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Saving Behavior in Response to Motivational Prompts: Evidence from the Refund to Savings Experiment

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The 2012 Intention Survey

During the 2012 tax season, the Refund to Savings (R2S) research team fielded the Intention Survey—a randomized control trial—to a sample of 4,087 TurboTax users. The Intention Survey measures the potential for motivational prompts to increase the intention to save refunds among users of TurboTax products. Data from the Intention Survey reveal promising options for future programs to translate intention to save into actual savings.

The purposes of this memo are to describe patterns of refund savings intentions among survey respondents and explore the relative effects of motivational prompts on their intentions. We separate some analyses by income to demonstrate differences between low- and higher income households.

Methodology

The 2012 R2S Intention Survey was fielded between January and April 2012. Soon after filing their taxes, TurboTax users were assigned randomly to a control group or 1 of the 9 motivational prompts (see text box on p. 2). The prompts were intended to motivate tax filers to save some portion of their refund by encouraging them to think about things like their level of debt, the importance of emergency saving, or their goals for retirement. Next, respondents were asked how they intended to allocate their tax refund among different types of saving, debt clearing, and spending.

The final sample consisted of 4,087 TurboTax users who were predominantly white (84%), employed (75%), and homeowners (68%). Slightly more than half of the sample was married (58%), and a similar percentage had college degrees (54%). More than one quarter of the sample reported adjusted gross incomes (AGIs) below \$35,000 (27%). Slightly less than half of the sample was female (42%). The average age of respondents was 49 years.

Refund to Savings (R2S) is a unique collaboration among researchers at Duke and Washington Universities and Intuit, Inc., the makers of TurboTax. The R2S research team is working to develop and test low-cost, innovative, and scalable interventions that use existing platforms and structures to build savings and improve household economic security. In 2013, R2S will launch the largest saving experiment ever conducted in the United States.



Motivational Prompts

Respondents are assigned randomly to a prompt based on behavioral economics research and designed to heighten the desire to save:

Control – No prompt

Emergency saving – “Everyone has unexpected expenses throughout the year, and it is good to create a rainy-day fund in case of medical bills, car or home repair, or loss of income.”

Debt information – “Having debt costs money directly through interest charges and indirectly by hurting your credit score, which makes it more expensive to borrow money. Using money from your tax refund can be a great way to reduce your debt, if you have any.”

Debt goals – “Think for a moment about how much money you currently owe (if any) on credit cards, loans, installment plans, and other things. Think about how much less debt, in dollars, you would like to have at this time next year.”

Emergency proof – “A recent study by leading experts at Harvard and Princeton Universities found that almost half of American households could not find \$2,000 within 30 days to pay an emergency expense.”

Long-term goals – “Think about the things you save money for, if any. Perhaps you are saving to buy a home, pay for a child’s education, or have a better quality of life when you retire. Perhaps you are saving for that special purchase or trip you want to take. Or maybe you just feel better knowing you have a bit of a cushion in the bank.”

Future self – “Think about yourself at retirement. Where do you want to live? What do you want to be able to do? Try to form a vivid image of your life at retirement.”

Retirement goals – “People have different ideas for how they want to live when they retire. For example, do you want to maintain your standard of living, or will you try to live on a little less? Do you want to move to a different part of country or spend more on your hobbies or traveling?”

Retirement proof – “In 2009, the typical American family had about \$48,000 saved for retirement.”

Savings rate proof – “In 2011, the average American household accumulated about \$5,500 in savings. Think about the amount you saved last year.”

Potential Purposes for Refunds

Spending – In the next month or so on products, services, or regular bills

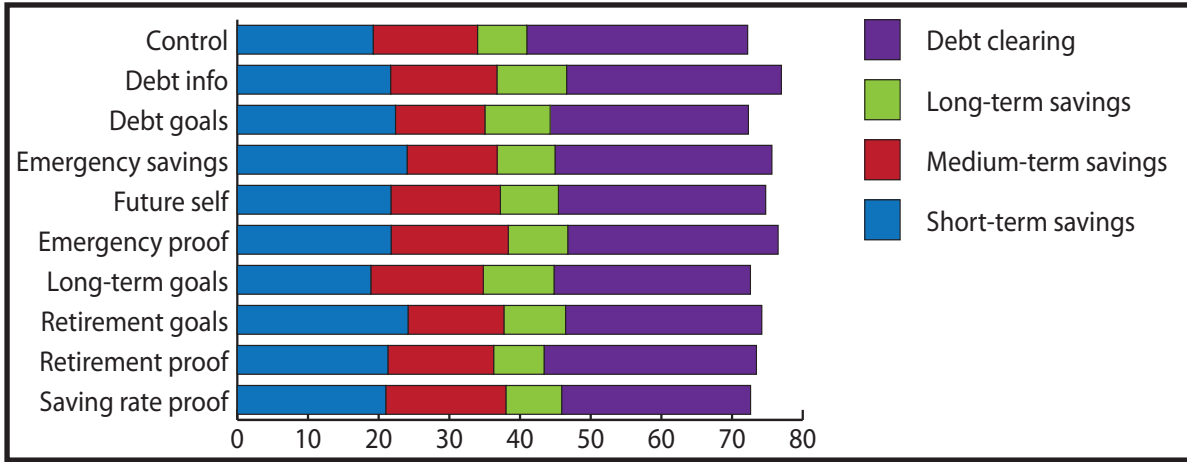
Debt – Paying off debt currently owed

Short-term savings – Savings to keep for a few months

Medium-term savings – Savings to keep until this time next year

Long-term savings – Savings for something further in the future like retirement or child’s education

Figure 1. Mean Savings Allocation by Motivational Prompt (N = 4087)



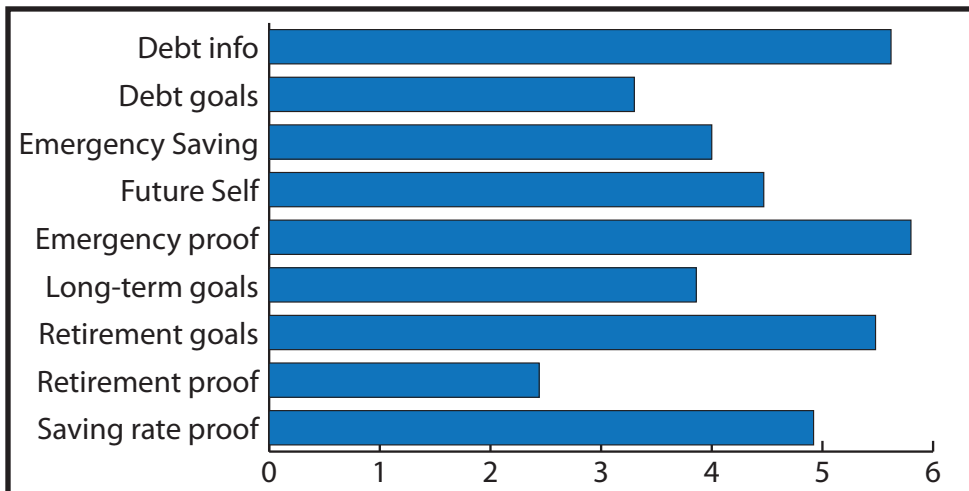
Intention to Save

Respondents at all income levels indicated an intention to save at least some portion—on average 40%—of their refund (Figure 1). The most popular purpose was short-term savings, to which tax filers planned to devote an average of approximately 20% of their refunds.

Motivational Prompts Heighten Intention to Save

Respondents who received motivational prompts allocated more of their tax refund to savings than those who were assigned randomly to the control group (Figure 2). Participants assigned randomly to the debt information, emergency proof, retirement goals, and saving-rate proof prompts significantly increased the percentage of their refunds intended for savings compared to the control group. When shown that almost half of U.S. households would not be able to find \$2,000 within 30 days for an emergency expense, those assigned to the emergency proof prompt indicated they intended to allocate almost 6 percentage points more of their refund to savings the control group.

Figure 2. Percentage Point Difference in Allocation to Savings Contrasted with Control: All Respondents (N = 4,087)



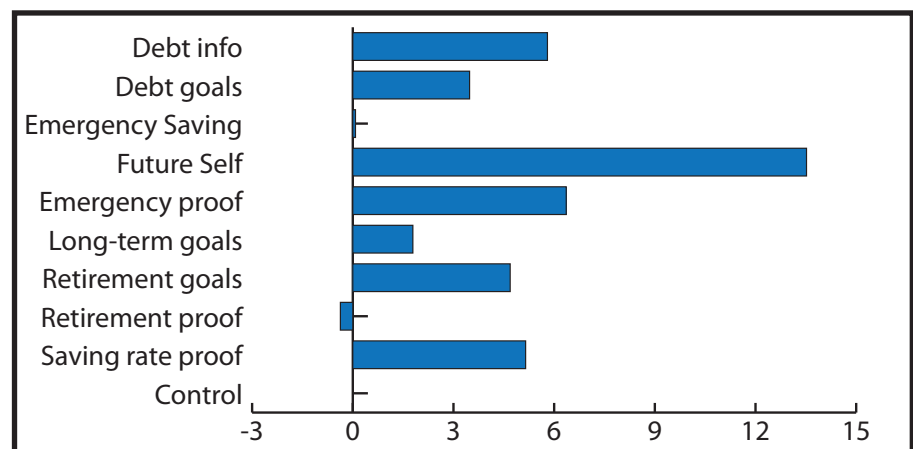
Differences in Prompt Efficacy by Income

Responses of lower income tax filers to motivational prompts are particularly interesting since the 2013 R2S experiment includes users of TurboTax’s Freedom Edition available to tax filers whose AGI is below \$31,000 per year. In the 2012 Intention Survey, 895 respondents reported AGI under \$35,000 on a categorical measure. When asked to think about themselves at retirement, respondents assigned to the future-self prompt generated a heightened intention to save by allocating 13 percentage points more to savings than the unprompted control group (Figure 3). Results show a large but not statistically significant increase in amounts allocated to savings for respondents assigned to the saving-rate proof, emergency proof, and debt information prompts contrasted with the unprompted control group.

Implications

Findings from the 2012 R2S Intention Survey suggest that tax filers intend to devote a portion—up to 40%—of their refunds to savings. People view tax time as an opportunity to improve their households’ economic security and build savings. A program designed to help people act on these desires (e.g., R2S) could be beneficial for and well-received by a wide range of consumers with a variety of savings goals. In particular, households plan to use their tax refunds to build short-term savings. This finding suggests that savings advocates and policymakers should consider programs that encourage short-term or emergency—not only long-term—savings goals which have been emphasized in past efforts.

Figure 3. Percentage Point Difference in Allocation to Savings Contrasted with Control: Below \$35,000 AGI (N = 895)



The saving-rate proof, emergency proof, and debt information prompts all resulted in an increase in the percentage of refund intended for savings. However, this difference was not statistically significant in the low-income group. The anticipated responses to the saving-rate proof and emergency proof prompts were that respondents would measure their saving behavior against some standard and be motivated to save, which appears to have been successful. However, the retirement proof prompt did not have the same effect, perhaps because the standard was less immediate. The debt information prompt was designed to encourage tax filers to consider long-term costs of debt and appears to have motivated respondents to save more of their refund to prevent incurring future debt rather than pay off existing debt.

Within the low-income group, the future-self prompt—designed to encourage respondents to imagine themselves in retirement—had a large significant effect not apparent in the overall sample, while two other prompts related to retirement appeared to have no effect on saving intention. The difference in outcomes may be because the future-self prompt asked respondents to “think about yourself,” rather than simply set retirement goals or contemplate long-term retirement savings standards.

In general, findings from the 2012 R2S Intention Survey show that the theme and phrasing of prompts have the potential to shape saving behaviors and savings outcomes. Asking respondents to personalize retirement or emergency situations seems to have more of an impact than prompts to generalize savings goals. The R2S research team plans to use findings from the Intention Survey to design the 2013 In-Product Offer to meet the needs and desires of households.

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