RESEARCH REPORT April 2013

The Importance of Tax Time for Building Emergency Savings: Major Findings from $aveNYC

Research funded by the Ford Foundation

UNC Center *for* Community Capital

Acknowledgements
The UNC Center for Community Capital gratefully acknowledges the generous support of the Ford Foundation and our partnership with foundation staff Amy Brown and Frank DeGiovanni in furthering this research.

The center also thanks the staff of the Office of Financial Empowerment in the Department of Consumer Affairs in the Mayor's Office of the City of New York. In particular, we would like to thank current DCA staff Jonathan Mintz and Nathalie Gons and former DCA staff Cathie Mahon and Janelle Clay, who have been exceptional partners in the research. We thank our partner, Clark & Chase Research, for its expertise in collecting data throughout this project, as well as Abigail Weitzman, Robert Weide, and Tsedey Betru for their vital role in the qualitative data collection.

Lastly, we would like to thank Michal Grinstein-Weiss and Krista Holub at the Washington University Center for Social Development and Clinton Key and Jenna Tucker at the University of North Carolina at Chapel Hill School of Social Work, who conducted important pieces of the overall research effort and provided invaluable expertise.

UNC
COLLEGE OF
ARTS & SCIENCES

UNC CENTER *for* COMMUNITY CAPITAL

The UNC Center for Community Capital at the University of North Carolina at Chapel Hill is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States. The center's in-depth analysis helps policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively.

1700 Martin Luther King Blvd | Campus Box 3452, Suite 129 | Chapel Hill NC 27599-3452
(877) 783-2359 | (919) 843-2140 | communitycapital@unc.edu | www.ccc.unc.edu

This report was prepared for the Ford Foundation and the Office of Financial Empowerment in the Department of Consumer Affairs, Mayor's Office of the City of New York.

Download the report at www.ccc.unc.edu

Introduction

The New York City Department of Consumer Affairs Office of Financial Empowerment launched the $aveNYC program in 2008 as a pilot to help low-income households build emergency savings and increase their financial stability. The goal of the program was to leverage the tax refund windfall as an opportunity for low-income households to build savings without taking money from their day-to-day cash flow.

Based on the promising results from the 2008 pilot, the program continued in both 2009 and 2010 with an expanded pool of participants. With funding from the Ford Foundation, the 2009 and 2010 programs included in-depth research by experts at both the UNC Center for Community Capital and the School of Social Work at the University of North Carolina at Chapel Hill.

The research explored six primary questions:

1. Were low-income households able to save when presented with a convenient product and an incentive?
2. What is the profile of those who participated in $aveNYC?
3. What factors made it easier or more difficult for households to save?
4. Did short-term, non-goal-directed savings improve the financial stability of participants?
5. Can an incentivized savings program be implemented at scale, and is tax time an appropriate mechanism?
6. What are the implications of these findings for both policy and future research?

This report provides a summary of important findings on the experience of $aveNYC participants in 2009 and 2010. A control group consisting of customers who had their tax returns prepared at Volunteer Income Tax Assistance (VITA) sites that did not offer the $aveNYC account provide a point of comparison. The findings are based on quantitative survey data and qualitative data collected from in-depth interviews.

Program Background

$aveNYC was a matched savings program intended to capitalize on the tax refund windfall that many low-income households receive, often due to receipt of the Earned Income Tax Credit. As part of the free income tax preparation offered at 15 Volunteer Income Tax Assistance (VITA) sites, customers had the option to open a free savings account if they direct-deposited a portion of their tax refund (a minimum of $100 in 2009 and $200 in 2010).

"It helped me see the importance of saving and knowing that, if an emergency came up, I'd be able to take care of it."

As a savings incentive, participants who kept at least their original account balance for a year earned a match of 50 percent of the final account balance (up to a maximum match of $250 in 2009 and a $500 match in 2010). If any of the original deposit was withdrawn before the year ended, the participant did not receive the match. In both years, the number of families that could participate was limited by the availability of private funds donated for match money.

Highlights of Research Findings

Were low-income households able to save?

Yes. As reflected in Table 1, hundreds of families with an average annual income of approximately $17,000 chose to set aside all or a portion of their tax refund to open a $aveNYC account. Among account holders in 2009, 80 percent saved for the full year and thus received the match.

Table 1: $aveNYC Program Outcomes

$aveNYC functioned primarily as a medium-term savings tool, helping participants meet financial shortfalls without incurring new debt.

	2009	2010
Accounts Opened	952	1,360
Total Savings	$362,741	$961,518
Participation Rate of Those Eligible	9%	10%
Percent of Participants Full-year Savers	80%	70%
Average Contribution to $aveNYC Account	$380	$700
Share of Tax Refund Saved	16%	21%

More than 30 percent of participants continued saving in subsequent years. In 2010, despite the increasingly challenging economic landscape faced by these families, at least 70 percent of participating households saved for the full year and received the match (12 percent did not respond either way, thus the actual percent may be higher).

"I would never in a million years think that I can actually do that but after going through it and doing it now the third year, it doesn't feel hard at all to do. In fact, it makes me think about my plans for saving in the future."

The match is a crucial part of the program. Ninety-one percent of repeat participants from 2010 and 2011 said the match heavily influenced their decision to re-enroll. Of the 18 percent reporting they withdrew funds and forfeited the match in 2010, half reported a job loss as the reason they accessed their savings before the match year ended. Participants tended to take between six and eight months to spend all their $aveNYC money and the match.

On average, people who received the match in 2010 still had between $300 and $500 of their $aveNYC account money six months after the match date, while people who received the match in 2011 did not have any money remaining after eight months.

The research suggests that, due to very low household incomes and unstable employment, $aveNYC participants often face financial shortfalls; $aveNYC participants appear to have used their savings instead of incurring new debt to meet these shortfalls.

There is no evidence that people accumulated additional debt in order to keep their $aveNYC accounts open. About one-third of participants said they made specific changes in their finances to keep the $aveNYC account open.

Typical responses were:

- "I learned how to budget better."
- "I didn't overspend on things I didn't need."
- "I pretended the money was not there."

What was the profile of those who participated in the $aveNYC account?

The demographic composition of $aveNYC program participants was similar in both 2009 and 2010:

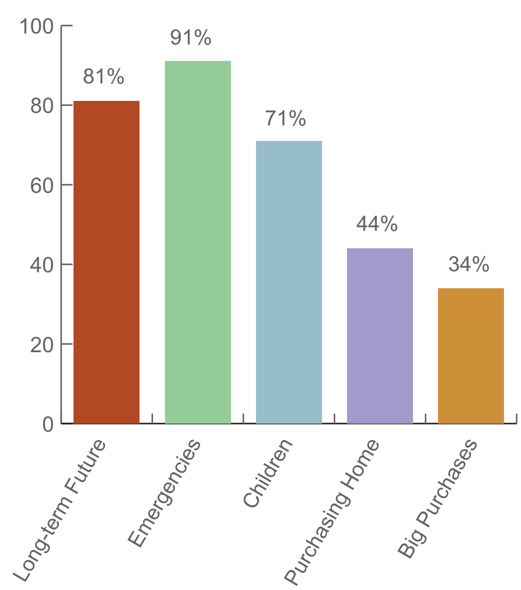
- Approximately 87 percent were Black or Hispanic.
- Approximately 78 percent were female.
- 82 percent had dependent children.
- Approximately 55 percent had at least some college education.
- 60 percent were working full-time in 2009; 66 percent in 2010.
- On average, 72 percent were working full- or part-time both years.

What factors made it easier or more difficult for households to save?

In examining this question, we divided contributing factors into three categories: 1) Individual motivations; 2) Institutional factors; and 3) Structural factors. Our findings are based on in-depth, semi-structured interviews with 48 people who participated in $aveNYC in 2009.

Several structural factors made it difficult to save: participants had little money to start with and their jobs

Percent of Survey Respondents Who Said It Was Very Important to Save For ___________:



were often unstable. There were features of the $aveNYC program that made it easier for people to save: the money was out of sight and the credit union partners were seen as trustworthy.

Finally, financial self-efficacy, the belief in one's ability to manage one's financial life, emerged as very important. Not only did people who had self-efficacy find it easier to save, participation in the program increased people's sense of efficacy. After participating in $aveNYC, many people said they realized they could save money and were planning to do so going forward.

Factors Making It Easier to Save	Factors Making It Difficult to Save
• Ease of account setup • No account fees, low minimum balance • Tax time refunds Incentive of matching funds • Trust in credit union and community partners • Lack of easy access to accounts once opened • Financial self-efficacy	• Job loss and economic hardship • Low incomes

Did short-term, non-goal-directed savings improve the financial stability of participants?

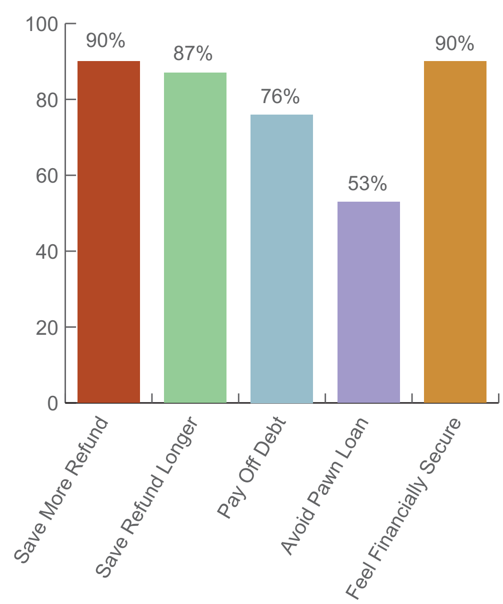
When given a list of reasons why people save, about 80 percent of $aveNYC participants said that emergency savings and general purpose savings were "very important."

> *"[$aveNYC] made savings accessible to me. Whereas I was thinking, I don't have any money. I'm never going to have any money and I'm never going to save. But it taught me that you can save, even if it's just a small portion of what you have."*

Several findings point to the importance of $aveNYC accounts in mediating financial hardship and emergencies for participating households, a primary purpose of the program:

- Nearly one-third of participants, 31 percent, were unbanked when they joined the program.
- In 2009, 36 percent of survey respondents reported that they had no savings prior to opening their $aveNYC account; another 40 percent reported having less than $500 in savings.
- After enrolling in $aveNYC, program participants were significantly less likely than non-participants to skip paying bills or to take out loans.
- Participants were more likely to withdraw money from savings during the study period, and they typically did so to cover household expenses or handle emergencies.
- Participants were more likely than non-participants to say they had enough savings to live for one month in the absence of any other income.
- There is no evidence that people accumulated additional debt in order to keep their $aveNYC accounts open.
- For families with children, in particular, using the $aveNYC as a source of emergency savings and to cover other expenses for children during the period following the match appeared to be a common pattern.

Affirmative Responses to the Question: "Has the $aveNYC Account Helped You ___________?"



Can an incentivized savings program be implemented at scale and is tax time an appropriate mechanism?

With a take-up rate of roughly 10 percent, the $aveNYC program demonstrates that sufficient interest exists on the part of potential participants to implement this kind of tax time savings program at scale. In a program survey, 64 percent of respondents, both $aveNYC participants and non-participants, said they planned in advance to save a portion of their tax refund. The fact that the program is "low-touch," meaning it doesn't require costly staff-time interventions to achieve its results, is another very important factor in its potential to go to scale.

While tax time is an easy point of entry to reach out to low-income households anticipating a refund, achieving even greater scale would likely mean going beyond free tax preparation programs, such as VITA, as more and more tax filers are moving to self-serve web-based tax software.

"Now…I realize that you can just save a little bit of money and have it when you need it. Now I see how much [saving] helps."

One potential obstacle to going to scale is the need to provide match money for accounts during a time of public and private spending constraints. However, the federal government currently subsidizes savings program for middle- and upper-income households, such as through its tax treatment of mortgage interest and tax-advantaged retirement accounts. Given the importance of savings in household and community financial stability, it is reasonable to propose that a federal matched savings program for low- and moderate-income households be implemented.

What are the implications of these findings for both policy and future research?

Policy Implications

- **Promote medium-term savings at tax time by creating appropriate mechanisms and incentives.**

  The $aveNYC model represents a promising approach for helping even very low-income families set aside funds for emergency savings, thus providing a means for smoothing out expenditures and increasing family financial stability.

  A larger national pilot, Save USA, is now under way to test the scalability of the program through the portal of community-based free tax preparation programs in three additional cities. Early results are promising, lending more support for federal policy change.

  Legislation should be enacted to provide low- and moderate-income savers a match in the form of a refundable tax credit when they save a portion of their refund for a full year. Similar to $aveNYC in its purpose, the Financial Security Credit (previously introduced as the Savers Bonus Act) would work through the mechanism of the tax code rather than through VITA sites, and it deserves serious consideration.

  Other approaches that enhance the ease of access to savings opportunities at tax time, such as the opportunity to purchase U.S. Savings Bonds as part of the tax preparation process, should also be continued and could be scaled to include an automated and incentivized savings opportunity.

- **Eliminate asset limits in public benefit programs.**

  Households receiving public benefits, such as those provided by the Supplemental Nutrition Assistance Program (SNAP) or Medicaid, are prohibited from saving more than $2,000 at any one time without risking losing their benefits, due to limits on ownership of assets.

"I know that now I can say to myself when I'm on the train and I hear people talk about the money they have in their bank account, I can say, 'You know what? Me, too.' I have money put away, too. I have the ability to do it, too. Just because I come from a low-income budget, my life as a low-income person doesn't mean that I can't save."

Several states have eliminated asset limits from their benefits eligibility rules due to the high administrative costs of screening all applicants when very few own assets that exceed the limit and the unintended consequences of discouraging savings, thus leaving households more vulnerable to financial emergencies.

To reduce the costs of administering public benefit programs and to allow all families to step onto a pathway of increasing financial stability, asset limits in public benefit programs should be eliminated.

- **Increase access to high quality and affordable financial products.**

  The importance of self-efficacy in participants' ability to move forward with their savings goals emerged clearly in our findings. Participating in $aveNYC changed the way people thought about their ability to save money, the importance of saving and their financial aspirations.

  More safe and affordable financial products are needed to address the needs of low- and moderate-income households and enable them to save for a diversity of goals across the life span.

  Since low- and moderate-income families often lack easy access to longer-term savings vehicles through their employer and may benefit little from tax incentives unless those incentives or credits are refundable, state and federal policy should support opportunities for families to save in new ways.

  One promising approach that incorporates a match component is Children's Savings Accounts, generally geared towards paying for higher education but also useful for home purchase, starting a business and even retirement. Federal legislation to support Children's Savings Accounts has been introduced consistently but has yet to be enacted.

Research Implications

- **Replicate results.**

  Since the existing $aveNYC pilot worked with primarily African American and Latina women in a large city, further pilots that involve other populations and other geographies would be useful to determine whether the results are generalizable.

  $aveNYC participants were a self-selected sample. Replicating the results with a random assignment protocol would be an important means to, again, see whether the results are generalizable.

Additional Resources

This research brief summarizes findings of several research papers that explore the $aveNYC program. Below is a list of related research papers. UNC Center for Community Capital publications may be downloaded without charge from the center's website, www.ccc.unc.edu. The additional papers may be obtained from the authors. Clinton Key and Jenna Tucker may be contacted through the University of North Carolina at Chapel Hill School of Social Work. Michal Grinstein-Weiss and Krista Holub may be contacted through the Washington University in St. Louis Center for Social Development.

UNC Center for Community Capital Publications

Factors Affecting Completion of a Matched Savings Program: Impacts of Time Preference, Discount Rate, and Financial Hardship
Kim Manturuk, Jessica Dorrance, Sarah Riley
Journal of Socio-Economics, Vol. 41, Issue 6; pp. 836-842, 2012

Individual, Institutional, and Structural Determinants of Households Savings Decisions
Kim Manturuk, Kea Turner
Working Paper, 2012

Additional Publications

Savings at Tax Time: The Effect of $aveNYC on Savings in Low-Income Households
Clinton Key, Michal Grinstein-Weiss, Jenna Tucker, Krista Holub
Working Paper, 2011

The Benefits of Saving at Tax Time: Evidence from the $aveNYC Evaluation
Clinton Key, Michal Grinstein-Weiss, Jenna Tucker
Working Paper, 2013

UNC
COLLEGE OF
ARTS & SCIENCES

UNC CENTER *for* COMMUNITY CAPITAL
Research and analysis on the transformative power of capital

1700 Martin Luther King Blvd | Campus Box 3452, Suite 129 | Chapel Hill NC 27599-3452
(877) 783-2359 | (919) 843-2140 | communitycapital@unc.edu | www.ccc.unc.edu