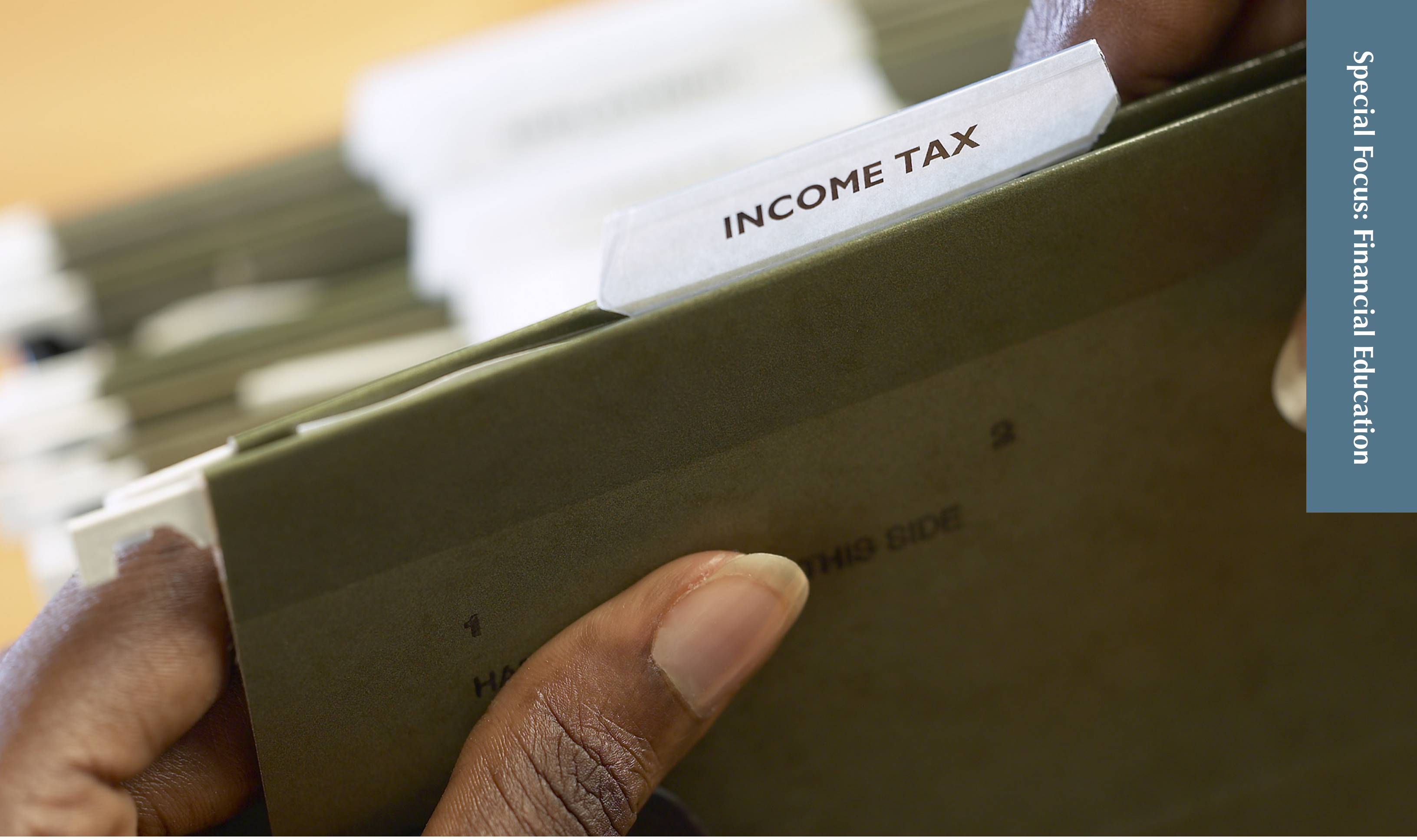

Tax Time as an Asset Building Opportunity

Assessing the Potential

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Tax time provides a unique opportunity for people to reflect on the past year's income and expenses, take advantage of tax incentives, and make financial plans for the future. For low-income families in the United States, tax time is also an important window for the delivery of asset building products and services. The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) may produce significant tax refunds, in some cases more than 15 percent of annual income in a lump sum, thus providing a 'teachable moment' that can help to encourage saving and financial planning. Community-based free tax preparation programs, such as the Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) sites, contribute to this mission and complete approximately 1 million tax filings per year.[1]

In the last decade many of these community-based tax programs have expanded beyond preparing taxes and now offer other services to tax clients, such as financial education.[2] A 2007 survey by the Center for Economic Progress (the Center) and the National Community Tax Coalition (NCTC) found that 64 percent of tax sites offered financial education or group training, more than any other non-tax service, and 45 percent offered credit counseling.[3] The agencies surveyed estimated that about 16 percent of tax clients in 2006 took part in some education service related to the tax preparation session (either on site or follow-up). The share of tax clients taking part in such services had doubled from the previous year. Financial education is provided as a means to help clients gain skills to manage their financial situation and make informed financial decisions in the future. Community-based tax programs have developed targeted methods to deliver financial education.[4] These approaches include offering printed educational materials during the tax preparation session or referring clients to training on specific financial topics outside of the tax session.

Nevertheless, providing education onsite is challenging, since clients are generally focused on their taxes and uninterested in prolonging their time at the tax program site. Providing education at a later time generally results in very low completion rates, even if incentives such as food or gifts are offered. There is still much to be learned about how to effectively deliver asset building services at tax time.

In 2007, the Center launched the Financial Opportunities Project (FOP), a comprehensive effort to identify, implement, and disseminate strategies for integrating financial services and asset-building opportunities with income tax preparation services at VITA sites. The goal of the FOP was to determine which approaches best promote asset-building opportunities to taxpayers. The Center developed the Asset Building Service Delivery System (ABSDS)—a process-based model for offering asset-building products and services to clients served by community-based programs. The components of the ABSDS include 1) strategic program planning around asset promotion, 2) simplicity in process design, 3) specialization of staff to promote assets, 4) specific and targeted promotional strategies, and 5) customer-focused processes. The model is grounded in research from past attempts at service promotion at tax sites and based on theories from behavioral finance regarding consumer decision making (see the article "An Apple or a Donut" for more on behavioral economics).

From the fall of 2008 through the end of the 2009 tax season, the Center oversaw the national launch of the ABSDS and awarded three programs a grant of $25,000 to apply a standardized model and general operating procedures for promoting asset-building strategies to community-based tax preparation services. The purpose of the grants was to assess the effectiveness and versatility of the operational models and programmatic guides of the ABSDS. To the extent programs adapted the model and tested new ideas, this season provided an opportunity to further refine the ABSDS. The following discussion provides an overview of the FOP findings and identifies recommendations for improved delivery of asset building services.

Take-Up of Asset Building Services at Tax Programs

For the purposes of this project, the term asset building products or services refers to any financial service, in addition to free tax assistance, that helps to positively address an individual's financial stability through debt reduction or asset maintenance and growth. Asset building products or services may include credit or debt management counseling, access to public benefits, opening bank accounts, U.S. Savings Bonds, CDs or other related products and services.

The goal of the FOP was that 15 percent of tax clients would take on an asset building service, an improvement from the 8-12 percent take-up rate achieved in past pilot studies by the Center and tests on the take-up of savings matches or Savings Bonds. Overall, take-up rates surpassed expectations (see Table 5.1). Almost 27 percent of clients enrolled in at least one service. Table 5.1 shows the total for all sites combined. Depositing a refund into a savings account was the most frequently used option, accounting for half of the total. Receiving a credit report was the next most frequently used asset building service. Direct deposit stored value debit cards were almost as prevalent, representing less than half the share using a savings account. Credit counseling and savings bonds were the next most commonly adopted asset building services. Although offered at only one site, assistance with utility bills was also more popular than may be expected.

Table 5.1

Take-Up by Service	
Put some of refund in savings	14.50%
Direct deposit card	6.30%
Credit report	6.60%
THAW utility assistance	5.50%
Buy a bond	4.90%
Credit counseling	4.80%
Apply for checking	4.50%
Apply for savings or financial institution account	3.10%
Small business counseling	2.90%
Open a CD	0.10%
Any service	**26.60%**

Source: Center FOP Surveys, 2009 (2008 TY)

Note: This table reflects responses to self-reported take-up of services as included in each site's survey; not all sites offered or asked about all services

Note that 6.3 percent of clients used a direct deposit pre-paid debit card. These cards offer a way to engage in electronic banking and allow clients to re-load the card when the refund is expended. Some cards offer checking and savings features as well as online/telephone account management. By comparison only 3.1 percent of tax clients enrolled in a savings account. About half (47 percent) of clients applying for the direct deposit card were otherwise unbanked, compared to about 17 percent of clients at the tax site overall who were unbanked. Clearly these products carry some attraction. One site manager shared that clients are excited about the card and its features, and in some ways the advent of pre-paid cell phones makes the concept of pre-paid debit cards easy for clients to understand.

Of course, many factors may work in concert to influence take-up rates. Table 5.2 shows a statistical analysis where all the listed variables are held constant. This analysis shows the marginal contribution of key factors that predict taking on these services. The first two columns describe taking any service at all, the second two any savings product and the third pair a savings bond. Estimates that are statistically significant are in bold. Having received a refund last year is significant for all three analyses. In all cases, having a larger refund than expected also has a statistically significant effect, boosting take-up rates. This is consistent with the notion of 'mental accounting' in behavioral finance, where people will use unexpected funds differently than expected income. Willingness to save as reported at intake is also an important indicator. Planning to pay bills with a refund has mixed effects, as does having a bank account and time in the season. Surprisingly income does not have much effect, and age only has effects for bond purchases, with older clients less likely to buy a bond. Also, no particular agency funded by the FOP shows any evidence of strongly higher or lower overall take-up rates controlling for other factors. Past experience with a bond has relatively strong effects.

Overall these results reinforce the need to target services to client type—and make it hard to generalize about any particular service always being popular (or not). Past experience with a refund, having a larger refund than expected and willingness to save all remain powerful indicators however.

Communicating the Savings Message

Communicating and reinforcing the message of savings is a key part of promoting asset building services for clients. Proper and thorough training of staff and volunteers increases the effectiveness of promotional strategies at the tax site. Clients, staff, and volunteers need support to easily understand what savings options exist and how to take advantage of them. Pilot program sites were instructed to educate staff and volunteers not only on product offerings, but on savings messages as well. Sites were encouraged to develop specific savings messages and product guides that could help program staff and volunteers be more effective and confident when working with clients, especially at the start of the season, when they are less familiar with product features. Figure 5.3 shows client responses to the exit survey question about how many times they heard the savings message. We suspect this is an underestimate of the actual number of times, but still provides a relative order or magnitude.

Table 5.2

Analysis of Effects	Any Service		Any Savings		Savings Bond	
	% Effect	Sig (z)	% Effect	Sig (z)	% Effect	Sig (z)
Rec'd Refund Last Year	**1.20%**	**2.05**	**3.20%**	**2.87**	**1.50%**	**1.69**
Refund more than Expected	**0.80%**	**4.78**	**4.10%**	**6.45**	**1.40%**	**3.46**
Willing to Save at Intake	**1.70%**	**5.03**	**10.00%**	**7.21**	**2.70%**	**3.5**
Planning to Pay Bills with Refund at Intake	**0.90%**	**4.39**	0.00%	0.03	**1.50%**	**3.3**
Have Bank Account	**-2.10%**	**-2.07**	5.70%	1.85	**1.50%**	**5.12**
March/April (vs. Jan/Feb)	**-1.20%**	**-4.19**	**-3.60%**	**-3.96**	-0.70%	-0.85
Income Level	**-0.20%**	**-4.4**	0.10%	0.35	**0.60%**	**4.27**
Age	-0.80%	-1.23	-0.30%	-0.34	**-1.30%**	**-4.38**
Agency 1	5.10%	0.18	2.50%	0.68	4.80%	1.42
Agency 2	**-2.10%**	**-2.53**	**-9.50%**	**-2.93**	4.40%	1.8
Any Past Bond Experience					**2.60%**	**3.03**

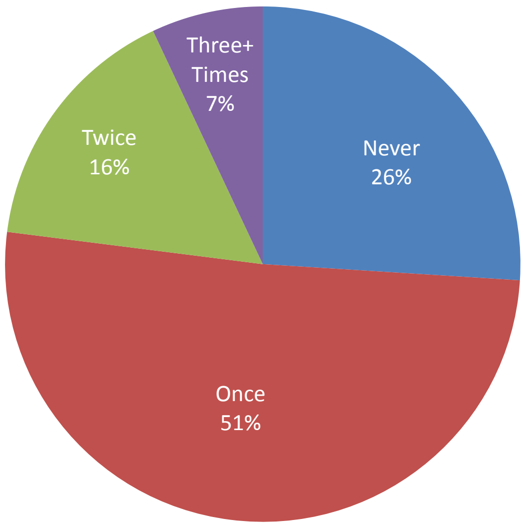
Source: Center FOP Surveys, 2009 (2008 TY)

Probit model with agency fixed effects (one agency as reference group) and robust std errors clustered at site level

n = 7108

Figure 5.3

How Many Times Did Someone at the Tax Site Talk to You About Saving Some of Your Refund?



Source: Center FOP Client Surveys, 2009 (2008 TY)

Table 5.4 shows the number of times clients heard the savings message, broken down by the following categories recorded in the intake form: whether the client received a refund last year; whether they're willing to save the refund; and whether they bought a bond in the past. If the ABSDS was implemented as planned, it would be expected that clients answering "yes" would be targeted for more savings messages. For each column, those answering "yes" show a four point to seven point greater report of being talked to about savings or buying a bond.

General and specific savings messages were developed for different client groups and sites were encouraged to use these messages, as well as develop their own. Sites were instructed to have standard, specific, written messages for all products and services targeted by each client group. It was recommended that tax preparation clients should hear about savings opportunities at least three times during their visit: (1) at intake; (2) during the waiting period; and (3) at quality review or the end of the tax session.

Recommendations for Future Tax Seasons

The goal of the FOP grant program and the ABSDS pilot was to "perfect the process" rather than to develop innovative or new financial products. The focus on process flows, staff/volunteer training and targeted messaging appears to have stronger effects than might otherwise be expected. Despite the successes of the model, there is potential to improve it for the next tax season, including the following recommendations:

Process

1. Pay close attention to the physical space and layout of the tax site. Space and workflow are closely linked. Sites need to have space conducive to promoting savings and other asset building services in group and individual settings.
2. Broaden the definition of asset building services to include credit counseling, debt management and utility assistance as programs that allow people to build net assets by reducing spending or outstanding debt.
3. Employ simple data collection with a few key predictors at intake and exit to make sure clients are offered the appropriate services.

Training

1. Make learning and using systems easy. Clients, staff and volunteers need support to easily understand what savings options exist and how to take advantage of them.
2. Incorporate training on asset building earlier in season, including more practice and role plays with 'mock tax clients.'
3. Train tax volunteers specifically on the asset building training delivery system and what they can do to support the model.

Table 5.4

Did anyone talk to you about saving part of your refund / buying a bond?

	Refund last year		Willing to save refund		Bought a bond in the past	
	Yes	No	Yes	No	Yes	No
Never or once	76%	79%	75%	79%	78%	85%
Twice or more	24%	21%	25%	21%	22%	15%

Source: Center FOP Volunteer Survey, 2009 (2008 TY) n= 301

Onsite Promotion / Education

1. Develop messages that are simple and targeted to key audiences—especially based on prior experiences with a product or service. Use the four basic categories of clients: (1) unbanked, (2) new savers, (3) longer-term savers, and (4) non-savers who need counseling or other help (see Table 5.5 for greater detail).
2. Experiment with techniques to flag clients most likely to use each type of asset building service and build in redundant processes to make sure target clients hear the appropriate message more than one time.
3. Send out "early-warning" promotional materials before tax season. Work to heighten client expectations that there will be savings opportunities at the tax site. Provide simple information sheets at intake about the availability of products offered.
4. Offer more education on savings bonds and CDs, how they work, the risks and benefits, and other features for clients who lack prior experiences with them.
5. Embed and promote asset building messages into the entire tax preparation experience, from the initial outreach or appointment sign up, to intake, waiting times, tax preparation and quality review.
6. Implement team-based incentives to promote asset building services including posting reports of weekly achievement of goals for savings, education and other services.
7. Expand the development of scripts that intake, tax and asset specialists can use and adapt for each targeted client group.

Targeting and Triage: Four Basic Client Types

Table 5.5 presents a simplified attempt to target asset building services by client type. In many ways this table is a stylized illustration, but working within this framework may help further refine promotional strategies. Each is discussed in more detail below the table.

The 'unbanked' are clients who have had negative experiences with financial institutions and do not want bank accounts. Direct deposit of a refund onto a pre-paid debit card is ideal for these clients and may offer a stepping stone to further financial service offerings. Rather than try to convert the unbanked, the pre-paid card may be the best fit for these clients. To develop scripts, promotional materials and targeting, it may be valuable to examine the techniques used by mobile phone companies for

Table 5.5

Client Type	Goals	Recommended Product
Unbanked and "burned by banks in the past" *Look for: no bank accounts*	• Faster refund • Convenience • Avoid financial institutions altogether	Pre-paid Debit
Have Checking—Ready to Move into Some Savings *Look for: checking but no savings*	• Start to save for a rainy day	Basic savings account as complement to checking account
Saving for Future Generations *Look for: over age 30; kids or grandkids*	• Seeking longer-term savings • Self-constraints - harder to liquidate (but not impossible) • Better rate of return than savings	• Savings bond (more likely if client has past experience) • CD (more likely if client has past experience)
Struggling with Debt and Expenses *Look for: not willing to save*	• Catching up • Which bills to pay first	• Credit counseling • Benefits access; utility assistance • Budgeting education

Table 5.6

What Information or Services Would You Be Interested in Next Year	
Assistance with utility bills	14.4%
Food assistance or other benefits	9.9%
Buying a car	9.1%
Buying a house	8.3%
Home winterization	8.2%
Solving credit problems	6.9%
Help with legal problems	6.5%
Paying for college/job training	5.9%
Starting a small business	4.5%
Household budgeting	4.2%
Any of these services	**39.0%**

Source: Center FOP Intake Surveys, 2009 (2008TY), N=1,093

pre-paid cellular plans. Also, prior experience with buying or loading cards may also be a good predictor of take-up.

The 'banked but ready to move up' group may have a checking account (or pre-paid card), but are now ready to save in a short-term liquid account primarily as a precautionary fund. These clients are unwilling to tie up funds in a CD or Savings Bond but would like some separate account to store money with a modest rate of return (the objective is simply to set the money aside within a 6-18 month time horizon). For many of these clients, refund splitting may be an attractive option as some funds can be placed in existing checking accounts.

The 'saving for future generations' group has established some record of using basic financial products, but is ready to save over the longer term. Clients may express an interest in saving for education or the future of a child or grandchild. In reality, time horizons may be 2-5 years rather than a full generation, but regardless, this motivation may suggest demand for higher returns and more constraints on accessing the funds at least in the short run. For these clients, CDs and U.S. Savings Bonds may be the ideal option. Of course past experiences with these products is likely to boost take-up rates. In addition, current interest rates will also affect demand.

The 'struggling with debt and expenses' group includes individuals that are not in a position to save. Perhaps a direct deposit card could be a viable option, but in general, the strategy is to use the refund to pay off debt, develop a budget and take control of problems paying bills. These groups would benefit from benefits screening, credit counseling and access to support to develop and maintain a budget.

Expanding the Mix of "Asset Building" Services

One agency in the FOP asked a number of questions about what services clients would be interested in next year. These data (presented in Table 5.6) provide an indication of the types of services tax clients might be interested in receiving. Assistance with utility bills was the most frequently mentioned service at 14.4 percent, followed by 9.9 percent of clients expressing interest in accessing benefits. Buying a house and car were also mentioned with similar frequency. Credit and legal issues were also mentioned, as well as education/job training finance, small business help and budgeting.

Conclusions

The 2009 FOP shows that careful attention to processes can help tax clients take advantage of tax time as an asset building opportunity. More than a quarter of the clients at the pilot sites accessed valuable asset building services, getting much more than just a completed tax form. Tax programs can include simple messages and financial education to encourage savings and improve financial management skills, even without complicated financial products. CI