

Refund to Savings

Creating Contingency Saving at Tax Time

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The Refund to Savings initiative (R2S) seeks to help low- and moderate-income households build small-dollar unrestricted savings and increase financial security and mobility through a series of rigorously designed and scalable interventions. To help tax filers overcome psychological, behavioral, and institutional barriers that limit the accumulation of savings, R2S leverages the potential of tax-time savings interventions by using a scalable delivery platform (online tax preparation software) and incorporating mechanisms grounded in behavioral economics theory.

The R2S initiative is the product of a unique collaboration among researchers at Washington University in St. Louis, Duke University, and Intuit Inc., the makers of TurboTax. The 2013 R2S intervention is designed as a randomized controlled trial. With a sample of approximately one million tax filers, it is the largest savings experiment ever conducted in the United States. In addition, the R2S Household Financial Survey includes at least 12,000 participants.

The goal is to demonstrate with data that the tax refund is a contingency saving opportunity that can improve the financial stability and mobility of low- and moderate-income households.

Tax Time is a Key Time to Encourage Contingency Saving Decisions and Actions

Tax time offers the ability to intervene at a key financial decision point and therefore can be a golden opportunity to help households overcome barriers that limit the accumulation of contingency savings.

- **Availability of lump-sum payments and use of mental accounting.** The Internal Revenue Service (IRS) estimates that the average household received a \$2,883 refund in tax year 2011. Saving a lump sum may be easier than saving income because the money is not considered part of the flow of funds used for current consumption. Research confirms that there is a general desire to save the tax refund; 60% of all filers express an intention to save at least part of their refund, as do 55% of filers with adjusted gross incomes below \$35,000. The average respondent plans to save about 40% of his or her refund.
- **Opportunity for direct deposit and split tax refunds.** Tax time is also an opportune period because a tax filer can deposit the refund directly into an emergency savings vehicle such as a savings ac-

count. Additionally, filers can split the refund among multiple accounts or purchase a U.S. Savings Bond. Reducing the hassle and steps necessary to execute the savings decision is fundamental to creating effective, scalable savings programs.

- **Use of behavioral techniques to convert the tax refund to contingency savings.** Tax filing software presents an opportunity to use behavioral techniques to help individuals overcome limited attention, lack of self-control, and biases toward present orientation. To encourage saving at tax time, R2S embeds just-in-time behavioral nudges and other techniques into TurboTax Freedom Edition.
- **Promise of scalability and sustainability.** Each year, about 143 million U.S. households file income tax returns, making tax filing a nearly universal, permanent, and reoccurring experience. Because the R2S intervention is incorporated into existing infrastructure and integrates with normal financial behavior, it can be expanded quickly and inexpensively to reach millions of American households. The cost of the intervention becomes effectively zero after programming and delivery expenses are met.

The Behavioral Mechanisms

In 2013, the R2S intervention tested three types of behavioral mechanisms embedded into TurboTax Freedom Edition:

- **Automatic Saving Opportunity.** Tax filers are given an explicit choice to save their refund. They are shown a portion of their refund split automatically into a savings vehicle and can choose not to save by clicking the “I don’t need to save” button.
- **Motivational Prompts.** Each participant is shown one of three motivating prompts designed to increase savings desire.
- **Default Savings Amounts.** This feature is designed to anchor participants to a savings target. The initiative tested savings targets of \$100, 25%, 50%, and 75%.

Figure 1: Paper Check Intervention Experience

The screenshot shows the TurboTax Freedom Edition interface. At the top, there's a navigation bar with 'Home', 'Personal Info', 'Federal Taxes', 'State Taxes', 'Review', and 'File'. Below this, a 'Federal Refund \$1,300' is displayed. A sidebar on the left contains 'Get Answers' (Find Tax Help, Using TurboTax, Contact Us) and 'My Return' (View Tax Summary, Print My Return, View Past Returns, My TurboTax Fees, Amend a Return, Other Options). The main content area features a prompt: 'Why not save a little money? You can split your federal refund between a check and a U.S. Series 1 Savings Bond.' A piggy bank icon is shown. Below this, it says 'We suggest saving at least 25% (\$350)'. A form shows 'Amount to put on a U.S. Series 1 Savings Bond: \$ 350' with a 'Recalculate' button. Below that, 'Amount to get on a check: \$950'. At the bottom, it states 'Your total federal refund: \$1,300'. A text box says 'Your U.S. Savings Bonds will be mailed to the address on your federal tax return.' Below this are input fields for 'Name on savings bond:' and 'Savings bond amount: \$350'. At the very bottom are three buttons: 'Go Back', 'I don't need to save', and 'Continue'.

Future Testing of Innovations

The TurboTax platform affords the opportunity to test additional ideas for contingency-savings interventions, and several concepts are being developed for testing. These include:

- **Personalization of motivational savings prompts.** Personalized prompts created with information provided by the tax filer could increase the salience of such messages for tax filers and thus increase their effectiveness.
- **Precommitment mechanisms.** Such mechanisms can help tax filers plan ahead, suggesting that they put tax refunds toward a contingency savings fund. The message could attempt to make the commitment psychologically binding by encouraging participants to voice it publically via social media outlets.
- **Innovations to address institutional barriers.** Barriers include lack of access to such institutional savings mechanisms as the ability to open an account easily, automatic savings features (e.g., direct deposit) that facilitate saving, and savings incentives from institutions.

Evidence of Effectiveness

The 2013 R2S initiative is designed as a randomized controlled trial. With a sample of approximately one million tax filers, it is the largest savings experiment ever conducted in the United States. The research team also is fielding a Household Financial Survey (HFS) to a subsample of at least 12,000 tax filers. Participants were surveyed immediately after filing their taxes and will be surveyed again six months later. Data obtained in the HFS will offer unique insight into the saving behaviors and economic well-being of participants.

The R2S initiative aims to design and test a cost-effective, high-fidelity, scalable intervention that applies behavioral economics techniques to the process of tax filing and helps low- and moderate-income tax filers transform the tax refund into contingency savings.