

Split Refunds

Build Savings at Tax Time

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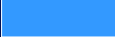
Agenda

- Tax Time & Split Refunds
- Refunds to Assets Pilots
- Implications


But first...

Quick Quiz...

 **\$25 million**
Typical AFIA (IDA) annual appropriation

 **\$50 million**
Proposed SWFA (IDA) annual cost

 **\$4.3 billion**
Proposed ASPIRE Act annual cost

 **\$81.8 billion**
Tax refunds to filers w/ AGI <30k (2003)

Quick Quiz...

 **Tax refunds to filers w/ AGI <30k (2003)**

Quick Quiz...

to be to-scale, line would continue for about 30 more screens...

You get the idea...

\$82 billion is a lot of money

What if even a small slice was saved?

Tax refunds to filers w/ AGI <30k (2003)

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Ingredients for Saving?

- Intangibles:
 - appreciation - insight into why savings matters
 - motivation - desire to save
 - incentive - reason to save *now*
- Tangible Elements:
 - money - funds available for saving
 - product - a place to put / invest savings
 - prompt - an “intervention” to suggest saving

Tax Time: Ingredients Present

- Available funds: tax refund
 - largest annual lump sum (up to 35% of income)
 - variable & precise amount uncertain
- Place: accounts offered during tax prep
 - incentive to open (direct deposit)
 - natural / logical time (finances under review)
- Prompt: preparer already working w/ client
 - preparer credible, exposed to intimate details
 - present at optimal moment (refund calculated)

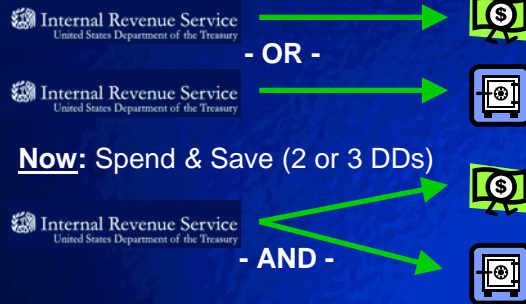
But... who can save 100% of their refund?

But what if we Split Refunds?

- Allocate refund among 2 (or 3) “buckets”
 - pre-commitment - act on good intentions *now*
 - moderation - save less than 100%
 - convenience - one-stop / single decision
 - mental accounting - consider real spending needs
 - account funding - open & fund accts at tax time
 - habit formation - build link b/t tax time & saving
- Saving structure - *a/a* mid-upper income
 - one decision vs. many (e.g., payroll deduction)
 - linked to income source (e.g., paycheck)
 - saver choice (if, where & how much)

What are Split Refunds?

Before: Spend or Save (1 direct deposit)

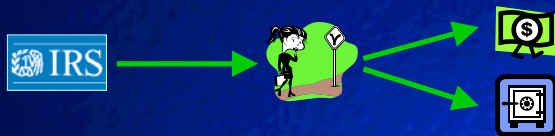


Now: Spend & Save (2 or 3 DDs)



The Power of When

Before: Spend / Save choice *after* \$ refunded



Now: choice *before* \$ refunded



Agenda

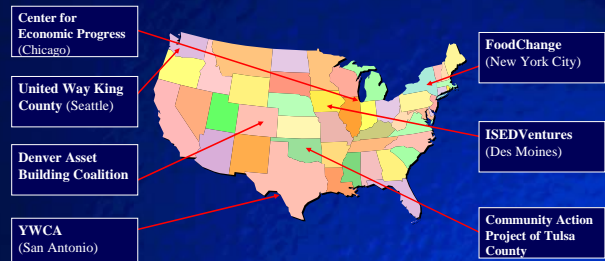
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Nice Theory, but...

- Key questions
 - does anyone want it?
 - how much will people save?
 - will it matter?
- Test theory: *Refunds to Assets (R2A)*
 - TS 2004 w/ CAPTC
 - TS 2005
 - CAPTC (Tulsa)
 - FoodChange (NYC)
 - TS 2006
 - seven sites
 - H&R Block as partner



R2A Pilot Sites, 2006



- Wide variety of tax sites, models
- Used software, processing from H&R Block

R2A Findings: Anyone Want it?

- Yes!
 - take up rates:
 - 12+% ('04)
 - 5-8% ('05)
 - 0-8% ('06)
- Those who use it, like it
 - 100% would recommend to a friend ('04)
 - 97% plan to split again next year ('04)
 - reports of returning clients asking for it ('06)
- Discovered need for savings accounts
 - 76% have no or only 1 account
 - 10% rejected by ChexSystems ('04)

How Much Savings & So What?

- Generates savings
 - initial deposits
 - average \$606 / 47% of refund ('04)
 - \$602 / 45% ('05)
 - \$969 / 47% ('06)
 - 3/4 reported no prior savings ('04)
 - 83% "service helped me save more" ('04)
- So what? (too early to know for sure)
 - In follow-up, 78% still saving or met goal (vs. 42% of comparison group) ('04)
 - 62% accounts open 7-8 mos later; avg balance of \$27 after 9 mos. ('04)

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Implications

- For CBOs: Focus on Tax Season
 - use split refunds w/ existing programs (e.g., fund IDAs)
 - suggest clients bring savings account info. to tax prep
 - consider where / how taxes are being prepared?
 - watch for split refunds misuse / abuse
 - promote saving broadly (e.g., "Saves" campaigns)
- For financial institutions
 - opportunity to gather deposits
 - chance to drive LMI savings w/ viable initial deposits
 - but must many LMI savers need on-site accounts...
- For policy advocates
 - 'plumbing' on which to build (refundable savers CR?)
 - next up: savings retention (incentives?)
 - but we must demonstrate people will split / save

Shameless Advertisements

- Build Savings at Tax Time: *Guide to Split Refunds for VITA Sites*
 - "how to" guide for free tax prep sites
 - D2D, UWA & NCTC partnered to produce
 - available in early October
- www.splitrefunds.net
 - companion to *The Guide*
 - late-breaking news
 - forum to facilitate learning, idea sharing
- SavingsPoint
 - Block / D2D proposal to attack 'account problem'
 - instant, VITA site access to menu of new accounts

Questions / Discussion



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