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RESEARCH BRIEF

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Account Use and Demand for Tax-Refund Saving Vehicles: Evidence from the Refund to Savings Experiment

By Michal Grinstein-Weiss, Jenna Tucker, Clinton Key, Krista Holub, and Dan Ariely

The 2012 Refund to Savings Intention Survey

Refund to Savings (R2S) fielded the intention survey to a random sample of 4,087 TurboTax users during the 2012 tax season, soon after they completed their taxes. The most recent estimates suggest that 24 million people use TurboTax software annually and that users represent 17% of all U.S. tax filers. Goals of the survey include learning about the banking status of respondents, about the types of accounts they hold, and about their interest in opening new accounts to save their refunds or in using existing accounts to do so. The survey focuses on nine saving vehicles: checking accounts, savings accounts, savings bonds, prepaid debit cards, CDs, money market accounts, IRAs (including Roth IRAs), 529-plan college savings accounts, and health savings accounts (HSAs).

Methodology

The 2012 R2S intention survey was fielded between January and April 2012. When users completed their taxes, TurboTax asked users to respond to a short set of items about nine different kinds of saving vehicles (listed above) that they may or may not hold:

- "Here are a number of ways people save money. For each one of the approaches, please say if you are currently using this saving approach."
- [For listed vehicles that the respondent did not have] "You mentioned that you were not currently using the following savings approaches. If such an account were available for free, how interested would you be in starting to use the following savings approaches in the next 12 months?"
- "Out of all of these savings approaches, how interested are you in using each type of account to save some or all of your tax refund?"

***Refund to Savings (R2S)** is a unique collaboration among researchers at Duke and Washington Universities and Intuit, Inc., the makers of TurboTax. The R2S research team is working to develop and test low-cost, innovative, and scalable interventions that use existing platforms and structures to build savings and improve household economic security. In 2013, R2S will launch the largest saving experiment ever conducted in the United States.*

Washington University in St. Louis

The purpose of this brief is to describe the banking status and patterns of account holding among the intention survey respondents. In addition, we examine respondents' levels of interest in opening new accounts and in using these accounts to save their tax refunds. We also look at how patterns and intentions vary by such demographic characteristics as income and household type. Specifically, we separate some analyses by household adjusted gross income (AGI) to demonstrate differences between low- and higher income households.

The final sample for the survey consists of 4,087 TurboTax users:

- *The sampled respondents are predominantly White (84%), employed (75%), and homeowners (68%).*
- *Slightly more than half are married (58%), and a similar percentage (54%) has at least a college degree.*
- *More than one-quarter (27%) of the sample reports a household adjusted gross income below $35,000.*
- *Slightly less than half (42%) of the sample is female.*
- *The average age of respondents is 49 years.*
- *Because rates of nonresponse to demographic items are high (roughly 50% nonresponse for most of those items), analyses that include demographic factors have smaller sample sizes than those that apply to all respondents.*

Banking Status

Among respondents to the intention survey, 6% (238) report that they are unbanked; that is, they do not have a checking or savings account (n = 4,085). However, among low-income respondents (those with household AGI under $35,000), 10% report that they are unbanked (Figure 1).

Examining broad levels of banking status, we see that 70% of respondents have both a checking account and some form of savings account but that 15% of the sample has only a checking account (Figure 2). An additional 9% of respondents have only savings accounts (which can include savings accounts, prepaid debit cards, savings bonds, CDs, and money market accounts).

Figure 1. Percentage of Unbanked Low-Income Respondents (n = 3,310)

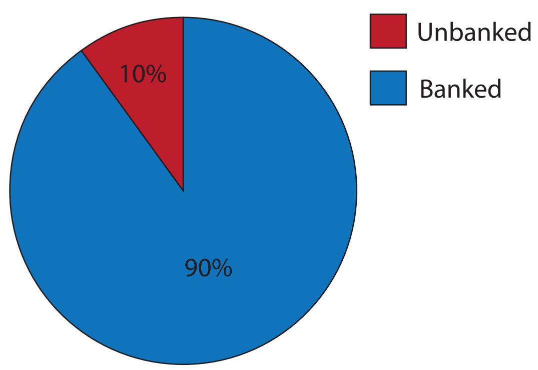
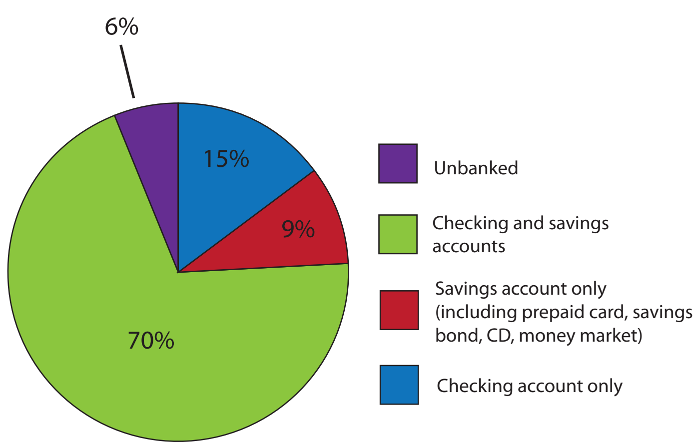


Figure 2. Distribution of Checking and Savings Accounts (n = 4,049)



Banking Status by Household Type and Income

Banked and unbanked households differ by household type and income. Specifically, married couples head 59% of banked households but only 39% of unbanked households; about one-third of unbanked households are headed by unmarried females, and approximately one-quarter are headed by unmarried males
(Figure 3).

The distribution of banked households is roughly even across income levels, but unbanked households are overwhelmingly low income. As Figure 4 shows, 55% of unbanked households have incomes below $35,000, and 40% have incomes below $25,000.

In looking at checking and savings account holding by income level, we see that the rate of account holding increases with income (Figure 5). For example, only 75% of respondents with household AGI below $25,000 have checking accounts, but checking accounts are held by roughly 90% of respondents with household AGI above $75,000. In addition, only 64% of respondents with household AGI below $25,000 have savings accounts, but the rates again are roughly 90% among respondents with household AGI above $75,000.

Figure 3. Banked (*n* = 1,922) and Unbanked (*n* = 107) Households by Gender and Marital Status

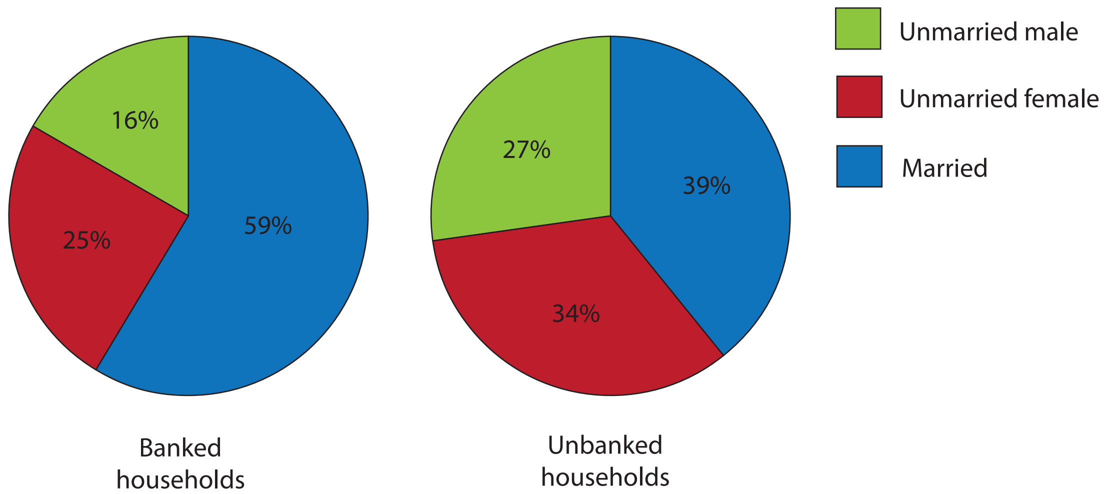


Figure 4. Unbanked Households by Income (*n* = 168)

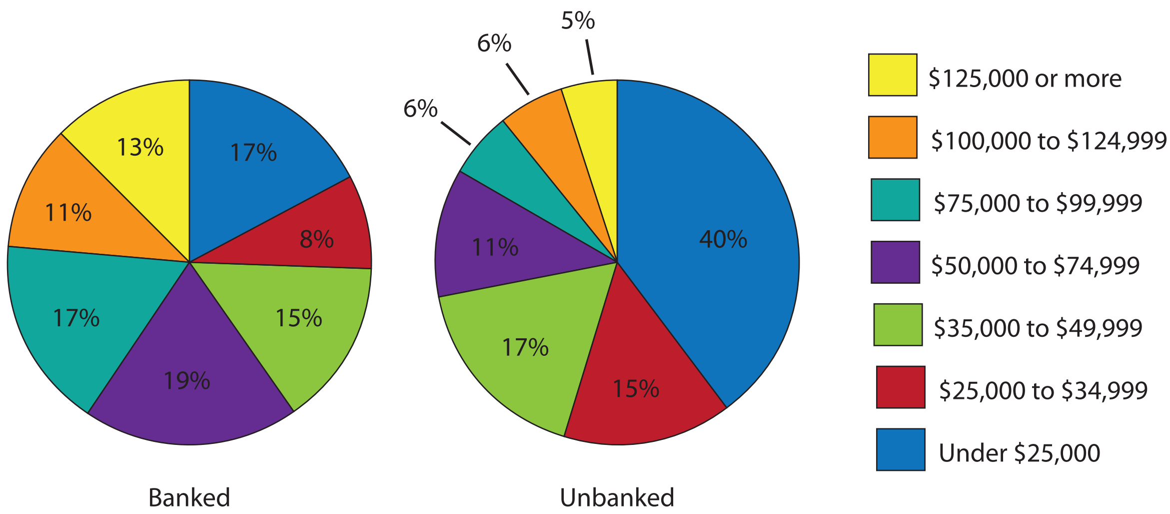


Figure 5. Account Ownership by Income (*n* = 3,284)

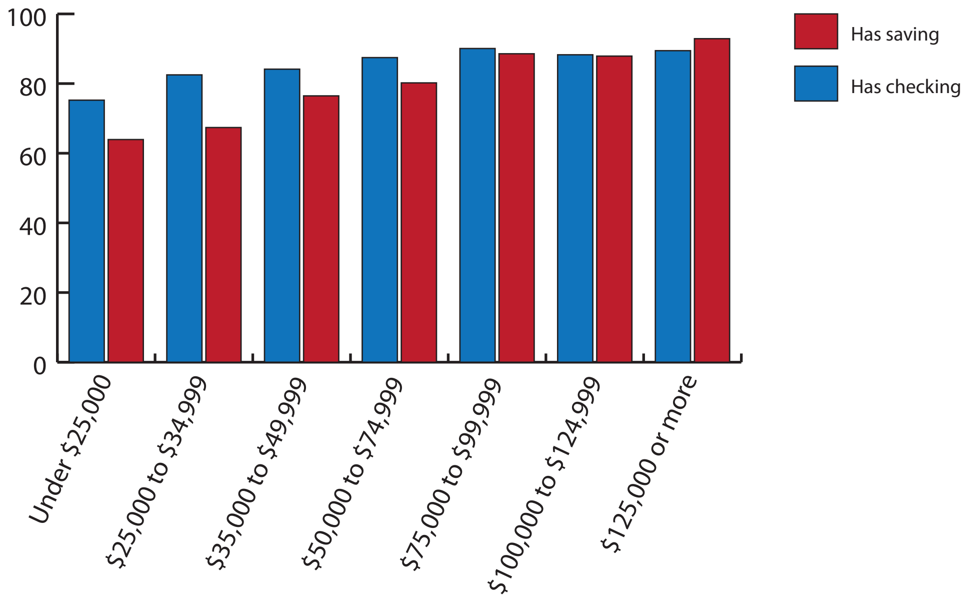
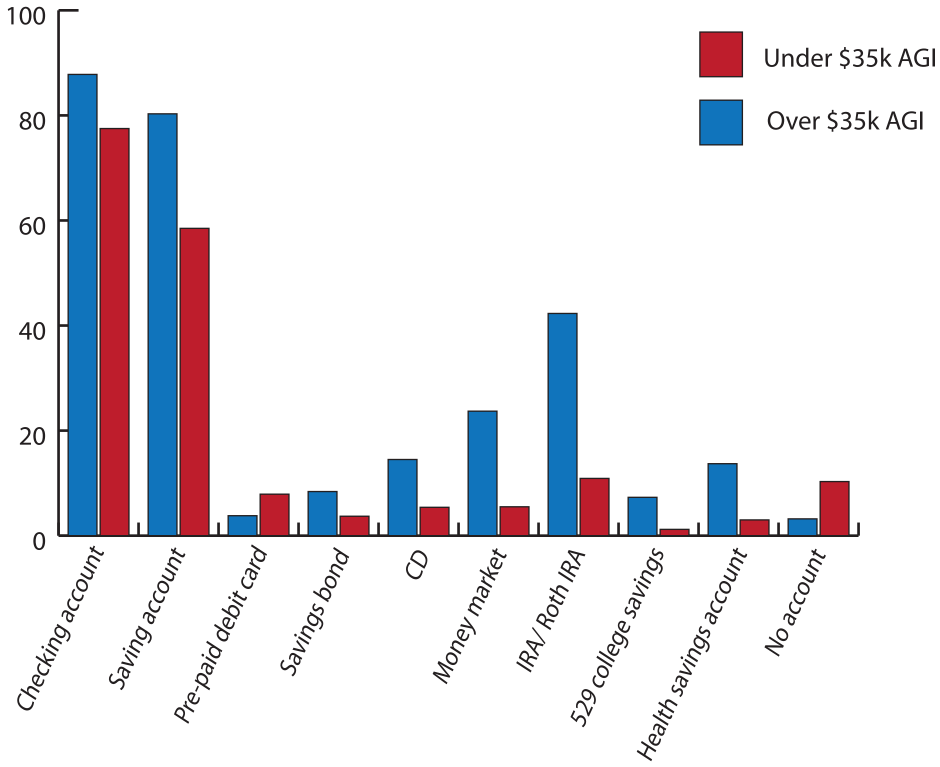


Figure 6. Account Holding by Income (*n* = *3,306)*



Account Ownership

Overall, checking and savings accounts are the most commonly reported of the nine saving vehicles: 84% of respondents have checking accounts, and 74% have savings accounts. After these, the next most common account is an IRA; 35% of respondents report that they hold one. Prepaid debit cards, savings bonds, and 529 plans are all rare among respondents in this sample; each of those three vehicles is owned by less than 10% of the sample. Although 93% have at least one simple account (category defined above), only 68% have two or more. Only 49% of respondents hold at least one wealth-building account.

Types of Accounts

Simple accounts: *checking, savings, savings bonds, and prepaid debit cards*

Wealth-building accounts: *CDs, money markets, IRAs, 529-plan college savings accounts, and health savings accounts*

Account Ownership by Income

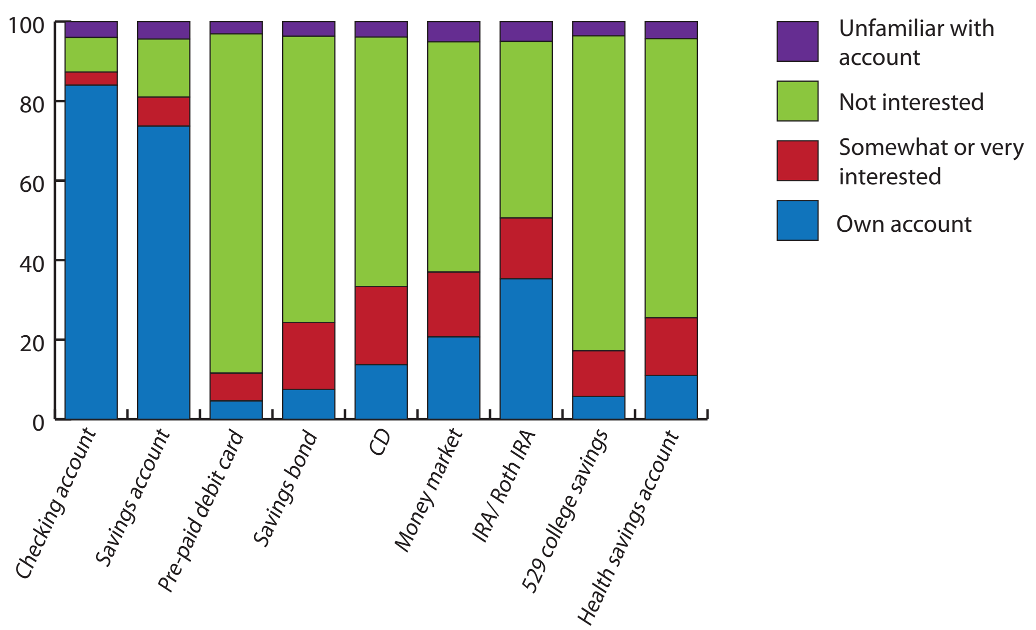
Compared with other sample members, low-income respondents (those with an annual household AGI under $35,000) are significantly less likely to own each type of saving vehicle except prepaid debit cards, which low-income respondents are more likely to own (Figure 6). Only 53% of respondents in the low-income group have at least two simple accounts, but 74% of those in the higher income group (those with an annual household AGI of $35,000 or more) have at least two (a gap between income groups of 21 percentage points). The difference in the rate at which the groups hold wealth-building accounts is even more pronounced: 58% of higher income respondents hold these types of accounts, but only 19% of low-income respondents have them.

Demand for Account Types

For each type of saving vehicle, the survey asks those who do not already own such a vehicle whether they would be interested in opening one if it were available for free. A majority of respondents already own a checking or a savings account, but a relatively small percentage of respondents (less than 25%) express interest in opening a saving vehicle that they do not already own (Figure 7). Only checking accounts, savings accounts, and IRAs are already held or desired by at least half of our respondents.

58% of higher income respondents hold wealth-building accounts, but only 19% of low-income respondents do so.

Figure 7. Account Holding among Survey Respondents (*n = 4,085*)



Demand for Account Types by Income

Among sample members who do not already hold simple accounts, low-income respondents are significantly more likely than higher income counterparts to report an interest in opening one (Figure 8). One possible interpretation of this finding is that, among those who do not have simple accounts, low-income respondents are more likely than other sample members to lack the accounts they actually want; higher income individuals may be more likely to choose not to have these accounts.

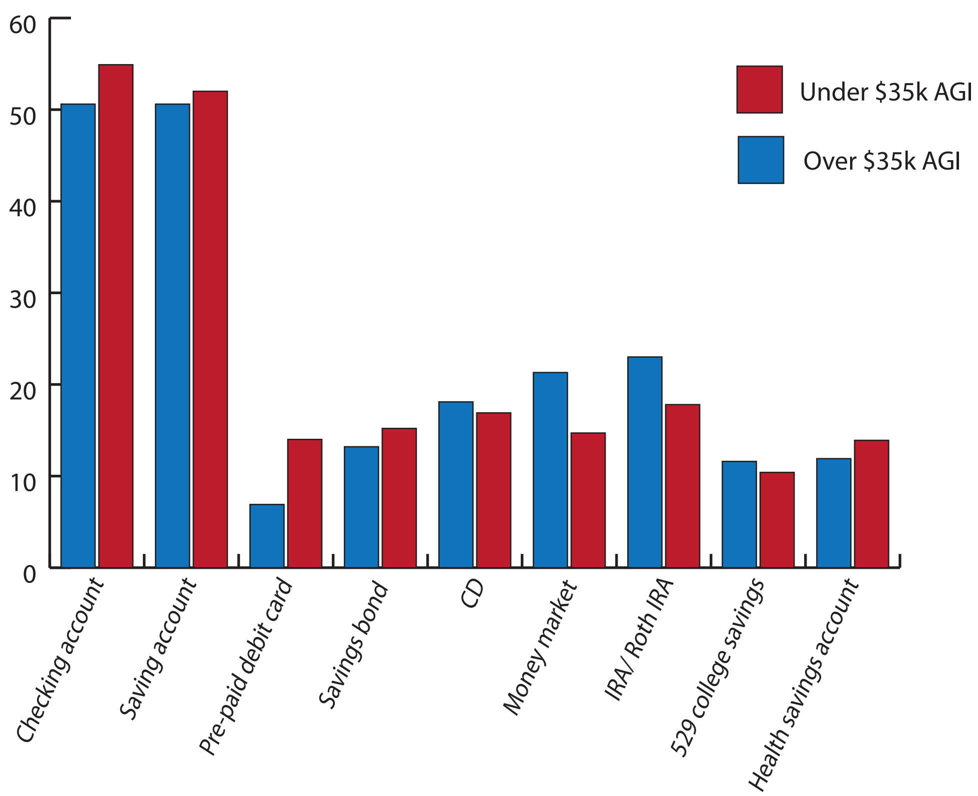
Using Accounts for Refunds

The survey also asks respondents about their interest in using each type of account to save a portion of their tax refund. Fifty percent express interest in using a checking account to save some of their refund, and 49% express interest in using a savings account for the same purpose. Only 21% of respondents express interest in using an IRA to save part of their return.

Using Accounts for Refunds by Income

Although equal percentages of both groups express interest in using a savings account to save some of their refund, the percentage interested in using a checking account or prepaid debit card is slightly higher among low-income respondents than among higher income counterparts. However, the percentage of higher income respondents who express interest in using wealth-building vehicles is higher. In particular, 21% of higher income individuals express interest in saving some of their refund in a money market account, but 15% of low-income respondents indicate this. Similarly, 23% of higher income respondents express interest in using an IRA, but only 18% of low-income respondents signal that. Differences in preferences concerning the vehicles for saving refunds can be summarized succinctly: higher income respondents prefer wealth-building vehicles, and low-income respondents prefer simple accounts.

Figure 8. Interest in Accounts for Saving Refund (*N = 4,087*)



R2S Findings in Context

The R2S intention survey provides new insights and evidence about account use and demand for tax-refund saving vehicles among TurboTax customers. We find that 6% of our full sample, and 10% of our low-income sample, report that they are unbanked. This is consistent with findings from other national surveys. For example, Federal Deposit Insurance Corporation (FDIC) data from the *2011 FDIC National Survey of Unbanked and Underbanked Households* indicate that roughly 8% of households are unbanked,[1] and data from the Federal Reserve Board's Survey of Consumers and Mobile Financial Services show that 11% of households are unbanked.[2] As in the FDIC survey, we find that unmarried respondents, and especially unmarried females, constitute a large portion of the unbanked population.

We also compare our findings with those in research from the 2010 Survey of Consumer Finances. That research indicates that 93% of U.S. households have transaction accounts (i.e., basic savings or checking).[3] In our sample, we find similarly high rates of simple-account holding (93%) as well as similarly low rates of savings-bond and CD ownership. The FDIC reports that up to 22% of households are "underbanked," which they define as owning a checking or savings account but also relying on alternative financial services (e.g., payday lenders and check cashing services).[4] We cannot directly compare our findings with those on this point because our survey does not ask about use of alternative financial services. However, we do find that 32% of this sample has only one simple account, and 51% of the respondents have no wealth-building account. These households may not necessarily rely on alternative financial products, but their limited relationships with financial institutions may place them at a financial disadvantage. Additional outreach to unbanked groups, and especially to those in disadvantaged demographic groups, is important in order to connect them to financial institutions.

Implications

Overall, relatively few of the 2012 R2S intention survey respondents are unbanked. However, among the low-income respondents, 10% are unbanked. These findings suggest that there is room to increase overall access to mainstream financial institutions as well as to particular types of accounts, especially wealth-building vehicles. Between the income groups, the largest account-ownership gaps are in the percentages of respondents who own traditional savings accounts and IRAs. Further, questions on demand for accounts among those who do not already have them drew responses suggesting that between 10% and 20% of the sample has interest in opening a savings bond, CD, money market account, IRA, 529 account, or HSA. These percentages are large enough to warrant consideration of ways to increase access to such saving vehicles, the majority of which are wealth-building accounts. Much of the gap in account ownership between income groups can be attributed to the lack of financial knowledge of sophisticated savings products, the challenges in setting up accounts, and the absence of automatic features such as an opt-out design.

Perhaps the most important finding from the 2012 intention survey relates to the level of demand for tax-refund saving vehicles. Half of the sample expresses interest in using a traditional savings account to save some portion of the tax refund, and responses to this question do not differ by income level. This suggests that more innovative and automatic ways to save are needed to help people act on their intention.

The survey also produces interesting findings concerning other types of refund saving vehicles; one in five respondents expresses interest in using an IRA to save some portion of their refund. However, responses to that question differ significantly by income level: Higher income respondents are more likely than low-income counterparts to express such an interest. Low-income filers may be less likely to understand how an IRA works and the tax advantages of contributing to one. Less than 20% of the sample expresses interest in using any of the other mentioned vehicles to save their refund. However, as results from our survey suggest, many low-income filers plan to save by increasing the amount in their checking account rather than by contributing to a savings account or other saving vehicle.

These findings suggest that there are potential opportunities for private and public policy efforts to increase ownership of specific types of wealth-building accounts, but we note that respondents do not find in these accounts a generally desirable way to save tax refunds. When it comes to saving their tax refunds, respondents prefer vehicles, like checking and traditional savings accounts, that impose fewer restrictions. Challenges related to infrastructure and knowledge of products are likely contributors to these preferences. Focusing efforts on increasing the likelihood and amount of refund saving in these vehicles seems to be the next logical step for research in the area of tax-time saving, and additional R2S endeavors focus on these goals.

Endnotes

1. FDIC (2012). *2011 FDIC national survey of unbanked and underbanked households* (Report). Washington, DC: Author. Retrieved from http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf

2. M. B. Gross, J. M. Hogarth, & M. D. Schmeiser (with E. A. Andruska, A. M. Cope, A. J. Daigneault, & E. K. Heidersbach) (2012). *Use of financial services by the unbanked and underbanked and the potential for mobile financial services adoption* (Federal Reserve Bulletin 98, no. 4). Washington, DC: Federal Reserve Board. Retrieved from http://www.federalreserve.gov/pubs/bulletin/2012/pdf/mobile_financial_services_201209.pdf

3. J. Bricker, A. B. Kennickell, K. B. Moore, & J. Sabelhaus (2012). *Changes in US family finances from 2007 to 2010: Evidence from the Survey of Consumer Finances* (Federal Reserve Bulletin 98, no. 2). Washington, DC: Federal Reserve Board. Retrieved from http://www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf

4. FDIC (2012, p. 4).

Authors

Michal Grinstein-Weiss
Center for Social Development
Washington University in St. Louis

Jenna Tucker
University of North Carolina, Chapel Hill

Clinton Key
University of North Carolina, Chapel Hill

Krista Holub
Center for Social Development
Washington University in St. Louis

Dan Ariely
Duke University

Contact Us

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu

Washington University in St. Louis
George Warren Brown School of Social Work

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