Webinar Series:  
Tax Time Saving Decisions

Sponsored by a grant from the UW-Madison School of Human Ecology Beckner Endowment
Present-Biased Preferences and Savings: Field Experimental Evidence from the SaveUP Study

Center for Financial Security: Family Security Webinar Series

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September 20, 2012

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Outline

Overview

Experimental Design

Implementation

Results
Research Questions

1. To what extent does "impatience" impact the savings behavior of low-income households?

2. To what extent are households aware of their impatience and willing to do something concrete about limiting its effect on their savings behavior?

3. Do policies designed to encourage savings appear to be "nudging" households in an optimal direction?
Theoretical Concepts: Impatience

- We are testing theories from behavioral economics on present-biased preferences (hyperbolic discounting, "βδ" Model)
  - Discounting places more weight on immediate benefits
Theoretical Concepts: Impatience

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Overview

Theoretical Concepts: Impatience

- We are testing theories from behavioral economics on present-biased preferences (hyperbolic discounting, ”$\beta \delta$” Model)
  - Discounting places more weight on immediate benefits
- Present bias places even more weight on now versus later, than when comparing later to even later
- Predictions:
  - Investments will be delayed, potentially indefinitely (procrastination in saving)
  - Consumption will be accelerated (i.e. borrowing)
  - Sophisticated individuals will demand commitment devices
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Consider an individual deciding whether or not to save some of her refund.

Comparing now to later will lead to some probability of saving.
Refund Savings Application

▶ Consider an individual deciding whether or not to save some of her refund
  ▶ Comparing now to later will lead to some probability of saving
▶ Imagine if the decision were made at some earlier point, before tax season
  ▶ Comparing later to even later may lead to a different probability of saving
Consider an individual deciding whether or not to save some of her refund

- Comparing **now** to **later** will lead to some probability of saving

Imagine if the decision were made at some earlier point, before tax season

- Comparing **later** to **even later** may lead to a different probability of saving

Our study attempts to implement this thought experiment
Overall Approach

- We use a series of interviews, surveys and randomly offer individuals different savings products
  - This allows us to test for and measure the magnitude of time-inconsistent preferences
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- Individuals are contacted prior to tax season and informed of a savings incentive
  - Some are allowed to make a **soft commitment** at that time
Overall Approach

- We use a series of interviews, surveys and randomly offer individuals different savings products
  - This allows us to test for and measure the magnitude of time-inconsistent preferences
- Individuals are contacted prior to tax season and informed of a savings incentive
  - Some are allowed to make a **soft commitment** at that time
- During the actual tax season, they make their final savings decision
  - Incentives depend on previous commitment decisions
Baseline "Impatience"

- One set of participants only offered a savings decision at tax time
  - SaveUP
Baseline "Impatience"

- One set of participants only offered a savings decision at tax time
  - SaveUP
- At the tax site, we offer a savings match for keeping money in an illiquid account for 8 months
  - Some receive an additional immediate incentive for saving
  - Others receive an additional delayed incentive for saving
- The relative effect of immediate and delayed incentives gives us the now (February) versus later (October) measure
Relative "Impatience"

- Another set of participants offered a soft-commitment option prior to tax season
  - SaveUPfront
Another set of participants offered a soft-commitment option prior to tax season
  - SaveUPfront

Individuals can elect ahead of time to save
  - The commitment is non-binding, but reinforces future incentives
  - Committing to save makes saving at tax time more rewarding
  - Not-committing to save makes not saving at tax time less costly

This is combined with an early (February) and delayed (October) incentive to *pre-commit*

The relative effect of early and delayed incentives gives us the *later* (February) versus *even later* (October) measure
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Results
We conducted a pilot version of the experiment in New York City during Tax Season 2011.

We partnered with The Financial Clinic of New York City, a non-profit focused in increasing financial security through short- and long-term financial planning assistance and through policy advocacy. Focused on one tax site in lower Manhattan.

Also worked with a local bank located in Bronx, NY.

A number of research assistants worked on field implementation.
Pre-Tax Season Activities

- Phone interviews and mailings were used to obtain consent, collect baseline measures and elicit pre-commit decisions
  - Reaching participants via phone proved more gradual than anticipated
- Savings accounts were developed with the local bank
- Financial Clinic staff were trained and consulted on strategy for tax season
Tax Season Activities

- Participants had to be identified prior to, or upon arriving at the tax site.
- The final savings decisions were made when filing the tax return.
- Additional participants were recruited to compensate for unanticipated difficulties in phone recruitment.
Outline

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Results
Results

Take Up Rates

- Attrition is a major obstacle
  - Between 20%-40% reached by phone
  - About 10% completed entire study
- Predictions of "βδ" model borne out:
  \[
  T_{\text{Immediate}} (+40\text{pp}) > T_{\text{Delayed}} (+10\text{pp})
  \]
  \[
  T_{\text{Early}} (+30\text{pp}) \approx T_{\text{Delayed}} (+30\text{pp})
  \]
Results

Savings Effects

▶ $50 immediate incentive is many times greater than $50 delayed incentive
  ▶ Encourages $200 more in savings from a baseline of $400

▶ $50 commitment incentive potentially %50 greater than the $50 immediate incentive
  ▶ Encourages $300 more in savings from a baseline of $300

Attrition significantly limits the effectiveness of pre-Tax Season interventions
Results

Savings Effects

- $50 immediate incentive is many times greater than $50 delayed incentive
  - Encourages $200 more in savings from a baseline of $400
- $50 commitment incentive potentially %50 greater than the $50 immediate incentive
  - Encourages $300 more in savings form a baseline of $300
  - Attrition significantly limits the effectiveness of pre-Tax Season interventions
Challenges to Implementation

- Recruitment and retention
  - Over time
  - Across tax preparation sites

- Banking partnership
  - Banking regulations
  - Accessibility

- Managing Personnel
  - Leverage technology
  - Continual review and quality control

- Collaborating Organization
  - Value research
  - Capacity to take on additional responsibilities
Year 2

- Similar structure to Year 1
- More personnel brought on to reduce participant attrition
  - Increased focused on training and resources
- Preliminary Results (still in process)
  - Savings incentives appear similarly effective
  - Results on impatience appear less robust in preliminary estimates
  - Longitudinal analysis needed to fully evaluate effect of savings incentives on well-being
Center for Financial Security Family Financial Security Webinar Series

September 11, 2012

Tax Time Saving Decisions

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Discussant

Mimi Turchinetz, Esq
Campaign Director
The Boston EITC Coalition
View From the Field: Response to Damon Jones, SaveUp Study
September 11, 2012

The Boston EITC Coalition
Mimi Turchinetz, Esq
Campaign Director

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Boston EITC Coalition History

- Boston Campaign launched in 2001
- Currently preparing for 12\textsuperscript{th} tax season
- Public/private partnership with 30+ partners, including Boston Fed, FDIC, IRS, ABCD, Dotwell, D2D, NDI, NCTC
- Mayor’s Office of Jobs and Community Services provides infrastructure and is lead partner
Tax Prep Results over the years

• Since 2001, over 90,000 taxpayers were served at Boston’s community tax sites, receiving over $100 million in tax refunds and credits
• In 2012
  – 24 tax sites served 11,500 LMI taxpayers
  – $18,141,691 in federal refunds and credits returned to LMI taxpayers
• Tax preparation delivered in seven languages through the Ambassador Program
• Campaign-wide commitment to inclusion and disability access
Asset Building Results

- Boston’s tax sites have been delivering some form of free asset building since 2004
- Focus has been on credit advising, savings bonds and financial coaching
- Over 3000 one-on-one free credit advising sessions have taken place at tax sites-delivering a credit report and FICO score
- Tax site research with Boston Fed found taxpayers with more present-biased preferences less likely to participate, more likely to borrow and less likely to save
- 200 Savings Bonds have been purchased by taxpayers at an approximate value of $200,000
Financial Check-up pilot

• Pilot implemented in 2012 using opt-out strategy to increase credit advising while providing intake, eligibility screening, and benefits referral
• Financial Guides were volunteers
• 18 Volunteer Guides trained, 11 participated
• 1350 intake sessions provided
• 467 credit advising sessions and 505 benefits referrals made
Lesson’s learned

• Training protocol challenging
• Volunteer tax site model makes behavioral economics experiments difficult to implement
• Opt-out idea requires clear messaging for volunteer intake /credit advising staff
• Transactional vs. case management model
• Difficulty of implementing pilots due to lack of resources, adequate training capacity, volunteer challenges
• More research dollars needed to improve results
Open Questions

• Has providing annual credit advising at Boston’s tax sites created behavioral changes?
• Can the volunteer model improve training protocols such that results and data improve significantly?
• What are the lessons from these pilots and experiments that can be integrated into the tax sites across the field?
• Although the theory of savings at the tax sites continues to be compelling, are the findings of these pilots replicable or scalable?
• Are Savings Bonds still the best tax time saving mechanism?
Discussant

David Rothstein
Project Director for Asset Building, Policy Matters Ohio
Research Fellow, The New America Foundation
Thinking about tax time savings: from pilot to practice

David Rothstein
Project Director, Policy Matters Ohio
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Franklin County (Columbus, OH) SAVE NOW Plus Pilot

- 400 clients offered emergency savings account at 3 free tax sites
- New account, must put in $100 from tax refund
- $50 instant bonus, tiered bonus system for the year
- State “Save NOW” program provides 3% interest bonus at 12th month

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<th>Your Additional Deposits between February and June, 2012</th>
<th>Our Savings Bonus</th>
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www.policymattersohio.org
Results

How the program worked

• 80 clients participated
  – Low drop out rate once enrolled
• Near instant account creation by PNC Bank
• Monthly e-mails with 3 savings tips or plans
• Reminders to make deposits to ensure bonuses/incentives

Functions

• NOT a CD, money is liquid and easily accessible
• Encouragement for other accounts, linkage
Lessons learned for our and other pilots

• More promotion ahead of tax time decision
• Different bank options/choices
• Default option for those w/o accounts
• Bank account creation BEFORE tax site OR a more seamless process for account opening

Continued questions

• Can we be scalable with incentives?
• How do we address larger refunds, more year-round need?
• What can we do about bank perception?
Contact Information

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Q&A
Save the Date:

October Webinar
Tuesday, October 9th
1pm-2pm Central