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Refund to Savings: 2013 Results from a National Experiment to Build Financial Stability at Tax Time

By Michal Grinstein-Weiss, Krista Comer, Blair Russell, Clinton Key, Dana C. Perantie, and Dan Ariely

The Refund to Savings (R2S) initiative, a collaboration between academic and industry partners, seeks to use low-cost, low-touch, scalable interventions to help low- and moderate-income (LMI) households increase savings at tax time and improve financial security and mobility. In 2013, the R2S team conducted a national randomized control trial testing the effectiveness of techniques informed by insights from behavioral economics to increase deposits of tax refunds into savings vehicles.

The large-scale experiment was followed by a two-wave, longitudinal survey to gain deeper insight into the financial lives of LMI households and to better understand how tax refunds are used over time. The R2S initiative, which involved approximately 900,000 research participants, has produced valuable findings that can inform ongoing policy discussions about improving the financial well-being of LMI households.

R2S interventions consist of combinations of suggested savings amounts (i.e., *anchors*) and motivational messages (i.e., *prompts*) embedded in the TurboTax Freedom Edition software in connection with the IRS's split refund capability. Participants not assigned to the control group saw an anchor/prompt combination when they had to decide how they would receive their refunds. The goal of the intervention is to encourage tax filers to allocate more of the refund to a savings vehicle (e.g., savings account or savings bond) and test which combinations of anchors and prompts encouraged the highest rates of saving and amounts of savings.

Anchors tested include percentages of the refund (i.e., 25%, 50%, and 75%) and specific amounts (i.e., $100 or $250). Further, in some cases, suggested savings amounts were prepopulated and participants could opt out of splitting part of their tax refunds into a savings vehicle. Motivational prompts included messages that encouraged participants to consider saving for an emergency, their family, and the future. The emergency prompt incorporated the behavioral concept of "social proof," or the human tendency to conform to the behavior of typical people.

The 2013 R2S initiative examined several primary research questions, including the following:

- Do LMI households deposit their tax refunds into savings vehicles?
- Does using behavioral economics techniques (e.g., anchoring and motivational prompts) increase savings deposits at tax time?
- Do low-income filers *actually* keep tax refund savings for at least six months? How does that compare to their *intention* at tax time?
- Which factors make it easier or more difficult to save?
- Do the financial products used by participants affect financial outcomes?
- What types of savings vehicles do LMI tax filers want to use?

Results of the R2S experiment demonstrate that low-cost, low-touch behavioral interventions can be used to increase both the proportion of tax filers who deposit their refunds into savings vehicles and the amounts of those deposits. Though the effects of the various interventions tested are modest, the project highlights the potential for large-scale impact. We estimate that R2S interventions encouraged more than 4,800 additional households to deposit part of their refunds into a savings product than otherwise would have been expected to do so and that an additional $5.92 million of savings deposits and savings bond purchases occurred as a result of the experimental treatments.

Follow-up surveys show that LMI households are interested in and able to save at least part of their tax refunds for at least six months. Data show that tax filers save their refunds in a number of ways, including outside of traditional saving vehicles. Importantly, we find that the impact of R2S interventions lasts for at least six months. Statistical analyses demonstrate that the most effective R2S interventions are associated with increases in both the likelihood of saving and the amount of the tax refund saved for six months. The estimated probability of saving a portion of the refund for six months was increased from 25% for control group members to 30% for participants assigned to a 50% anchor group, while assignment to a 50% and 75% anchor group was associated with 2.6 and 5 percentage point increases, respectively, in the amount of refund saved for six months.

The surveys reveal that there are a number of barriers to saving, including holding outstanding debt, having difficulty covering ongoing expenses, using alternative financial services, and fearing the loss of government benefits because of asset limits. The surveys also find that respondents—especially those in unbanked households—are interested in alternative means of receiving tax refunds.

While the R2S initiative focuses on saving at tax time, lessons learned are much broader and can be used to encourage saving in general. Infrastructural improvements are likely to impact key decisions outside of tax time (e.g., the point in time when employees choose how and where to receive their pay). Similarly, behavioral economics techniques (e.g., motivational prompts and anchors) can be repurposed for use in other savings or asset-building opportunities, including retirement savings decisions. Opt-out and other behavioral techniques are likely to have an even greater impact.

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Disclaimer

Authors

Michal Grinstein-Weiss
Associate Director
Center for Social Development

Krista Comer
Program Manager
Center for Social Development

Blair Russell
Senior Statistical Data Analyst
Center for Social Development

Clinton Key
Research Officer
The Pew Charitable Trusts

Dana C. Perantie
Project Manager
Center for Social Development

Dan Ariely
James B. Duke Professor of Psychology
and Behavioral Economics
Duke University

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Contact us

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130
csd.wustl.edu

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