THE $AVENYC ACCOUNT

Innovation in Asset Building

Research Brief

August 2009

Department of Consumer Affairs
Office of Financial Empowerment

$aveNYC Account: Innovation in Asset Building

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New York City Department of Consumer Affairs
Office of Financial Empowerment

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Acknowledgments

As part of Mayor Michael R. Bloomberg's anti-poverty efforts, the Center for Economic Opportunity (CEO) has challenged the Department of Consumer Affairs and its Office of Financial Empowerment to be bold and innovative in their approach to developing asset-building vehicles at scale. By developing the $aveNYC Account pilot program with private funds and rigorously evaluating the results, the Office of Financial Empowerment hopes to build a public policy case for a national savings product for low-income individuals.

This program would not have been possible without the leadership and guidance of CEO. Established by Mayor Bloomberg under Deputy Mayor Linda I. Gibbs, and led by Executive Director Veronica M. White, CEO provides critical funding and support to OFE as one of its key anti-poverty initiatives.

The New York City Department of Consumer Affairs Office of Financial Empowerment gratefully acknowledges the following partners for their assistance implementing the first year pilot of the $aveNYC Account program: Amalgamated Bank; Ariva, Inc.; Bethex Federal Credit Union; Brooklyn Cooperative Federal Credit Union; CheckSpring; East River Development Alliance; Lower East Side People's Federal Credit Union; New York City Financial Network Action Consortium (NYCfNAC); and Union Settlement Federal Credit Union.

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The New York City Department of Consumer Affairs (DCA) enforces the Consumer Protection Law and other related business laws throughout New York City. Ensuring a fair and vibrant marketplace for consumers and businesses, DCA licenses more than 70,000 businesses in 55 different industries. Through targeted outreach, partnerships with community and trade organizations, and informational materials, DCA educates consumers and businesses alike about their rights and responsibilities. DCA's Office of Financial Empowerment (OFE) is the first municipal office of its kind in the nation with a mission to educate, empower, and protect New Yorkers with low incomes to help them make the best use of their financial resources to move forward economically. For more information, call 311 or visit DCA online at www.nyc.gov/consumers

Executive Summary

Background

The New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) launched the $aveNYC Account pilot program in February 2008. A departure from traditional high-touch, goal-specific asset-building programs, the $aveNYC Account leverages a windfall moment—receiving the Earned Income Tax Credit (EITC)—to help New Yorkers build savings and accrue assets. The pilot seeks to evaluate the potential for a national model to increase savings among individuals with lower incomes.

Capitalizing on lessons learned from behavioral economics, the $aveNYC Account limits choices, encourages individuals to save by facilitating a separate account for savings, and simplifies the process of committing to save, while creating certain obstacles and disincentives for withdrawing funds. The $aveNYC Account program offers New Yorkers with lower incomes a 50 percent match if they direct deposit part of their tax refund into a branded "$aveNYC Account" and maintain the initial deposit for at least one year.[1] This one-time decision to forego a portion of their refund, combined with limited access to the account and a generous match, precipitates short-term savings with the intention of moving individuals on a pathway toward longer-term savings and greater financial stability.

The $aveNYC Account pilot program enables OFE to test the following research questions:

1. Do families with very low incomes save if presented with the right incentives and opportunities?
2. Can an incentivized savings program be implemented at a large scale?
3. Can short-term, non-goal directed savings improve financial stability?

This research brief focuses primarily on OFE's first research question, and presents findings from the first year of program implementation. Early findings do indeed show that those with lower incomes can and do save when presented with the right incentives and opportunities.

$aveNYC Account Overview

The account was offered at select Volunteer Income Tax Assistance (VITA)[2] sites throughout New York City during the 2008 tax season, and then offered again in an expanded pilot during the 2009 tax season. In the first year, OFE offered the $aveNYC Account only to filers qualifying for the EITC. Participants were required to make a minimum contribution of $100 from their Federal, State, or City refund using the split refund option available through the Internal Revenue Service (IRS).[3]

During the 2008 tax season, eight VITA sites offered the $aveNYC Account to eligible VITA filers. A total of 177 filers committed to opening an account; however, 26 of those accounts (15 percent) were never funded (resulting from tax or child support arrears or other liens or tax preparation errors). Thus, OFE's initial pilot group includes 151 accounts, representing over $58,000 in savings and potential matches of more than $28,000.

In the 2009 tax season, 12 VITA sites opened a total of 1,056 accounts within the first eight weeks of implementation, depositing over $383,000 in savings and earning potential matches of nearly $187,000.

This brief shares early findings from the first year of implementation and discusses implications for future policy.

Research Methodology

During the 2008 tax season, OFE collected basic data on-site for participants, non-participants, and those who were not offered the account because of ineligibility or staff resourcing. Throughout 2008, financial institutions also reported participants' account balances, additional deposits, and other account activity. OFE administered telephone surveys to 45 participants during the summer of 2008,[4] and conducted two focus groups with eight participants. OFE also developed a survey to be administered by financial institutions when an account was closed. Ten of these surveys were incorporated into this analysis. Data are pooled across the three methodologies for a total sample of 63 individuals, or 42 percent of accountholders.

Researchers from the Center for Community Capital at the University of North Carolina at Chapel Hill will conduct the evaluation of the second-year cohort. This research will explore the impact of program participation using a quasi-experimental design: tracking program participants, tax filers who chose not to participate, and a control group of VITA filers for one year.[5] Over the next two years, OFE will be able to identify the rate at which individuals participate in the program and the frequency with which participants roll funds over from year to year. Subsequent research will also examine whether savings leverages more productive short-term financial behaviors, such as reducing debt, and whether it changes participants' longer-term goals. Future research will also determine how an incentivized savings program can be brought to a City, State, or even national scale.

Key Findings from the First-Year Pilot

1. Even individuals with very low incomes can and will commit to saving if presented with a convenient, simple tax time vehicle.

The average annual household income for a $aveNYC Account program participant in 2008 was $15,530. Although this is $4,800 higher than the average income of non-participants, it is still only one-third of New York City's median household income.[6] Roughly one-third of participants reported that they were not employed full time. Moreover, 61 percent of participants contributed at least $500 to be eligible for the maximum match, and savings averaged roughly $400 or 11 percent of an individual's tax refund.

The range of account uptake varied across partner institutions from one percent to 11 percent—averaging roughly six percent.

2. The $aveNYC Account is already impacting savings behavior by motivating savings even among those with no track record of saving.

Nearly one-third (31 percent) of filers who chose to open a $aveNYC Account were unbanked when they entered the VITA site. Among the survey respondents, roughly 36 percent reported no savings prior to opening the account. An additional 40 percent had less than $500 in savings at the start of the program, with only 24 percent of $aveNYC Account survey respondents with $500 or more in savings before entering the program.

Roughly 76 percent of the $aveNYC Accounts remained open for the full year, leveraging over $73,000 in savings: $45,808 in initial contributions, $22,432 in match money, and $5,005 in additional deposits to the account. More than one-half of participants (55 percent) had at least $500 in savings at the end of the first full year, and savings averaged $624. Nearly three-quarters of participants (74 percent) who received the match have rolled the account over for another year, while 26 individuals (22 percent) have deposited a portion of their 2009 refund to receive an additional match.

3. Match money offered through the $aveNYC Account is a powerful motivator to save.

The vast majority of $aveNYC Account survey respondents (83 percent) reported that they were motivated to participate by the match money. Twenty-five percent of survey respondents reported that they had no intention of saving prior to the 2008 tax season, and 73 percent of those who did not intend to save reported that they did so because of the match money. When asked the most important reason for opening the account, match money was the highest motivator reported, with trust of the financial institution of critical secondary importance.

4. $aveNYC Account participants are saving for a variety of productive short- and long-term goals.

The $aveNYC Account pilot program offers individuals the flexibility to save for whatever reasons they choose. OFE learned from participant surveys that 69 percent chose to participate in the program to save for an emergency, and 38 percent chose to save for education-related expenses. The variety of non-frivolous savings goals indicated by participants supports OFE's premise that allowing individuals choice and flexibility in determining their own savings goals can attract larger and more diverse savers at various stages in their lives than a goal-restricted program.

5. Program implementation and marketing proved to be critical to program uptake.

Six percent of potentially eligible filers opened a $aveNYC Account during the 2008 tax season.[7] The number of participants varied considerably by organization from one percent to 11 percent. Similarly, average contributions ranged from $350 to more than $450. Notably, partners with higher participation rates also had higher contribution levels. An analysis of demographic and tax data of participants finds that they are generally similar and unrelated to participation rates or contribution levels. OFE concluded that the marketing approach, implementation procedures, and enthusiasm employed by staff at the highest-performing sites may have impacted the likelihood of participation and the amount tax filers were willing to commit to savings. This finding contributed significantly to developing greater consistency in program implementation in 2009.

Policy Implications

The $aveNYC Account pilot program is already demonstrating strong and promising findings from its first year of implementation. The first year shows significant influence on short-term behavior for tax filers with very low incomes.

Government investment is needed to reward short- and long-term savings.

The Federal government spends at least $335 billion per year on asset-building policies—however, because these investments are delivered mostly through tax deductions or nonrefundable credits, middle- and upper-income households are the primary beneficiaries of such programs.[8] The $aveNYC Account was designed to learn valuable lessons about incentivized savings initiatives that can be applied to reforms to the Federal tax code to achieve greater financial stability for American households with lower incomes. The most common reason for savings cited among survey respondents was for emergencies or a rainy day fund (69 percent), implying that lower-income households can greatly benefit from a program that makes it easier for them to start building savings.

Tax time may be the ideal opportunity to connect low-income households to savings.

Although considerable research has found that automated savings makes it easier for individuals to accumulate the funds they need for retirement or emergencies, many low-income households face barriers to accessing options for automated savings due to inconsistent employment. At up to 35 percent of their total annual income, the EITC may be the single largest check a lower-income individual receives all year.[9] Including Federal, State, and City credits, a New York City EITC filer could have received upwards of $6,000 in 2008; the average credit was roughly $2,700. In 2007, over 840,000 New York City residents claimed the EITC, receiving approximately $2.2 billion in total tax rebates.[10]

Policy makers and researchers have already begun to realize the potential of matched savings vehicles at tax time. President Obama's 2010 Executive Budget included a matched, refundable tax credit for retirement savings[11] and Senator Robert Menendez (D-NJ) introduced the Saver's Bonus Act to promote savings to encourage low- and moderate-income households to achieve a broad range of savings goals, much like the $aveNYC Account program.

The goals of the $aveNYC Account program go beyond just getting more New Yorkers enrolled in the program and determining the best way to get individuals to save. The $aveNYC Account program seeks to answer larger questions about whether short-term savings can lead to continued savings, and whether participants experience a greater sense of control over their finances and thus make wiser short-term decisions that strengthen their financial stability. Extensive research and evaluation through the Center for Community Capital will explore over time the impact accumulating savings has on the overall financial condition of an individual or family. This can, in turn, contribute to a national dialogue on savings policy for households with low incomes.

$aveNYC Account: Innovation in Asset Building
Research Brief

I. Introduction

In these challenging economic times, individuals of all income levels are faced with financial insecurity and the threat of dwindling assets. The personal savings rate in the United States consistently lags behind that of other nations. In 2008, the personal savings rate was below one percent,[12] indicating that most Americans are spending more than they earn. Roughly 30 percent of working families have zero or negative net worth.[13] While the current recession has encouraged many households to cut back on spending and increase their savings for a rainy day, lower-income families are more vulnerable than ever to personal financial crises–such as job loss or serious illness–with little safety net available.[14]

Few low- or moderate-income households have sufficient financial resources to weather an emergency. Only 57 percent of these families have a bank account, and most do not have sufficient liquid assets to financially survive job loss or other financial emergencies.[15] Additionally, in large, urban areas like New York City, working families with lower incomes face high housing and living costs. A recent survey in New York City found that only one-half of lower-income households have at least $500 in savings to use for unanticipated expenses, while one-third of lower-income households reported having no savings at all.[16]

Building assets does more than just offer a cushion to help families handle loss of income or increased expenditures from unexpected events—such as illness, job loss, or marital breakup. Research finds that assets provide additional benefits ranging from improved financial stability to better health and education outcomes for families and children.[17] Asset accumulation is significantly associated with financial gifts to adult children, which often helps younger generations go to college or purchase a home. Such intergenerational transfer of wealth increases one's likeliness to build savings and impacts overall economic and social status for a family for years to come.[18]

The bulk of asset research in the past has focused on homeownership. At the family level, studies have found that children of homeowners have higher graduation rates, are less likely to drop out of school, and are less likely to become teenage parents.[19] The effect of homeownership is significant for children in families with incomes over 150 percent of the Federal poverty line as there is a demonstrated increase in educational attainment, earnings, and welfare independence in young adulthood.[20]

Although little research has focused on the benefits of financial assets beyond the accumulation of tangible assets, some evidence exists that having savings can produce positive outcomes in and of itself. Evaluations of the American Dream Demonstration program, a multi-organizational effort that offered matched savings incentives in Individual Development Accounts (IDA) to lower-income individuals saving for a particular asset-related purchase, found important impacts of participation beyond whether or not participants made the purchase. One survey of IDA-holders found that 60 percent of participants reported they were more likely to make educational plans for their children because of participation in the program.[21] Additionally, 57 percent of participants indicated that they were more likely to plan for retirement because of their involvement.[22]

II. $aveNYC Account: A New Approach to Increasing Savings for the Most Vulnerable New Yorkers

Launched by Mayor Michael R. Bloomberg's Center for Economic Opportunity (CEO) in 2007, the New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) has a mission to educate, empower, and protect New Yorkers with lower incomes to help them build assets and strengthen their financial well-being. To date, OFE has launched a Citywide Financial Education Network Directory of free and low-cost financial education services; opened a Citywide network of four Financial Empowerment Centers providing free one-on-one financial counseling; expanded options for safe and affordable tax preparation; and worked with financial institutions to develop safe and affordable financial products and services to facilitate savings.

Responding to a challenge to test innovative and scalable approaches to building savings and assets, OFE conducted a small pilot during the 2008 tax season to test whether low- and moderate-income families could be encouraged to save money at tax time. The $aveNYC Account offered individuals eligible for the Earned Income Tax Credit (EITC) a 50 percent match (up to $250) on the money they decided to save out of their anticipated tax refund. Savers had to deposit a minimum of $100, and had the option of withdrawing their money at any time, although they were required to keep the savings in the account for at least one year to receive the match money. Match money was not hinged upon use of the funds for a specified goal or asset purchase. Participants also earned interest on the money, and were able to make additional deposits throughout the year. The account was offered at select Volunteer Income Tax Assistance (VITA) sites throughout New York City during the 2008 tax season, and then offered again in an expanded pilot in 2009.

The $aveNYC Account pilot program enables OFE to test the following research questions:

1. Do families with very low incomes save if presented with the right incentives and opportunities?
2. Can an incentivized savings program be implemented at a large scale?
3. Can short-term, non-goal directed savings improve financial stability?

This paper, the first in a series of learning briefs, focuses primarily on OFE's first research question, and presents findings from the first year of program implementation. Early findings do indeed show that those with lower incomes can save when presented with the right incentives and opportunities.

A departure from traditional high-touch, goal-specific asset-building programs, the $aveNYC Account pilot program leverages a windfall moment—receiving the EITC—to launch individuals on a pathway toward savings. Capitalizing on lessons learned from behavioral economics, the program limits choices, facilitates the creation of a separate account for saving, and simplifies the process of committing to save while creating certain obstacles and disincentives for withdrawing funds. The $aveNYC Account program also seeks to expand the knowledge of the short-term impact of longer-term savings on financial stability, debt levels, and feelings of financial control.

Rigorous evaluation of the $aveNYC Account pilot program will allow policymakers to determine the impact of a savings program at tax time for lower-income households. The pilot has the potential to inform changes to Federal and State tax policy, and may encourage replication of local programs in other cities.

The Center for Community Capital at the University of North Carolina at Chapel Hill is evaluating the second-year (2009) cohort, with support from the Ford Foundation. Researchers will determine the impact of program participation using a quasi-experimental design: tracking program participants, tax filers who chose not to participate, and a control group of VITA filers for one year. Over the next two years, OFE will be able to identify the rate at which individuals participate in the program and the frequency with which participants roll funds over from year to year. Subsequent research will also examine whether amassing savings leverages more productive short-term financial behaviors, such as reducing debt, and if it changes participants' longer-term goals. Future research will also determine how an incentivized savings program can be brought to a City, State, or even national scale.

III. Program Overview

Program Design

The New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) studied earlier tax-based savings pilots to inform the design of the $aveNYC Account. ShoreBank, a community development bank based in Chicago, promoted a no-fee, no minimum balance savings account for EITC filers in 2005. They offered a ten percent bonus on funds remaining in the account at the end of the year, and found that 20 percent of EITC filers opened the account, 61 percent of whom were unbanked at enrollment.[23] Another organization, Doorways to Dreams, has been promoting medium to long-term savings through tax time investment in savings bonds. This approach allows participants to purchase bonds for themselves or others. During the 2007 tax season, six percent of eligible tax filers purchased 377 bonds valued at $42,800.[24]

In 2005, H&R Block piloted its Express IRA to 15,000 low- and moderate-income families. Tax filers were randomly selected in three groups: some were merely given information on the value of opening an Express IRA, others were offered a 20 percent match, and others were offered a 50 percent match up to $1,000. Three percent of filers in the control group contributed to the IRA, while 17 percent of those offered a 50 percent match contributed. The households who were not offered a match invested an average of $860, compared to $1,310 for those offered the 50 percent match.[25] The H&R Block program evaluation concluded that a combination of the financial incentive, involvement of the tax professional, and the ease of participation had a significant effect on the willingness of individuals to participate in such programs and the amount they were willing to contribute.[26]

Although more research is needed to determine the longer-term effects of these asset-building initiatives, tax time experiments have helped to demonstrate that lower-income working families want to save. However, these programs also illustrate that making a commitment to save is a serious undertaking. The best intentions compete with pressing daily needs, as may be demonstrated by the fact that 28 percent of those who opened an account at ShoreBank had an ending balance of less than $5.[27]

With these lessons in mind, the $aveNYC Account was designed to be easy to open, offer an attractive financial incentive, and encourage individuals to follow through on their intention to save by requiring saving for one full year. With support from private sector contributors,[28] and in partnership with the Mayor's Fund to Advance New York City, the $aveNYC Account program offered EITC recipients a 50 percent match on their initial savings if they maintained their initial deposit for at least 12 months. Participants were required to deposit a minimum of $100 to open an account and were matched on contributions up to $500 (for a match of $250). The $aveNYC

Account's initial savings deposit came directly from the Internal Revenue Service (IRS), taking advantage of their new split refund option available by completing Tax Form 8888 (*Direct Deposit of Refund to More than One Account*).

The account also allows for additional contributions throughout the year, which earned interest at a rate of two percent to three percent, depending upon the financial institution. Additional contributions do not qualify for a match. The interest was paid at the end of the 12-month period. To help participants ward off the temptation to withdraw funds for non-emergency expenses, the account has no ATM or debit card access. The account is risk-free, but if a filer withdraws any of the initial contribution, the account is closed. The accountholder retains the full amount of the initial contribution but loses the opportunity for the match and any interest accrued.

The $aveNYC Account has no restrictions about how funds can be used upon maturity. Rather, OFE sought to study whether the process of putting money aside into savings could generate additional financial goals over time, especially as savings increase. OFE will also examine whether committing to short-term, non-goal directed savings leverages individuals into longer-term retirement savings or asset accumulation.

OFE worked with the Aspen Institute and the Annie E. Casey Foundation to incorporate principles from behavioral economics theory into the program design. Behavioral economics is a field of empirical research that uses lessons from psychology to better understand why individuals' economic choices do not always fit what rational models would predict.[29] Behavioral economics presents several strategies for maximizing savings, several of which were incorporated into this pilot.[30]

- **Loss aversion: The perceived loss associated with giving something up can be substantially greater than the perceived benefit associated with obtaining it.[31]** Individuals are highly risk averse; research indicates that individuals tend to weigh a loss twice as much as a gain and greater value is placed on what they own versus what they do not own.[32] The $aveNYC Account is structured so there is a threat of losing out on the match if funds are withdrawn. Although $aveNYC Account participants cannot lose any of their tax refund, forfeiting the 50 percent match and accrued interest reinforces a sense of loss.

- **Mental accounting: Wealth is not completely fungible; individuals create artificial budgets covering different categories of spending and saving.[33]** Once funds have been mentally calculated toward consumption, it is more difficult to re-orient toward savings. This is evident in how windfall money and unexpected bonuses are regarded as separate funds from regular income. Splitting a tax refund can help individuals create a mental savings account by separating savings from funds deposited into another account for immediate use. Giving these accounts separate names and designations, and requiring direct deposit into the $aveNYC Account, can also help individuals feel their savings is untouchable.

- **Limit choices: When faced with multiple alternatives, individuals are less likely to make a decision.[34]** Prior research has demonstrated that consumers tend to be less likely to make any purchase if they are given too many options. Empirical research on retirement planning illustrates the same concept; firms that reduce the number of options for retirement planning see increases in the proportion of employees that participate.[35] In designing the $aveNYC Account as a single, branded account, OFE limits the number of choices required of individuals. Participants only have two choices to make: 1) whether or not to participate and 2) how much to contribute. Match rate does not vary, and participants could not choose among multiple lengths of time or financial institutions.

- **Hassle Factors: Minor barriers can hamper the best of intentions.** Individuals are less likely to take advantage of self-interested opportunities if there is a perception of significant barriers to entry. Surveys of employees leaving retirement seminars find that the majority fully intend to increase contribution to their 401(k). Six months later, employees are considerably more likely to have actually increased their contribution if forms were provided at the time of the information session.[36] OFE insisted that partners open accounts on-site during the tax preparation process. Attempts were also made to minimize paperwork, and additional efforts will be made in 2009 to ensure that pilot participants do not spend any extra time at tax preparation sites as compared to non-participants. A scalable savings product would ideally be incorporated directly into tax filing, so that filers could "check a box" to divert a portion of their refund into a matched savings account without added inconvenience.

Year 1 Implementation

The first year of the pilot program experimented with a variety of implementation strategies to learn from the successes and gaps of various models. By adopting a non-prescriptive approach and partnering with six different organizations, OFE was able to monitor and evaluate a wide range of models.

Beginning on February 4, 2008, VITA sites in Manhattan, Brooklyn, and the Bronx began offering the branded "$aveNYC Account."[37] Partner agencies were given small evaluation and administration grants for their participation. Partner staff completed tax returns, identified eligible filers, marketed the accounts to prospective participants, explained the terms and conditions of the program, as well as financial institution requirements. Partners were responsible for implementing marketing strategies at their discretion that were tailored to the unique population their organization serves. The VITA sites also administered contact consent forms and provided relevant tax and demographic data. Finally, they helped organize participant focus groups, and were available to debrief OFE throughout implementation of the program.

Partnering financial institutions remain responsible for transferring or closing accounts if balances drop below the initial contribution level. They provide quarterly data to OFE on account balances, closures, contributions, and additional accounts opened by participants outside of the $aveNYC Account program. Financial institution partners will continue to hold $aveNYC Accounts for participants who opt to roll their savings into another year.

OFE provided marketing materials to partners, including posters, flyers, and one-page overviews of the account. OFE staff conducted site visits to facilitate the sharing of successful marketing strategies, but did not require any one specific approach to product awareness or sales in its first year. OFE collected account information from partners, and collected and analyzed data to assess outcomes.

The participating sites in Year 1 were generally small- to medium-size VITAs serving between 870 tax filers at the smallest site to 2,500 at the largest site. The sites also varied in the proportion of filers who were EITC-eligible, from 28 percent to 48 percent. This was particularly relevant to program implementation in the first year because only EITC filers were eligible for the $aveNYC Account. The average income of EITC filers at the sites was fairly consistent, averaging between about $11,000 to $13,000 per year, and the average EITC refund ranged from $2,880 to $3,967.

Partners developed implementation strategies based on their staffing patterns, site location, and unique community and customer needs. One of the more successful partners enlisted a single staff person to market and process account openings at the VITA site. This “marketing specialist” discussed advantages of the account with filers who were likely to be eligible (such as those with children) while they were waiting to have their tax returns completed, and then opened the account for the filer after tax preparation. In the end, this site opened the most accounts and had the highest proportion of participating tax filers.

Another partner sought to reduce the “hassle factor” of account opening by breaking the process into two steps. Participating clients would sign paperwork indicating their interest in the account and the amount they wanted to deposit, but would not fill out all account-opening forms on-site. After their tax refund was deposited at the credit union, participants would return to the financial institution to complete the forms. Staff reported that this approach reduced the time associated with account opening, although it required all tax preparers to be familiar with the program and required participants to return to the financial institution to participate. However, this approach also boosted take-up, and the site opened the second highest number of accounts.

Across the board, partners found that offering the product to EITC-only eligible recipients prevented large-scale take-up of the account as account-opening activities could only occur after tax returns were completed and eligibility was determined. Staff members at several sites reported that clients were ready to leave the site at this point in the process, and expressed concerns about time and hassle.

Year 1 Research Methodology

For the first year of program evaluation, OFE conducted an internal evaluation of the pilot program by taking a comprehensive approach, including both qualitative and quantitative indicators. The rigor involved was largely driven by OFE’s commitment to test the viability and scalability of the $aveNYC Account strategy for future implementation.

OFE collected data on account balances, additional deposits, and other account activity at the financial institution throughout the year. Data points included basic tax data on all filers at participating organizations, such as household income, total refund amount, and filing status. Basic tax data was collected on-site for participants, non-participants, and those who were not offered the account because of ineligibility or staff resourcing.

From June through August 2008, OFE administered telephone surveys to 45 program participants. OFE also conducted two focus groups with eight participants and collected demographic information and other data from these participants via paper survey. To capture data on participants who voluntarily closed their account, OFE also developed a survey to be administered by financial institutions when the account was closed. Ten of these surveys were received as of December 31, 2008 and incorporated into this analysis. Data are pooled for common questions across the three methodologies for a total sample of 63 individuals, or 42 percent of accountholders.

IV. Early Findings

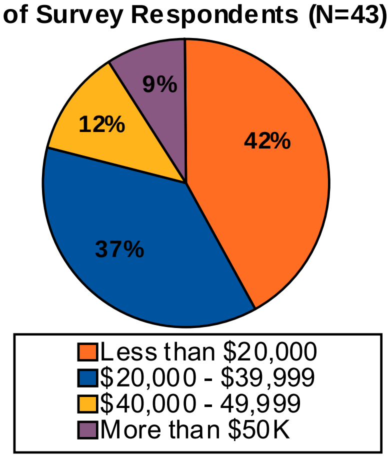
In its first year, the $aveNYC Account program attracted commitments from 177 interested filers. Participants pledged savings of more than $70,000 from their tax refunds, with an expected match of over $34,000. In all, $aveNYC Account participants pledged 11 percent of their anticipated average refunds of $3,746. Sixty-one percent of participants contributed at least $500 to be eligible for the maximum match, and individual savings averaged $400. Due to filing errors or held refunds, 151 of the 177 accounts were eventually funded by the IRS, bringing the total contribution to more than $58,000 with a potential match of over $28,000. Participants contributed an average of $387.

In the second year of implementation, 12 VITA sites partnering with five financial institutions opened a total of 1,056 accounts, with savings over $383,000 and a potential match of nearly $187,000. The program filled to capacity in only eight weeks, exhausting the match money that had been raised.

The data presented in this brief is derived from the first year of the pilot and includes tax information, survey responses, aggregate account data, and focus group summaries. The analysis from this first-year cohort begins to address the question of whether low-income families can save at tax time and reveals interesting insights into the role of incentives and opportunities to foster savings. This data also helped program administrators refine the program for the expanded 2009 tax season pilot and offered early reflections on the potential scalability of the program.

1. Even individuals with very low incomes can and will commit to saving if presented with a convenient, simple tax time vehicle.

Figure 1. Income Distribution of Survey Respondents (N=43)



Overall, the $aveNYC Account was attractive to some of the City's most financially fragile residents: working poor minority single parents.

The average income of participants was $15,530. While the average income for accountholders is $4,800 higher than the average income of non-participants, it represents only one-third of New York City's median household income. Based on survey data presented in Figure 1, forty-two percent of participants earn less than $20,000 per year.

$aveNYC Account participants were more likely to be single and to have children than those EITC filers who chose not to participate; 82 percent of accountholders have children compared to 52 percent of non-participants.[38]

The composition of participant households appears to be linked to the EITC eligibility credit structure, which awards the highest credit to families with two or more children with incomes between $12,000 to $15,000.[39] This is also evidenced by the higher average refunds enjoyed by $aveNYC Account participants compared to refunds of non-participants—an average of $3,746 compared to $2,722—which presumably made it an easier decision to dedicate a portion of their refund to savings.

African-American and Hispanic tax filers were more likely to participate than White or other filers; 85 percent of EITC filers overall at these tax sites were African-American or Hispanic compared to 92 percent of those who chose to participate. Forty-four percent of $aveNYC Account survey participants were born outside of the United States, which is a bit higher than the 37 percent of EITC filers at these sites who were foreign-born.[40]

2. The $aveNYC Account is already impacting savings behavior by motivating savings even among those with no track record of saving.

The $aveNYC Account was able to encourage saving even among those with no track record of saving. Additionally, nearly one-third (31 percent) of filers who chose to open a $aveNYC Account were unbanked when they entered the tax site. As illustrated in Table 1, this means that 100 percent of $aveNYC Account participants both opened a bank account at the VITA site *and* used direct deposit. Unsurprisingly, people who already had bank accounts were more likely to participate; 69 percent of participants had a bank account prior to filing taxes compared to 59 percent of non-participants.

Table 1. Banking Behavior of Participants Versus Non-Participants[41]

	Participants	Non-Participant EITC Filers
Number of Filers	177	2694
Unbanked Prior to $aveNYC	31%	41%
Opened Account at VITA Site	100%	8%
Direct Deposit of Tax Refund	100%	56%

Among survey respondents, roughly 36 percent reported no savings prior to opening the account. Of those with savings, roughly two-thirds (63 percent) had less than $500 in savings at the start of the program, with only 38 percent of $aveNYC Account survey respondents with $500 or more in savings before entering the program, as illustrated in Figure 2.

Figure 2. Reported Savings Prior to $aveNYC (N=35)

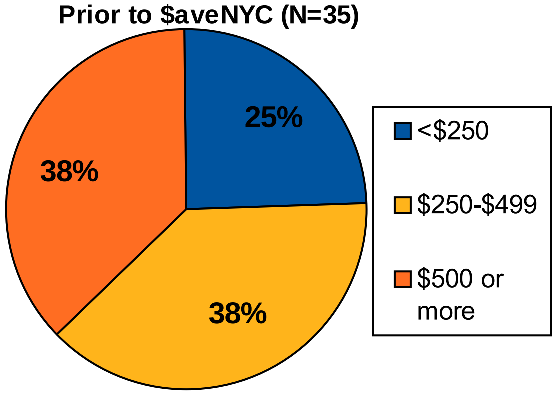
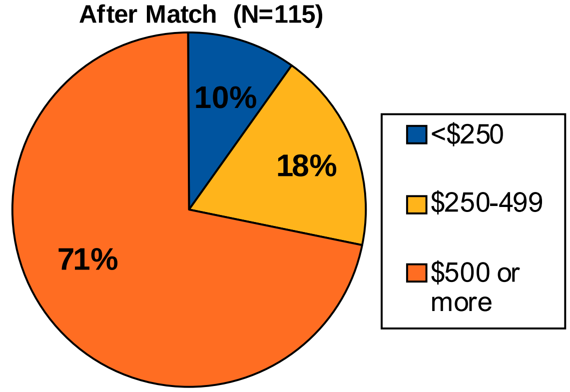


Figure 3. $aveNYC Account After Match (N=115)



At the end of one year, 76 percent of the $aveNYC Accounts remained open, leveraging over $73,000 in savings: $45,808 in initial contributions, $22,432 in match money, and $5,005 in subsequent deposits. On average, participants saved $624 dollars, including an expected average match of $195.

Almost three-quarters of those who received the match (71 percent) had at least $500 in savings at the end of the first full year, compared to only 25 percent at the beginning of the program. Further, 74 percent of participants who received the match chose to roll their account over (i.e., keep the account open for another year), while 22 percent are participating in the 2009 program to receive an additional match. Additionally, only 22 percent of those who did roll over the account withdrew some of the funds.

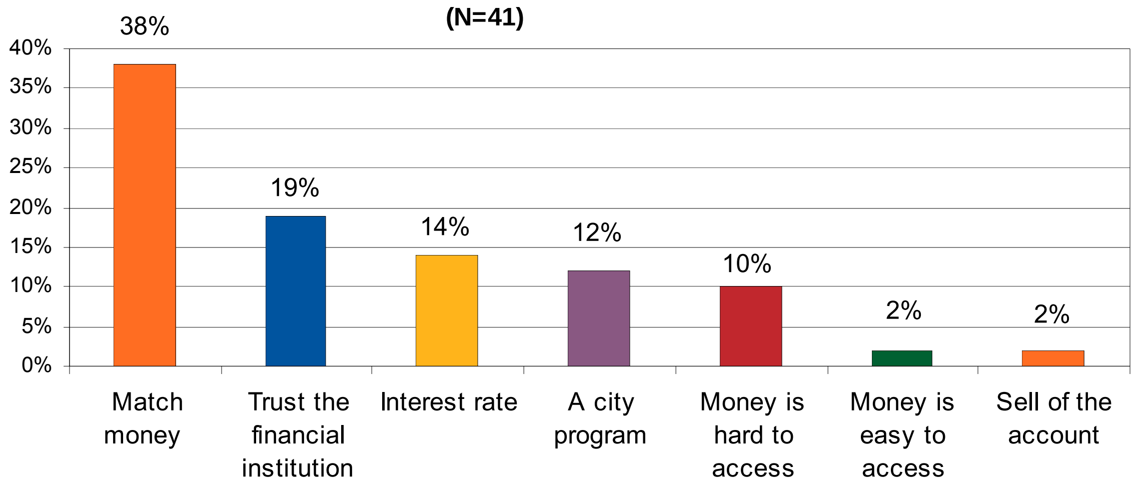
3. Match money offered through the $aveNYC Account is a powerful motivator to save.

The vast majority of $aveNYC Account survey respondents (83 percent) reported that they were motivated to participate by the match funds. Moreover, 25 percent of survey respondents reported that they had no intention of saving prior to the 2008 tax season, and 73 percent of those who did not intend to save reported that they did so because of the match money.

Survey respondents intend to keep the account open for the full term; 95 percent reported that they planned to save long enough to receive the match. When questioned on what might lead respondents to withdraw funds early, 64 percent indicated job loss as a potential reason for withdrawal, 57 percent cited housing problems, and 14 percent said they would do so only in the event of an emergency. This is especially encouraging given that 69 percent reported that they did not save a portion of their 2007 tax refund for a full year. This is a strong indication that the match money helps individuals compartmentalize funds as untouchable, and effectively motivates individuals to continue to save, even in tough economic times.

Participants were also asked to identify the most important reason they opened the account. Match money was the highest motivator, with trust of the financial institution of critical secondary importance. When asked to report on all of the motivating factors, 71 percent of respondents indicated that both reasons were very important in deciding to open the account.[42] However, when asked to identify the *most* important factor, 38 percent chose matching funds—the highest response given (Figure 4).

Figure 4. Reported "Most Important Reason" for Opening $aveNYC Account (N=41)

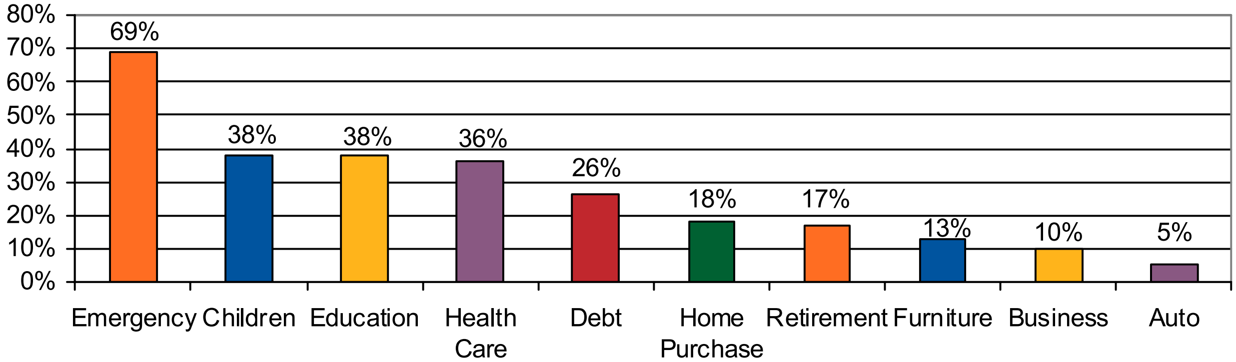


While not yet conclusive, this data suggests that a matched savings incentive at tax time can help connect individuals to banking, help individuals begin saving, increase the savings of individuals who already intended to save, and assist individuals in following through on their intentions to maintain their savings.

4. $aveNYC Account participants are saving for a variety of productive short- and long-term goals.

Lending credence to OFE's theory that non-prescriptive savings will inspire many to save for unique goals appropriate to their unique financial situations, $aveNYC accountholders reported a wide variety of reasons for saving. As illustrated in Figure 5, the most common need was emergency savings or a rainy day fund (69 percent). Other critical goals include children's expenses, education, and health care.

Figure 5. Reported Savings Goals for $aveNYC Account Participants (N=48)



Participants in the program were encouraged to save beyond the initial contribution; 74 percent of survey respondents reported that they planned to make additional deposits to their $aveNYC Accounts. Furthermore, while the account is structured to require only short-term savings, 90 percent of participants intended to continue to save once they received their match money, either through the $aveNYC Account, another savings account, or by investing.

5. Program implementation and marketing proved to be critical to program uptake.

Six percent of potentially eligible filers opened a $aveNYC Account.[43] The number of participants varied considerably by organization, as did contribution levels. Interestingly, partners with higher participation rates also had higher contribution levels. Through site visit assessments and post-season debriefs with partners, OFE staff determined the sites with the most focused approach to implementation and marketing yielded the greatest success in take-up rates. A clear message and enthusiastic staff at the highest-performing sites strongly influenced whether individuals opened an account and saved a higher portion of their tax refund. These partners appeared to make the process easier and more attractive to clients than others. This is consistent with H&R Block's research, which found that techniques or enthusiasm of the individual tax preparer can have a large impact on uptake, even when standardized scripts are used.[44]

To rule out if demographic differences between site locations are responsible for variation in participation rates, OFE analyzed site populations, as shown in Table 2. The average income of EITC filers varied little between sites, so income was not likely to play a critical role in determining which sites had the greatest proportion of individuals willing to save. Similarly, EITC refund amounts did not vary dramatically among sites; the sites with the highest take-up rate had roughly the same average refund compared to those with much lower participation rates. Variation in the proportion of filers who held a bank account was similarly unrelated to participation rates.

Table 2: Participation and Characteristics of Partner VITAs

	Take-up Rate (est.)	Percent Take-up at $500	Average Contribution	Average Income of EITC Recipients	Average EITC Refund	Percent of EITC Recipients	Percent of Unbanked EITC Filers
Partner 1	11%	57%	$378	$12,392	$3,589	34%	36%
Partner 2	8%	69%	$453	$12,111	$3,546	34%	42%
Partner 3	3%	60%	$363	$10,790	$3,280	30%	35%
Partner 4	4%	62%	$423	$11,102	$2,880	48%	35%
Partner 5	2%	50%	$350	$12,763	$3,662	45%	69%
Partner 6	1%	33%	$367	$12,725	$3,967	28%	70%
Total	**6%**	**61%**	**$399**	**$11,751**	**$3,384**	**36%**	**37%**

Another plausible explanation for the variation in take-up rate may have been the proportion of filers at a VITA site who are EITC-eligible. As VITA sites serve a mix of EITC and non-EITC filers, and only EITC filers were eligible to participate, sites with a greater share of EITC filers may have been more comfortable marketing the product to all of their customers or were more practiced at explaining the benefits of participation. However, no relationship was found between the concentration of EITC filers and the participation rate.

V. Year 2 Program Design and Implementation: Lessons Learned

The New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) rigorously evaluated the Year 1 program implementation which yielded significant lessons learned and helped to hone and refine the model for the second year. As a result, more than 1,000 accounts were opened in the first eight weeks of the 2009 tax season, thus exhausting available match dollars and closing the intake portion of the program mid-season. The key to success for the second-year program implementation was improved marketing and implementation strategies. In addition to lessons learned from Year 1, OFE again used the lessons of behavioral economics to revise implementation to maximize participation.

To streamline the process and eliminate hassles that could act as a barrier to participation, each site had a designated $aveNYC Account Asset Specialist to recruit participants, open accounts and coordinate reporting, as well as to answer questions about the financial institution, account-opening process, and account features. The adoption of Asset Specialists established greater consistency in implementation of the program across partners. OFE trained front-line staff at each partner organization to create staff buy-in and comfort with the program. The account-opening form was integrated into the financial institution's own account enrollment form to reduce paperwork. Further, clients were solicited for participation when they first arrived at the site and were given the opportunity to complete the paperwork while waiting to see a tax preparer, ensuring that the account-opening process did not require clients to stay at the tax site after they had finished their tax return.

$aveNYC Account Asset Specialists were required to attend a two-hour training on marketing the account. This training emphasized principles of behavioral economics to ensure the process was hassle-free, included channel factors, as well as ways to appeal to filers' identities and goals. Asset Specialists were trained to ask filers "What are you saving for?" versus "Do you want to save?" This simple question encouraged filers to think about the various reasons for saving and opened the door for participation. Further, marketing of the account included noting the number of individuals who participated last year, highlighting the fact that the account was designed specifically for VITA filers, and stressing the limited availability of the program. Outreach materials included positive messages about savvy savers and the many goals for which individuals could save.

OFE also used mass marketing through press channels to inform tax filers about the opportunity before they reached a tax site. Advance mailings and other marketing materials alerted previous VITA filers and other individuals with connections to partner organizations about the savings opportunity. OFE also publicized the City's free 311 information system through a variety of Citywide marketing approaches to make large-scale referrals.

Other programmatic shifts for 2009 included the following:

- **Expanded Eligibility:** Eligibility for the $aveNYC Account was expanded to include non-EITC filers at participating VITA sites, so long as their annual income was less than $45,000 for families or $20,000 for single adults without dependents. For the 2009 pilot, any filer with at least a $100 refund (the minimum allowable contribution for the $aveNYC Account) was allowed to participate in the program. This extended the $aveNYC Account opportunity to working lower-income households ineligible for the EITC because of age (single filers under 25 or over 64), higher incomes, or because they lacked a Social Security Number. It also allowed site staff to offer the account to everyone who walked in the door rather than wait for returns to be prepared to determine EITC eligibility. The account was offered at 12 VITA sites in Manhattan, Brooklyn, and the Bronx.

- **Early Implementation:** The $aveNYC Account program began operating during the first week of the tax season as reports indicate that a peak number of EITC claims are filed at the beginning of the tax season.[45]

- **Monitoring:** Regular site visits and ongoing tracking helped OFE monitor implementation throughout the tax season, and share best practices among partners.

- **Performance-Based Contracting:** The contracts with partner organizations provided a financial incentive if organizations opened more than 100 accounts. This performance-based incentive is designed to more fully align OFE's programmatic goals with those of the organization and line staff.

OFE will be rigorously analyzing the impact of this intensive marketing approach and applying the lessons learned to its broader financial empowerment agenda.

VI. Building a Broader Policy Agenda

The Department of Consumer Affairs and its Office of Financial Empowerment (OFE) approached this pilot with an express intent to evaluate its results and, if successful, to build a case for a coherent, large-scale national savings policy for low-income people. While this report only covers one year of program data, OFE is beginning to find some indication that $aveNYC may offer a national model. Subsequent evaluation of both the first- and second-year cohorts will continue to yield significant outcome information to inform Federal policy discussions.

Government investment is needed to reward short- and long-term savings.

The Federal government spends at least $335 billion per year on asset-building policies–however, because these investments are delivered mostly through tax deductions or non-refundable tax credits, middle- and upper-income households are the primary beneficiaries of such programs.[46] The richest one percent of Americans receive more than one-third of the asset-building tax expenditures while the bottom 60 percent receive less than five percent of the benefits.[47] Even the current Federal Saver's Credit, which targets low- and moderate-income households and rewards retirement savings, is non-refundable, meaning that tax filers with low or no tax liability receive no benefit.[48]

Some government subsidies provide support for lower-income homebuyers to build savings through programs such as IDAs or down payment assistance programs geared toward goal-oriented, motivated individuals and families. However, few of these programs achieve scale. These programs also fail to support the broad range of savings needs of lower-income households, despite considerable research findings that low-income households do not have sufficient savings to handle unanticipated expenses. While researchers estimate that typical emergency expenditures for low- to moderate-income households are $2,000 annually, only 50 percent of lower-income families in New York City have at least $500 in savings, and 43 percent of the poorest residents have no savings at all.[49] Lacking savings sufficient to handle immediate needs may push families toward taking on high-cost debt or failing to address basic needs (such as car repairs or non-emergency medical attention) to maintain healthy, financially stable lifestyles. The $aveNYC Account was designed to learn valuable lessons about incentivized savings initiatives that can be applied to reforms to the Federal tax code to achieve greater financial stability for American households.

Tax time may be the ideal opportunity to connect low-income households to savings.

While considerable research has found that automated savings makes it easier for individuals to accumulate the funds they need for retirement or emergencies, many low-income households face serious barriers to accessing options for automated savings due to inconsistent employment or lack of bank account ownership. Additionally, many employers of low-wage workers do not offer direct deposit, making electronic automation challenging and even inadvisable if paychecks are not deposited regularly. Saving a portion of one's tax refund, which many may consider to be irregular income or bonus money, provides an opportunity to start saving without forfeiting regular income needed for day-to-day living expenses. Thus, for those who lack a simple automated savings option, tax time may be the best (and easiest) opportunity to build savings.

At up to 35 percent of their total annual income, the EITC, a refundable tax credit targeted to working poor families with children, is often the single largest check lower-income individuals receive all year.[50] Including Federal, State, and City credits, a New York City EITC filer could have received upwards of $6,000 in 2008; the average credit was roughly $2,700. In 2007, over 840,000 New York City residents claimed the EITC, receiving approximately $2.2 billion in total tax rebates.[51]

Research indicates that people are more likely to save such lump-sum refunds or spend them on special purchases than on routine day-to-day needs.[52] One study of EITC recipients found that 33 percent planned to save a portion of their tax return and 29 percent planned to purchase large-ticket items such as a car or furniture.[53] The availability of the IRS' split refund option ensures an immediate funding mechanism.

Policy makers and researchers have already begun to realize the potential of tax time, matched savings initiatives. President Obama's 2010 Executive Budget includes a matched, refundable tax credit for retirement savings.[54] Beyond retirement savings, policy makers have advocated for helping eligible EITC filers use their refund to build savings for education or emergency funds.[55] The Saver's Bonus Act, introduced by Senator Robert Menendez (D-NJ) in the 110th Congress, would promote savings to lower-income taxpayers by providing a 100 percent match of up to $500 for contributing a portion of their refund to a savings product.[56] Recipients would receive the match if they deposit a portion of their refund into a designated savings product such as a qualified retirement plan (401(k)), savings bond, certificate of deposit (CD), or qualified educational savings program.[57] This legislation would encourage low- and moderate-income households to achieve a broad range of savings goals, much like the $aveNYC Account.

VII. Conclusion

With the $aveNYC Account pilot program, the Department of Consumer Affairs and its Office of Financial Empowerment (OFE) intend to increase understanding about effective large-scale asset-building strategies, while influencing tax policy to become an effective asset-building vehicle for lower-income households, as already exists through programs for households with middle and upper incomes.

The $aveNYC Account pilot program is already demonstrating strong and promising findings. Early findings show that individuals with very low incomes can and will save if given the right incentive at the right moment—and that receiving a tax refund may be one of the best opportunities to help individuals begin to save. The second year of OFE's pilot enabled more than 1,000 individuals to open accounts throughout New York City, illustrating that demand exists for such a product if resources are available to support it.

The goals of the program go beyond just getting more New Yorkers enrolled in the program and determining the best way to get individuals to save. The pilot program seeks to answer larger questions of whether short-term savings can lead to continued savings, and whether participants have a greater sense of control over their finances and thus make wiser short-term decisions that strengthen their financial stability. The extensive research and evaluation through the Center for Community Capital will be able to track accountholders over time and begin to explore what if any impact the accumulation of some savings may have on the overall financial condition of the individual or family. This can, in turn, contribute to a national dialogue on savings policy for households with low incomes.

Footnotes

[1] Depending upon the financial institution, the $aveNYC Account is either a Certificate of Deposit (CD) or a Club Account.
[2] The Volunteer Income Tax Assistance (VITA) program is an IRS program designed to offer free tax preparation to low to moderate-income individuals. In New York City, to qualify, clients with dependents must have earned less than $45,000 in the previous year and clients without dependents must have earned less than $20,000.
[3] Tax Form 8888, *Direct Deposit of Refund to More than One Account*.
[4] Survey participants were not randomly selected. OFE attempted to contact all $aveNYC Account participants to complete the survey, however only 59 were reached. Of those, 45 completed the full-length survey.
[5] This evaluation approach is defined as quasi-experimental because it includes a control group meant to be similar to the test group on demographic and financial factors. Participants were not randomly assigned to test and control groups as they would be in a pure experimental design.
[6] The median household income for New York City is $47,581. U.S Census Bureau (via American FactFinder), 2005-2007 American Community Survey.
[7] Participation rate estimates are likely to be conservative as organizations were unable to effectively track in this first pilot year whether each eligible tax filer was offered the $aveNYC Account.
[8]Woo L., Schweke F., and Buchholz D. (2004). Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-building Budget, Corporation for Enterprise Development, Washington, D.C.
*The budget estimate for asset-building policies includes both budgetary outlays and tax expenditures. This figure was calculated through analysis of the federal budget based on specific criteria: Outlays and tax expenditures that were (1) related to policies that reward asset building; (2) directed at individuals or households, not corporations; (3) available to the general public; and (4) the result of some personal action. It includes spending on homeownership, retirement accounts, savings and investment, and small business development.
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[37] The non-profit organizations were required to partner with a financial institution responsible for opening and holding the account and providing regular reports on account status.

[38] OFE classified EITC filers in three categories: $aveNYC Account participants, EITC filers not offered the account, and EITC filers who were eligible for the account but did not open one. The third category is referred to in this paper as non-participants.

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[40] U.S. Census Bureau (VIA American FactFinder), 2005-2007 American Community Survey.

[41] All $aveNYC Account participants are recorded as having opened a new account and as having direct deposited their tax refund. This is because the IRS split refund option requires the entire refund to be direct deposited.
[42] N=41; participants were asked to select all applicable responses.
[43] Participation rate estimates are likely to be conservative as organizations were unable to effectively track in the first pilot year whether each eligible tax filer was offered the $aveNYC Account.
[44] Duflo, E., et. al. (2005).
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[55] Beverly, S., Dailey, C. (2003).
[56] S. 3372, 110th Congress (2008) 2nd. Session
[57] S. 3372, 110th Congress (2008) 2nd. Session