services. Examples include Community Trust Prospera, a division of the Durham, NC-based Self-Help Federal Credit Union, which operates micro-branches in California,¹³ and new smart phone applications like Even.¹⁴ Although these programs and services are being tested and scaled, practitioners and policymakers should continue to experiment with new ways to help consumers access safe, low-cost financial products that promote financial capability.

One possible point of expansion is for tax preparers to provide unbanked tax filers with the opportunity to open bank accounts at tax time when returns are submitted online. This analysis found that 32% of the unbanked households in the sample of TurboTax Freedom Edition users were interested in opening some type of new account at tax time. Because approximately 100 million low- and moderate-income filers are eligible to submit their federal taxes online through the Free File Alliance,¹⁵ there is great potential to connect unbanked households to financial institutions by enabling filers to open new accounts when they submit returns.

We should also consider how the growth of technology and the emergence of new financial products have altered the ways in which Americans interact with their finances and financial institutions. Although bank account ownership has long been a sign of financial health—and the lack of an account a sign of financial hardship—the distinction between being banked and unbanked is becoming increasingly blurred. A prime example is the increasing number of Americans who use prepaid cards; there is a growing tendency to think of those products as debit cards.¹⁶ Although prepaid card ownership may have the potential to shelter unbanked households from some financial hardship, such cards do not contribute to credit building, and the long-term impact of prepaid cards on the financial capability of low- and moderate-income households remains unknown. That impact undoubtedly depends on the type of card chosen, and the prepaid card market is diverse. Future research should evaluate how new products, such as prepaid cards, promote or inhibit financial capability for U.S. households, especially households that have been historically underserved by mainstream financial services.

While the evaluation of new types of products and services is ongoing, policymakers and practitioners

should continue to promote traditional bank-account ownership as a stepping stone to financial capability.

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End Notes

1. Using Sherraden's (2013) definition of financial capability, we mean that people need both the opportunity to make good financial decisions and the ability to make those decisions.
2. Robbins (2013).
3. Robbins (2013).
4. Federal Deposit Insurance Corporation (2014).
5. See, e.g., the Federal Deposit Insurance Corporation's (2012) Model Safe Accounts Pilot and regional Bank On groups like the Regional Unbanked Taskforce in St. Louis, MO.
6. Beverly, Tescher, and Romich (2004) first tested the idea of enabling households to open savings accounts at tax time. The idea is now being tested in four U.S. cities through the SaveUSA program (Mintz, 2015).
7. Detailed information on methods and findings can be obtained from a comprehensive report on the 2013 experiment (Grinstein-Weiss et al., 2015).
8. Please note that the sample size slightly fluctuates across analyses since participants could skip any item on the survey.
9. Between HFS1 and HFS2, the retention rate for banked participants was 42% and that for unbanked participants was only 27%. The difference suggests that being unbanked is associated with being less likely to respond to HFS2. This likely exaggerated the percentage of participants who were unbanked at HFS1 and became banked by HFS2. Other nationally representative surveys find that unbanked households move in and out of account ownership. See, e.g., the National Financial Capability Survey (FINRA Investor Education Foundation, 2013).
10. Federal Deposit Insurance Corporation (2014).
11. Unsecured debt is debt that is not tied to collateral or assets, whereas secured debt—such as debt from home, property, and car loans—is tied to an asset that can be repossessed by the lender if the borrower fails to make payments.
12. Federal Deposit Insurance Corporation (2014).
13. For more information on Self-Help and Community Trust Prospera, see <https://www.self-helpfcu.org/community-trust-prospera/about-us/ct-prospera-story>.

14. Even is a new application sponsored in part by the Center for Financial Services Innovation. It enables workers with inconsistent income to receive a regular, steady paycheck by saving extra money from high paychecks to supplement income at times when paychecks are low. Even was designed to help consumers avoid overdrawing their bank accounts and turning to short-term credit during lean months. For more information on Even, see <https://even.me/>.

15. Free File Alliance (2014).

16. Pew Charitable Trusts (2015).

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