



Returning America to Thrift: US Savings Bonds as a Tax-Time Saving Tool for Working Americans

Executive Summary

The failure of most Americans to save adequately has profound national implications. Perhaps of greatest concern is the impact inadequate savings will have on lower income households. Families with little or no savings to protect them in case of health problems or job loss – or to invest in an education for a family member or a home to raise children – may experience more short and long-term pain than middle or upper income families with more resources. Yet research has shown that the poor *can* save. Changes to public policy that facilitate saving by improving access to high-quality savings products can be an important step in supporting saving for all Americans, especially those living on a lower income.

For several years, Doorways to Dreams Fund (“D2D”) has studied the use of US Savings Bonds as a tool to help lower income families save part of their tax refund. From late January to April 15, 2008, in cooperation with H&R Block and 32 community-based tax sites throughout the US, D2D offered US Savings Bonds to over 25,000 lower income tax clients.¹

This paper presents results of this research, including policy recommendations. Key findings include:

- **Demand for US Savings Bonds offered at tax time is strong, particularly compared to other savings products.** Savings bonds have a higher degree of recognition--almost twice as high-- than other, less distinctive, savings products. Perhaps as a result, take-up rates for savings bonds are higher, in some cases five times as high, as other savings products offered at tax time, such as Certificates of Deposit and Individual Retirement Accounts.
- **Savings bonds attract what appear to be many first time, small savers.** While more research is needed, nearly two-thirds (64%) of bond purchasers reported no money saved or invested at the time of purchase. The availability of savings bonds may be prompting new boundary-crossing behavior for these tax filers.
- **Lower-income bond purchasers express a preference for long-term saving, a preference borne out by redemption patterns for bonds held more than a year.** Bond buyers surveyed reported they plan to hold their bonds for five years, ten years or more. Initial redemption data for 2007 purchasers suggests that buyer behavior matches stated preferences.

These findings support prior D2D studies and buttress the position that US Savings Bonds have a unique and important role to play in supporting saving for Americans – particularly lower income families and small savers. Savings bonds are easier to use and a more attractive long-term savings option for beginning savers, small savers, and those returning to savings practices.

¹ Average adjusted gross income of tax clients offered savings bonds was \$17,000; for bond buyers it was \$19,300 (see Appendix E).

Encouraged by these results, D2D and its partners propose a straightforward public policy change that will expand the reach and increase the sales of savings bonds:

Policy Proposal: The Department of Treasury should implement procedures to facilitate federal tax refund recipients ordering US Savings Bonds with a portion of their tax refunds while filing their taxes.

Under this proposal, refund recipients who wish to order a bond would follow an easy process to order bonds on Form 8888 while getting their taxes done. The information needed to order bonds is already on the tax return and would be available to the Bureau of Public Debt from the IRS. Further facilitating bond purchases, tax refund money would never leave Treasury, simply moving inside the Department from IRS to BPD.

Buying bonds with tax refunds is not new. From 1962 to 1969, federal tax refund recipients had the option to receive their refunds in the form of a savings bond. The recent introduction of IRS refund “splitting” means tax filers could now use just *a portion* of their refunds to buy bonds.

D2D believes that with a simple, administrative policy change, savings bonds could be offered on tax returns – and an attractive and time-honored savings tool could help millions more lower-income tax refund recipients save both for themselves and for future generations.

Introduction

“Saving is good,” the ant advises the grasshopper. “Save today to prepare for tomorrow!”

Saving requires discipline and foresight, and over the last several years at least, Americans have been struggling to save. Recent personal savings data issued by the Department of Commerce reveal that in 2006 Americans’ savings rate slipped to *negative* 1%. The country has effectively stopped saving, something that has not happened since the Great Depression.² We Americans now spend more than we earn.

Warns the ant: “Winter is coming...”

Despite the ant’s advice, American popular culture does not encourage thrift. We are a country swimming in debt – sub-prime mortgages, record credit card balances and historic levels of student loan debt. And though steps to curtail excessive and predatory lending are essential, we cannot forget that debt lies on a continuum with saving. Any complete effort to help Americans lower their reliance on credit and a high overall debt level must include steps to encourage thrift and build savings.

A consumer culture that emphasizes credit makes thrift difficult for all Americans, but especially so for working families and small savers. For households and individuals often living paycheck-to-paycheck, consistent and significant year-round saving is challenging. Many of these would-be savers lack access to structured savings plans like employer-based 401(k)s. And public policy does little to foster saving by lower income households, as tax-advantaged programs like College Savings Plans or IRAs benefit these modest income tax-payers far less than more affluent families.

Fortunately, there are relatively simple, low-cost ways to make saving easier, more accessible and more appealing to all households. Beginning to innovate and implement new savings approaches can help foster saving. In particular, low-cost changes to existing systems can provide savings opportunities for millions of working Americans. Ideally, these saving opportunities would be presented at critical moments when people have money to save.

For millions of Americans, tax time is a golden saving opportunity because so many tax filers receive substantial refunds, from a combination of tax credits and over-withholding. In 2004, over 100 million tax filers received over \$200 billion in federal tax refunds. Making it easier for these households to choose to save when they file their taxes is both common sense and good policy. This is especially true for lower-income, working families. For example, in 2005, over 65 million tax filers with annual incomes under \$40,000 received back close to \$110 billion, an average \$1,680 per filer.³

An example of a low-cost savings policy innovation is tax refund “splitting.” Historically, for refund recipients who wished to send some of their refunds directly to savings accounts, saving was a two-step process: waiting to receive one’s entire refund *and then* depositing a portion into a savings account. But starting with the 2006 tax year, the Internal Revenue Service began offering a split refund option. Now tax filers can decide on their tax return – in a single step – to send part of their refund directly to saving while still receiving the balance in their checking account. In effect, they can “pre-commit” to saving before they get their hands on their refund dollars. Splitting helps open the door to tax time saving for at least 50 million to 60 million tax filers who use direct deposit to receive their refund.

² “Consumer spending, incomes up in December; savings rate worst since 1933”, USA Today, 2/1/2007 Available at www.usatoday.com/money/economy/income/2007-02-01-spending-incomes_x.htm (6/26/08).

³ Data from the Internal Revenue Service (<http://www.irs.gov/pub/irs-soi/05in33ar.xls>).

D2D Fund, a nonprofit with the mission to support scalable savings tools for lower income families, has focused on providing savings opportunities at tax time. In the last few years, D2D has reported on its tests providing tax time saving opportunities for lower-income families.⁴ One such opportunity has been offering U.S. Series I Savings Bonds during the tax preparation process. D2D has run pilots to measure savings demand, which have revealed promising results.

Savings Hurdles for Lower Income families

Why and how savings occurs is a complex question and much has been written on the issue. Classical economic theory posits that income – its level, cycles and perceived permanence – is central to determining how much individuals will save. But other factors influence saving levels as well. In particular, interplay between *institutional* factors influence an individual's savings decisions.

During the past twenty years, much research into saving by lower income families has focused on Individual Development Accounts (“IDAs”), matched savings accounts intended to help account holders save for a major purchase such as a home or college education. Through the study of IDAs, social scientists have developed a new theory to explain saving behavior, Institutional Savings Theory. The theory contends that institutional factors, such as access to an organized saving program, influence savings decisions as much or more than classic economic factors, such as available income. In the words of Professor Michael Sherraden, credited with being the ‘father of IDAs’:-

..Institutionalized arrangements provide tremendous access and incentives to accumulate assets. People participate in retirement pension systems because it is easy and attractive to do so. This is not a matter of making superior choices. Instead, a priori choices are made by social policy, and individuals walk into the pattern that has been established.⁵

Sherraden and others have identified seven factors (access, information, incentives, facilitation, expectation, restrictions and security) that “may influence saving in low-income families,” particularly as related to IDAs⁶.

US Savings Bonds offered at tax time acquire some of the savings product characteristics emphasized by Sherraden. In particular, four are relevant to offering US Savings Bonds at tax time:

1. *Access* – factors that increase convenience and reduce transaction costs.
2. *Facilitation* – steps to ease or automate saving; can extend to a pre-commitment made to save before funds are in hand (e.g., payroll deduction plans).
3. *Security* – confidence that saving will be safe; very limited risk of loss.
4. *Restrictions* – limits on certain actions (e.g., withdrawals) so that savings goals can be achieved.

Offering savings bonds at tax time increases access to a savings opportunity, as the bond purchase is integrated into the tax preparation process and is thus far less complex than purchasing other savings

⁴ For more, see d2dfund.org/publications

⁵ Sherraden, M. (1991) *Assets and the Poor: A New American Welfare Policy*. Armonk, NY: M.E. Sharpe, Inc. (p. 127)

⁶ Beverly, Sondra G. & Michael Sherraden, “Institutional determinants of saving: implications for low-income households and public policy” the *Journal of Socio-Economics* 28 (1999) (pg 463)

products.⁷ Because the choice to buy a bond occurs before tax refunds are in hand, bond buyers pre-commit to saving. Bonds also have, effectively, no risk of loss, as they are backed by the full faith and credit of the U.S. Government and can be replaced if lost or stolen. The minimum one-year holding period for savings bonds also creates a form of restriction on, at least, the immediate use of the funds. Finally, because purchasers often buy bonds with a specific purpose in mind, a form of ‘mental accounting’ is at work. The bonds are ‘tagged’ with a specific end use in mind.

While savings bonds are not IDAs, they also differ from savings accounts or certificates of deposits in important ways. First, as noted, savings bonds are far easier to open at a tax site as no on-site banker or specialized approval process is required. Bonds are also completely portable. A purchaser can redeem them at most banks and credit unions nationwide. A bond purchaser does not require a bank account to buy, hold or redeem a bond and is not subject to a ChexSystem⁸ review. In addition, tax clients may feel safer saving in bonds than conventional bank products since no private party is trying to profit from their savings and bonds are fully backed by the federal government. Finally, US Savings Bonds allow co-ownership, so a buyer can gift a bond to another person such as a family member or, very often, one’s children. D2D has found this gifting option is particularly important to lower income purchasers.

The 2008 VITA Savings Bond Pilot Test

During the 2007 tax season, D2D and its community partners offered 4,410 tax clients at four VITA⁹ sites an opportunity to purchase Series I U.S. Savings Bonds. The results from the 2007 test were positive, in some cases surprisingly so.¹⁰ For the 2008 tax season, D2D dramatically expanded its bond order processing capacity in order to reach its goal to increase access to savings bonds at tax time. To this end, with funding and support from H&R Block, D2D created a web-based ordering system, and more than 25,000 tax filers were offered savings bonds at 32 VITA sites.¹¹ Of these, roughly 19,000 tax filers were eligible to buy bonds. Eligible tax filers were defined as those expecting a refund of \$50 or greater (the minimum amount necessary to purchase a bond).

High-level results for the two tax seasons are summarized below. Detailed results of the 2008 test are presented later in this paper.

Savings Bond Test Results	2007	2008¹²
Number of Clients Purchasing Bonds	231	1,086
Number of Registrants ¹³	377	1,810
Average Amount Used to Buy Bonds per Client	\$ 185	\$186
Percent of Bonds Purchased with Co-owners (as Gifts)	84%	73%

Scaling up the Bond Offering – US Savings Bond Portal

⁷ Savings bond buyers need not, for instance, comply with USA Patriot Act or Bank Secrecy Act regulations.

⁸ ChexSystems is used nearly industry wide as a credit screening tool for new account openings. In one test, 26% of lower income tax clients who applied for a savings account were denied one by a poor ChexSystems’ finding - See Sondra Beverly, Daniel Schneider, and Peter Tufano, “Splitting Tax Refunds and Building Savings: An Empirical Test”, Working Paper, February 2005 pg. 13.

⁹ VITA is an IRS program to offer free, often volunteer-based, tax preparation to low-income tax filers.

¹⁰ For a thorough analysis of the 2007 Savings Bond test, see “America’s Best Kept Saving Secret: Testing U.S. Savings Bonds to Help Low-income Tax Filers Begin Saving” at www.d2dfund.org/research_publications/

¹¹ Data were reported from 16 of 32 sites, which accounted for 950 or 1,086 bond buyers.

¹² These figures include both 739 bond buyers that were a part of our 2008 study and an additional 347 buyers who were not part of the study (and therefore did not complete surveys and are not included in take-up rates).

¹³ Registrants are individuals for whom bonds were purchased; also called bonds owners or co-owners.

In order to provide access to savings bonds to a wider number of tax filers, D2D automated the bond ordering process via a web site. This system, the “US Savings Bond Portal,” collected client bond orders online and directed tax refund dollars to a clearinghouse account maintained at H&R Block Bank. Use of an Internet-based system enabled a greater number of tax sites to participate in the test, facilitating an eight-fold expansion of sites – from 4 to 32.

Because a part of all bond buyers’ individual tax refunds would pass through a single clearinghouse account, processing for the pilot test would have been in violation of Department of Treasury Code of Regulations (Federal CFR). The relevant regulation (31 CFR Part 210 – Federal Participation in the Automated Clearing House) stipulates that direct deposits, such as tax refunds, must go to accounts held in the recipient’s name. Yet the bond clearinghouse account established at H&R Block Bank operated as a pooled collection point for many bond buyers and could not be in any one bond buyer’s name. In order to operate the Bond Portal system, D2D was obligated to approach the Secretary of the Department of Treasury for a waiver, as provided for in the regulation. After careful review, on December 19th, 2007 the Department of Treasury issued a waiver letter permitting the operation of the clearinghouse account for the US Savings Bond Portal, subject to several conditions.

VITA Tax Sites Involved in Savings Bond Portal Test

Given the significant increase in the number of participating tax sites, D2D divided sites into two groups, which differed in the degree of obligation (for evaluation and research) to, and support provided by, D2D. The first group, dubbed the Refund to Assets (“R2A”) -5 sites, supported more extensive research, survey and other data collection. R2A-5 sites received a small stipend to support an on-site “bond coordinator” to assist with research, site operations and bond promotion. These sites received more training and regular contact with D2D staff. The second, larger group, labeled the Portal group, received online computer-based training, webinars and conference calls to help them learn how to use the Bond Portal. They also received at least one D2D site visit.

Seven organizations supporting eight VITA sites were selected as research (R2A-5) partners:

- Baltimore: Baltimore CASH, Mondawmin Mall site
- Boston: Boston EITC Campaign, Roxbury Resource Center site
- Chicago: Center for Economic Progress, Downtown Loop site
- Tulsa: Community Action Project of Tulsa County, Exchange Center and EduCare sites
- Wilmington, DE: Nehemiah Gateway Community Development Corporation, Ezion site
- Philadelphia: Campaign for Working Families, 1199C site
- Rochester: Rochester CASH, Irondequoit site

The remaining twenty-five Portal sites were located in eleven cities:

- Baltimore: Baltimore CASH, Bon Secours of Maryland Foundation site
- Boston: Boston EITC Campaign, South Boston site
- Burlington, VT: Burlington CASH, City of Burlington, Champlain Valley Office of Economic Opportunity and Casey Family Services of Winooski sites
- Chicago: Center for Economic Progress, North Lawndale, Elgin and South Chicago sites
- State of Delaware: Nehemiah Gateway Community Development Corporation, West End, Newark Boys and Girls Club, Modern Maturity Center and DelTech sites
- Denver: Denver Asset Building Coalition, King Trimble Center site
- Detroit: Accounting Aid Society, Focus Hope, Osborn Tax Center and Neighborhood Tax Center sites

- Philadelphia: Campaign for Working Families, Temple University, Frankford Ministries, Impact Services and Northeast Philadelphia sites
- San Francisco: ACORN, San Francisco office site
- Seattle: United Way of King County, Seattle Public Library site
- Washington, DC: Capital Area Asset Builders, Jubilee Jobs and Martin Luther King Memorial Library sites

Several parties cooperated to address key requirements of the project, including:

- *Operations* – D2D and H&R Block Tax Services designed and created the online Bond Portal; working through a clearinghouse account, H&R Block Bank placed bond orders with the Bureau of Public Debt. Block Tax and Block Bank provided their services free of charge and covered the substantial cost to program, test and host the Bond Portal.
- *Tax Preparer & VITA Staff Training* – D2D created an online computer-based training program to teach tax preparers and staff at VITA sites about bonds and pilot procedures.
- *Marketing* – with input from the R2A-5 VITA site staff, D2D produced bilingual brochures, posters and leaflets featuring a “Save Some of Your Refund with U.S. Savings Bonds” tagline and common visual theme (samples are in Appendix A).

The Savings Bond Portal offered Series I Bonds, which are sold at face value and pay interest for 30 years at a rate adjusted every six months by the Treasury (on the basis of inflation over the prior six months, as measured by the Consumer Price Index). I Bonds ordered during tax season 2008 yielded 4.28%. Most banks and credit unions will redeem I Bonds, although, except for special cases, they cannot be redeemed for at least one year after purchase. Prior to 5 years, redemption carries a penalty of the preceding three months’ interest. Paper I Bonds can be purchased for as little as \$50 and in increments of \$25 above \$50. In the pilot tax clients could purchase I Bonds in their own name or in their own name *and* that of a “co-owner,” who would have full rights to redeem the bond without the owner’s permission or participation.

Findings

Five key findings emerge from the 2008 tax season pilot test, many of which confirm observations from the prior season’s test:

- demand for savings bonds is strong and enduring,
- bonds fill a unique, unmet need among prospective lower-income/small savers,
- bonds attract long-term, goal-oriented saving,
- consumers will alter long-standing behavior patterns in order buy bonds, and
- bonds hold special appeal for specific constituencies.

Demand for savings bonds is strong and enduring. In our 2007 study, we observed take up rates of 6% (measured against those with a sufficient refund) and 9% (measured against those with sufficient refund and who used direct deposit).¹⁴ Notably, with a sample over three times larger (739 vs. 231), our 2008 study revealed identical take-up rates— 6% and 9%— strengthening our confidence in these results (for more, see Appendix D). Other findings point to strong demand for bonds:

- *Compared to other savings products* – tax clients demonstrated markedly higher demand for savings bonds than other savings products offered at the time of tax preparation. For

¹⁴ We report the lower take up rate (for those who had a sufficient refund) in order to show two measures of demand for savings bonds. Some clients who did not use direct deposit, presumably, had the option to do so if they had felt a bond purchase was a sufficiently strong reason.

example, in four of eight sites in our study, clients were offered the option to open Certificates of Deposits (CDs) with their tax refund in addition to the option to buy savings bonds. On average, take-up rates for CDs were 1.2% and 1.9%, about one-fifth the rate for savings bonds (see Appendix G).¹⁵

- *Repeat buyers* – many of those who bought savings bonds in our 2007 pilot had, for the first time, the option to order bonds for a second consecutive year. Strikingly, among those who bought bonds in 2007 and were eligible to buy them in 2008,¹⁶ a substantial portion (38%) chose to do so (see Appendix F). With the economy deteriorating in 2008– and the general economic turbulence present in households of the income range of our bond buyers – a nearly 40% repeat buying rate is a strong statement about the degree of satisfaction and on-going interest in savings bonds among lower income tax filers.

Orders ¹⁷ & Take Up Rates	Savings Bonds	CDs
Buyers	737	78
Take up Rate		
for those with sufficient refund	6.0%	1.2%
and also used direct deposit	9.0%	1.9%
Savings Bond Repeat Buyers, 2007 to 2008		Totals
Bond Buyers in 2007		298
Who used a tax site offering bonds in '08		
and had a refund of \$50+		205
and bought a bond in 2008		78
Repeat Rate		38.0%

Bonds fill an unmet need in the savings landscape for lower-income households. Saving requires essential ingredients, including an awareness of an attractive savings opportunity and a trusted institution or product – ingredients often missing in lower-income communities. Savings bonds provide such an opportunity in a way no other product does through features such as:

- *“Giftability”* – no other savings product easily allows people to save on behalf of others, especially children, and in small amounts. Ordering a bond for someone else¹⁸ is an easy one-step process, requiring neither the recipient’s knowledge, consent or details of his or her identity (such as social security number). The resulting paper bond lists the co-owner’s name and is tangible, easily slipped into a birthday card, for instance. Perhaps for these reasons, 68% of bond buyers purchased bonds for others, primarily their children (59%), and spent 67% more, on average, on savings bonds (\$214 vs. \$128) than those who bought only for themselves.
- *Broad product awareness* – one reason for the popularity of savings bonds among lower-income savers may be the high degree of consumer awareness. Almost three-quarters (74%) of bond buyers reported themselves “familiar” with savings bonds, compared with 34% for Certificates of Deposit and 26% for Individual Retirement Accounts. Among those who did not have a savings account prior to coming to get their taxes done – perhaps those who are least attuned to savings options, generally – awareness of bonds was still 71% (compared

¹⁵ In some sites offering CDs the minimum initial deposit was the same as the minimum savings bond purchase, \$50; in others it was as low as \$30 or as high as \$150. For more, see Appendix G.

¹⁶ Meaning they returned to sites offering bonds in 2008 and had a tax refund large enough to buy a bond.

¹⁷ Some clients who ordered bonds did not receive them (e.g., a client’s actual refund was less than expected).

¹⁸ In the case of our pilot, bond buyers could register someone else as a “co-owner” to any bond they purchased, providing the co-owner with the right to redeem the bond, unilaterally, at any time after one year.

with 21% for IRAs), suggesting bonds are a recognized, comfortable product for the population most in need of a savings tool. Site reports indicate that many tax filers, whether or not they purchased bonds, remembered being given a savings bond as a child by a parent or other relative; these were memorable events, still vivid for many tax clients.

- *Savings account alternative* – a significant number of tax clients in our study either did not have or did not use savings accounts – yet these same people embraced savings bonds. Among bond buyers, over a third (35%) did not have a savings account prior to arriving at the tax site where they purchased a savings bond, and almost two-thirds of that group used to have a savings account but no longer did. Even those bond buyers who had a savings account were small savers, as more than half had a balance of \$100 or less.
- *Unique bond design* – savings bonds lock up funds through both “hard” rules (e.g., the required minimum holding period) and “soft” product features (e.g., the requirement to find one’s bond and go to a bank or credit union to redeem it, or the feeling of “breaking” the bond by redeeming it before maturity). These features may be compelling to lower income savers who have struggled to hold onto savings over time. Indeed, among those who bought bonds for others, 40% completed the statement “I bought a bond for someone else because...” by circling “it’s a way I can be sure to save.”

Bond Gifters vs. Non-gifters (n=1,086)	Bought for Self Only	Bought for Others	Product Awareness (n=1,229) ¹⁹	Savings Bonds	CDs	IRAs
% of Buyers	32%	68%	Are you “familiar” with...(% ans. ‘yes’)	65%	39%	32%
Average \$ Invested in Bonds	\$128	\$214				

Bonds attract long-term, goal-oriented saving. Although people save for different reasons and over different time horizons, lower-income savers often find it challenging to save for the long-term.²⁰ Long-term saving is important for consumers because it can help them make high-return investments (such as a home purchase or college education). From the government’s perspective, the savings bond program is more cost-effective if savers hold bonds for long periods. Several noteworthy points emerged from the study:

- *Long-term intent* – most bond buyers intend the bonds they purchased to be held for 5 years or more. Fifty-eight percent of buyers planned for the bonds they purchased to be held for 5 years or more; 40% planned the bonds to be held 10 years or more. Indeed, only 5% planned that their bonds be kept between one and five years.
- *Defined, long-term goals* – the overwhelming majority (74%) of bond buyers identified one or more defined, long-term uses for the bonds they purchased, a finding that is consistent with the long-term intent buyers expressed. This finding compares with just 38% of respondents who were unsure of their goal or described a goal that is not long term (e.g., “emergencies”)
- *Redemption patterns* – bond buyers from our 2007 study do not, so far, differ dramatically in their redemption patterns from the general public, and thus may be largely on track to achieve their long-term saving ambitions. According to an analysis by the Bureau of Public Debt, 11.25% of bonds issued in our 2007 study had been redeemed by April 18, 2008, as compared with 10.3% of the approximately 2.1 million Series I bonds issued to the general

¹⁹ Responses from a survey of 1,229 bond buyers and non-buyers.

²⁰ One study found that 41% of tax refund recipients who direct deposited their refunds to a savings account had spent 85% or more within 30 days of receiving it (“Linking Tax Refunds and Low-Cost Bank Accounts: A Social Development Strategy for Low-Income Families?” by Sondra G. Beverly, Jennifer L. Romich & Jennifer Tescher (<http://gwbweb.wustl.edu/csd/Publications/2003/WP03-17.pdf>))

public from that same time period.²¹

When do you plan for the bonds you bought today to be cashed in (please circle one)? n=681	Percent	Count
In at least a year	5%	35
In at least 5 years	18%	122
In at least 10 years	40%	272
Not sure	37%	252

What do you hope the bonds you bought today will one day be used for (please circle any that apply)? n=689			Classified into:		
	Percent	Count	n=689	Percent	Count
Education (own or kids / grandkids)	62%	426	Long-term, defined	74%	509
Retirement	16%	110			
Emergencies	19%	129	Short-term, ill defined	38%	259
Not sure	18%	125			
Other:	6%	43			

Consumers alter long-standing behavior patterns in order to buy bonds. One measure of a product's appeal is the price consumers will pay for it; in the case of savings bonds, buyers were willing to pay a significant "price" by going outside their comfort zones to try a new, presumably unfamiliar behavior:

- *First time saving* – for lower-income tax clients accustomed to using their entire refund to catch up on overdue bills, deferred consumption needs or a rare opportunity for small luxuries, the choice to direct some funds to a long-term savings instrument represents a significant leap of faith. In the study, more than a third of bond buyers (37%) reported that their bond purchase was the first time that they saved part of their tax refund. Similarly, for nearly two-thirds (64%), their bond purchase represented either a first step toward or return to saving of any type, as they reported no money saved or invested prior to ordering a savings bond. Indeed, half (51%) of all buyers reported that they would have saved less of their refund had they not bought a savings bond.
- *Use of direct deposit* – the IRS (and VITA sites) have been promoting the use of direct deposit to receive tax refund (rather than paper check) for years, with rates rising but hitting a plateau among lower-income filers.²² Yet one in ten bond buyers said they used direct deposit simply because it was required in order to buy a savings bond. This finding suggests the opportunity to buy a savings bond was sufficiently compelling for prospective buyers to overcome a considered – and likely long-standing – preference for paper checks rather than electronic funds delivery.

In the past, how often have you saved part of your tax refund? n=682	Percent	Count
This is my first time	37%	255
Sometimes	43%	290
Always, every year	20%	137

Do you (or your spouse) have any money saved or invested (please do not include the value of your home)? n=678	Percent	Count
No	64%	435
Yes, total value less than \$1,000	20%	137
Yes, total value \$1,000 to \$5,000	11%	72
Yes, total value above \$5,000	5%	34

²¹ Per May 21, 2008 telephone conference with Jay Walker of the Bureau of Public Debt (BPD) and subsequent email correspondence with Rich Thomas of BPD.

²² Among the three study sites that participated in 2007 and 2008 (Baltimore, Boston and Tulsa), all had the same or lower rates of direct deposit use in 2008.

If you had not bought a bond today, would you probably have saved less, the same amount or more of your tax refund?

n=638	Percent	Count
would've saved less	51%	322
would've saved the same amount	34%	219
would've saved more	15%	97

Would you have used direct deposit if it was not required to buy a savings bond?

n=677	Percent	Count
Yes	90%	610
No	10%	67

Bonds hold special appeal for specific constituencies and market segments. Although savings bonds hold broad appeal, certain specific groups demonstrated a disproportionately strong attraction to bonds.

- *African Americans* – although African Americans represented 49% of the population that was eligible to purchase bonds and received an offer to buy bonds, they constituted 65% of bond purchasers. These data match anecdotal experience reported from tax sites that savings bonds may occupy a special place for people who have been historically underserved by mainstream financial service firms.
- *Parents* – parents were especially drawn to savings bonds, perhaps because of bonds' gifting feature, allowing people to buy them for their children. Where 62% of a sample of non-buyers were parents, 74% of buyers were parents. Similarly, 42% of those eligible to buy bonds filed their returns under status Head of Household (and were therefore likely single parents), yet 66% of bond buyers filed Head of Household.
- *Women* – given the large number of tax clients who are women – and the many women tax clients who are parents – it is perhaps not surprising that 79% of bond buyers surveyed were female; this figure compares to 72% for survey respondents who did not buy a bond, suggesting bonds attract more female buyers than the portion of women in the population of tax clients.

Recommendations

US Savings Bonds are an attractive investment for American families. Bond sales grew 98% between 1999 and 2003,²³ but have dipped since then, likely due to changes introduced by Treasury in 2003.²⁴ The virtues of savings bonds as a savings instrument for the “small saver” are extolled elsewhere. In brief, savings bonds offer competitive tax-advantaged returns on a security with no credit risk, minimal interest rate risk, and available to anyone with a Social Security Number and a minimum of \$50 to save.

Policy Proposal

To leverage the long history of savings bonds as a savings instrument for small savers, and encouraged by results from two consecutive savings bonds pilots, D2D proposes a public policy change that will expand the reach and increase the sales of savings bonds:

Policy Proposal: The Department of Treasury should implement procedures to facilitate federal tax refund recipients ordering US Savings Bonds with a portion of their tax refunds while filing their taxes.

Beginning with Tax Season '07, the IRS implemented Form 8888, which made it possible for refund recipients to direct a portion of their refunds to as many as three separate bank accounts. D2D proposes that the ample space available²⁵ on Form 8888 be used to accept orders for US Savings Bonds, allowing tax refund recipients to direct a portion of their refunds to purchasing bonds. A mocked-up version of Form 8888 that might be used for this purpose is shown in Appendix C.

Buying bonds with tax refunds is not new. From 1962 to 1969, federal tax refund recipients had the option to use their refunds to buy savings bonds. Appendix B shows a 1962 tax form 1040A with this option. Although demand for bonds was modest, it seems likely that tax filers were hesitant to commit their entire refund *only* to savings (required by the 1040A form in 1962). In the pilot described in this paper, almost none of the bond purchasers spent their entire refund on savings bonds. This is not surprising, as most Americans have a variety of uses planned for their refunds.

A bond purchase option in the tax filing process would considerably expand the reach of savings bonds, making a saving option available to *every* refund recipient. A simple extrapolation demonstrates what type of impact this straightforward process change could produce. In Tax Year 2004, \$83.4 billion worth of refunds went to filers with adjusted gross incomes under \$30,000.²⁶ At six percent of refund size – the approximate amount of their tax refunds, on average, invested by savings bond buyers in D2D’s 2007 and 2008 pilots – bond sales could have generated roughly \$5 billion in savings and added this same amount to bonds outstanding for that year, a 2% increase (bonds outstanding for that year fell to \$204.7 billion²⁷).

²³ See Sandra Block, “An American tradition too unwieldy?” USA TODAY, September 8, 2003

²⁴ See Savings Bond changes by Treasury Department, USA Today, September 8, 2003, accessible from Sandra Block, “An American tradition too unwieldy?” USA TODAY, September 8, 2003

²⁵ Today instructions occupy much of Form 8888; while helpful, this information could presumably be placed in instruction booklets as is true for other IRS forms and schedules.

²⁶ Figures from Peter Tufano, “Just Keep My Money! Part I: The Potential for a Refund-Driven Savings Bond Program”, April 2007.

²⁷ Ibid

How would it Work?

From the refund recipient's perspective

In a refund-based savings bond program, refund recipients who wish to buy a bond would follow an easy process to order bonds on Form 8888 while getting their taxes done. All information needed to register a bond for the tax filer is already on the return, minimizing the need for additional data collection. Bond buyers would specify the bond amounts²⁸ and names of co-owners, if any (the mock-up of Form 8888 in Appendix C provides an example of what the order form might look like). The Bureau of Public Debt (“BPD”) would then deliver bonds to buyers. Tax refund money would never leave Treasury. In effect, the bond purchase process would require a back-office fund transfer between the IRS and BPD, thus “keeping the money” within Treasury.²⁹

This proposal does not include integration with TreasuryDirect, a web-based system built by the Treasury department that allows people to purchase US Savings Bonds online.³⁰ While TreasuryDirect has many advantages, it is difficult to imagine how tax refund recipients would be able to apply to open a TreasuryDirect account (which requires getting online to provide an e-mail address, social security number, bank account information and a driver’s license or state ID card number) while getting their taxes done.

From the tax return preparer's perspective

Through many years of pilot tests, D2D has found that a savings “prompt” is critical to get tax filers to consider saving. The presence of a bond order option on IRS Form 8888 could help remind tax preparers to ask their clients, “How much of your refund would you like in savings bonds?” much as they ask about direct deposit today. Such a ubiquitous prompt would amount to low-cost mass marketing of savings bonds.

For the pilot tests, complex operations were necessary to allow bond purchases. Tax preparers or other tax site staff had to operate the Bond Portal web site, print order paperwork, collect client signatures, and remember to enter information for a bond clearing house account on IRS Form 8888. In the context of a busy tax site, these requirements are burdensome. In contrast, a savings bond order option on Form 8888 requires tax preparers only to fill in, at most, six values and six co-owner names. In terms of training, tax preparers would need to be aware of the bond purchase option and to have enough knowledge of savings bonds to describe the product and/or direct interested tax filers to more information (in IRS instruction books, BPD literature or the TreasuryDirect web site).

In both D2D pilots, clients bought bonds when they were promoted and presented in a compelling way. Even with the proposed policy change, bonds will need to be promoted, creating a scale and cost challenge. Fortunately, D2D’s findings suggest that savings bonds have several marks in their

²⁸ Rather than ask bond buyers to specify denominations for each bond, Treasury would fill bond orders according to a stated policy – for example, the total dollar value of a bond order would be filled, to the extent possible, with \$100 bond denominations.

²⁹ For a fuller treatment of the concept, see Peter Tufano, “Just Keep my Money! The Potential for a Refund-Driven Savings Bond Program”, April 2007.

³⁰ Offering bonds to lower income refund recipients via TreasuryDirect (“TD”) would restrict sales to current TD accountholders (400 to 450k – a small number compared to the 65MM lower income refund recipients each year) or require tax filers to apply for a TD account during tax preparation, a time consuming process likely to raise tax preparer objections. Also, a 2005 Pew Internet and American Life Study reports that about a third of American adults did not go online or use email, a figure that may be higher for lower-income Americans.

favor in this regard. With their 70-year history, bonds enjoy levels of awareness far exceeding those of heavily promoted private sector savings products (IRAs and CDs). In addition, bonds have unique features – such as the option to use co-ownership as means to gift a bond – that help fill an unmet need in the saving landscape of working families. For these reasons, promoting savings bonds should be less challenging than alternative saving products. Beyond this, D2D would like to see the Treasury’s savings bonds marketing budget restored, as even modest funding to promote savings bonds would be a logical and high-impact complement to a tax refund bond purchase option.

Areas for further study

As with any new proposal, there are subject areas that need further investigation: the cost of implementing a refund-based bond order process, the costs and benefits of expanding access to bonds to Individual Tax Identification Number (ITIN) holders and unbanked tax filers, and further understanding of the issues related to the redemption of savings bonds.

Cost

Although D2D's findings point to the benefits of fostering saving via bonds at tax time, the full financial cost (or savings) of a tax time bond order option are not clear.

There are one-time costs associated with the design, implementation and rollout of the bond order option. After implementation, such an option would create on-going costs; these costs are best understood in the context of the current cost to fulfill a savings bond order. In other words, tax time bond orders may be more expensive or less expensive to place than existing savings bond orders. In terms of cost savings, bond orders originating from the tax filing process would presumably not require the Bureau of Public Debt to pay a \$0.50 to \$0.85 order collection fee to financial institutions agents. Additional costs savings would result from the elimination of paper forms currently required to purchase bonds and increased quality from decreased risk of error. There may also be cost savings for the BPD to receive large "batch" bond orders as would likely come from the IRS.

But D2D does envision the BPD mailing paper bonds to buyers, a process that is more expensive than that for "electronic bonds" sold through TreasuryDirect.³¹ In our pilots, many clients reported that they liked receiving a paper bond – a physical manifestation of their savings – particularly when they wished to give a bond as a gift. Similarly, VITA tax site staff reported the tangibility of savings bonds made them easier to present to prospective buyers and a more compelling option than, for instance, a savings account.

Rather than eliminating paper bonds and requiring all buyers to use TreasuryDirect, Treasury should explore ways to help all Americans use a less costly bond delivery system. One such idea is a savings bond card modeled after a stored value card. A "bond card" could hold the value of savings bonds in electronic form, without requiring printing, tracking or redemption handling of paper bond certificates. Such a card could also allow incremental bond purchases at point of sale terminals in retail establishments, such as grocery stores or drug stores. Where TreasuryDirect adds a level of complexity and unfamiliarity for many prospective bond buyers, a bond card would build on the increasing familiarity of stored value and pre-paid cards in lower income communities. Cards could also be integrated with TreasuryDirect.

Redemption Issues

In January 2003, Treasury increased the minimum holding period for bonds to one year from six months.³² While long-term savings is important, and many purchasers intend to hold onto their bonds (as reported in this paper), a shorter-term redemption option may reduce the risk to lower income households of tying up for a year funds that may serve as a family's emergency savings.

³¹ In 2003, Treasury announced its intention to stop issuing paper bonds by the end of 2005. See Savings Bond changes by Treasury Department, USA Today, September 8, 2003, accessible from Sandra Block, "An American tradition too unwieldy?" USA TODAY, September 8, 2003

³² At the time Treasury made this change some savings bond holders were redeeming bonds after 6 months in order to capitalize on the higher yield savings bonds offered in comparison to other short-term Treasury instruments.

More work is required to understand the effect on demand for bonds by lower-income buyers of the longer minimum holding period, and the cost savings of later redemptions to the Treasury. A policy that allows redemptions before one year for clearly defined events (such as job loss, disability or family member death) may provide a sensible middle ground policy and requires further investigation.

Access and Reach

As noted, a tax-time bond purchase option should have tremendous impact on access to, and take-up of, a savings opportunity by refund recipients. Yet despite increased access, some refund recipients would still be left out. For example, Individual Tax Identification Number (ITIN) holders today cannot buy bonds. Making them eligible for bonds – after all, they already file tax returns – would further boost the reach of savings bonds.

Similarly, allowing tax filers without direct deposit to split their refunds to buy bonds would expand the audience for bonds at tax time to include unbanked households. Today the IRS allows refund splitting only among accounts able to receive direct deposit. Further study would provide insight into whether allowing the option to buy a savings bond *and* receive tax refunds via paper check would expand the target audience for bonds to include unbanked households.

Conclusion

American savings rates are low and debt levels are high. Putting away funds for everything from emergencies to a down payment on a house is difficult for most people, but even more so for lower-income families. Thrift institutions that once catered to their needs are hard to find today. Institutional and policy structures that “draw” or “nudge” people into savings opportunities are out of their reach.

D2D pilots have shown that US Savings Bonds fill an unmet need in the savings landscape for lower income consumers. When offered at tax time, US Savings Bonds become *accessible* as a longer-term saving option. However, processes and systems currently available to offer bonds at tax time are not sustainable. D2D’s Savings Bond Portal supported a broader 2008 tax time bond offering but it was not designed to be permanent or scalable. For that, policy changes are needed.

Among other attractive features, savings bonds tap into an age-old reason for thrift: for parents to save for their offspring. Lower income parents who believe their financial position is unchangeable, might hold out hope for a brighter future for their children and grandchildren – and be willing to save part of their tax refund to help build that future.

With a simple, administrative policy change, savings bonds could be offered on tax returns – and an attractive and time-honored savings tool could help millions more lower-income tax refund recipients save both for themselves and for future generations.

Acknowledgements

D2D Fund would like to thank the U.S. Department of Treasury, H&R Block, H&R Block Bank, the Rockefeller Foundation, the Annie E. Casey Foundation and the Ford Foundation for their support of the Tax Season 2008 savings bond pilot project. The Department of Treasury granted D2D and H&R Block Bank a waiver of Treasury electronic funds transfer rules in order to allow this pilot test to occur, and supported D2D with feedback and input throughout the planning and execution of the study. Under the leadership of John Thompson and Andy Olson, H&R Block funded the development of the Savings Bond Portal that made it possible for D2D to expand considerably to serve 32 VITA sites, and to more than 25,000 tax filers. D2D also thanks Jim Johnston and Cena Rich of Sogetti who developed and coded the portal. Gratitude is also due to the VITA sites that participated in the pilot and gave generously of their time to make it a success, and continue to be advocates of US Savings Bonds as a valuable savings instrument for VITA site clients. Other members of the VITA community contributed valuable ideas and generally have been supportive of D2D’s efforts to expand saving opportunities at tax time.

About D2D Fund, Inc.

D2D Fund, Inc. (www.d2dfund.org) is a non-profit organization that expands access to financial services, especially asset building opportunities, for low-income families by creating, testing and deploying innovative financial products and services. D2D works with the financial services industry, public policy organizations, national non-profit groups, and grassroots community agencies to generate promising ideas, pilot test systems and programs, build awareness of the needs and potential of low-income communities, and advocate progressive social and economic policy.

This working paper was prepared by Jeff Zinsmeyer, Timothy Flacke and Preeti Mehta. Questions, comments and suggestions are welcome (info@d2dfund.org).

Attachments

Appendix A: Sample Marketing Materials

Appendix B: 1962 IRS Form 1040A

Appendix C: Mock-up of Modified IRS Form 8888

Appendix D: Bond Orders and Take up Rates

Appendix E: Characteristics of Bond Buyers and Non-Buyers

Appendix F: Repeat Bond Buyers

Appendix G: Savings Bonds and Alternative Savings Products

Appendix A: Sample Marketing Material from 2008 Savings Bond Pilot

**You decide what to save
and what to spend!**

Save Some *Start Saving today with US Savings Bonds*

*"We used part of our refund
to buy a Savings Bond for each of our children"*



Ask your tax preparer!

Spend Some *Spend some for your expenses*

**Save Some of your Refund with
U. S. Savings
Bonds**

Start Saving today with US Savings Bonds **Save Some**

- Start with as little as \$50
- 4.28% Interest Rate
- No Fees
- Fast



Spend Some *Spend some for your expenses*
Ask your tax preparer!

Appendix B: Example of a 1962 Form 1040A (with the Option to Buy a U. S. Savings Bond)

Form 1040A U. S. INDIVIDUAL INCOME TAX RETURN (Less than \$10,000 total income) 1962

Please print →

1. Name (If a joint return of husband and wife, use first names and middle initials of both)		2. Your Social Security Number	3. Wife's Social Security Number
Home address (Number and street or rural route)			
City, town, or post office		Zone	State

4. Check one:
☐ Single; ☐ Married filing joint return (even if only one had income);
☐ Married filing separate return—if wife or husband also filing separately, give name _____

5. WAGES SHOWN ON FORMS W-2 AND OTHER INCOME		FEDERAL INCOME TAX WITHHELD	EMPLOYER'S NAME, Where employed. Write (W) before name of each of wife's employers
If item 9 is \$10,000 or more, or if item 6 is over \$200, use Form 1040.			

6. INTEREST, DIVIDENDS, AND OTHER WAGES	Your's	7. Total Federal income tax withheld	8. If you had an expense allowance or charged expenses to your employer, see instruction 8 and check here <input type="checkbox"/> if appropriate. Enclose Forms W-2, Copy B. If your income was \$5,000 or more, you must compute your tax. However, if your income was less than \$5,000, you may have the Internal Revenue Service compute your tax by omitting items 10, 11, and 12. If you compute your own tax, do not leave this item with a return to your State Director.
	Wife's		

9. TOTAL INCOME →

10. Enter tax from Tax Table or from tax computation schedule →

11. If item 10 is larger than item 7, enter balance due →

12. If item 7 is larger than item 10, enter refund →

U.S. TREASURY DEPARTMENT • INTERNAL REVENUE SERVICE

(over) **DO NOT WRITE EXEMPTIONS AND SIGN ON OTHER SIDE.**

● Check here ☐, if you want refund applied to U.S. Savings Bonds.

(R) LIST YOUR EXEMPTIONS AND SIGN ON OTHER SIDE.

Appendix C: Mock up of Form 8888 to Include Savings Bond Purchase Option

Form 8888 Department of the Treasury Internal Revenue Service	Direct Deposit of Refund to More Than One Account ▶ See instructions on back. ▶ Attach to Form 1040, Form 1040A, Form 1040EZ, Form 1040NR, Form 1040NR-EZ, Form 1040-SS, or Form 1040-PR.	OMB No. 1545-0074 <div style="border: 1px solid black; padding: 5px; display: inline-block;"> 2008 Attachment Sequence No. 58 </div>
Name(s) shown on return		Your social security number
1a Amount to be deposited in first account b Routing number ▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number 		<div style="border: 1px solid black; padding: 2px;">1a</div>
2a Amount to be deposited in second account b Routing number c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number 		<div style="border: 1px solid black; padding: 2px;">2a</div>
3a Amount to be deposited in third account b Routing number c <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number 		<div style="border: 1px solid black; padding: 2px;">3a</div>
4 Total amount to be directly deposited. Add lines 1a, 2a, and 3a.		<div style="border: 1px solid black; padding: 2px;">4</div>
You can also elect to direct a portion (or all) of your refund into Series I US Savings Bonds ▶ Series I Bonds are low-risk savings instruments that can be redeemed after the first 12 months ▶ They earn interest and are protected from inflation.		
\$50.00 minimum for each line, 5 to 11		
5. Amount to be used to purchase Series I Savings Bond(s) for taxpayer.		<div style="border: 1px solid black; padding: 2px;">5</div>
6a. Amount to be used to purchase Series I Savings Bond(s) for taxpayer and co-owner #1		<div style="border: 1px solid black; padding: 2px;">6a</div>
b. Co-owner #1: _____ <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> First Name Last Name </div>		<div style="border: 1px solid black; padding: 2px;"></div>
7a. Amount to be used to purchase Series I Savings Bond(s) for taxpayer and co-owner #2		<div style="border: 1px solid black; padding: 2px;">7a</div>
b. Co-owner #2: _____ <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> First Name Last Name </div>		<div style="border: 1px solid black; padding: 2px;"></div>
8a. Amount to be used to purchase Series I Savings Bond(s) for taxpayer and co-owner #3		<div style="border: 1px solid black; padding: 2px;">8a</div>
b. Co-owner #3: _____ <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> First Name Last Name </div>		<div style="border: 1px solid black; padding: 2px;"></div>
9a. Amount to be used to purchase Series I Savings Bond(s) for taxpayer and co-owner #4		<div style="border: 1px solid black; padding: 2px;">9a</div>
b. Co-owner #4: _____ <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> First Name Last Name </div>		<div style="border: 1px solid black; padding: 2px;"></div>
10a. Amount to be used to purchase Series I Savings Bond(s) for taxpayer and co-owner #5		<div style="border: 1px solid black; padding: 2px;">10a</div>
b. Co-owner #5: _____ <div style="display: flex; justify-content: space-between; font-size: 0.8em;"> First Name Last Name </div>		<div style="border: 1px solid black; padding: 2px;"></div>
11. Total amount to be used to purchase Series I Savings Bonds. Add lines 5, 6a, 7a, 8a, 9a and 10a.		<div style="border: 1px solid black; padding: 2px;">11</div>
12. The total amount to be direct deposited and used to purchase U.S. Savings Bonds. Add lines 4 and 11. The total must equal the amount shown on Form 1040, line 74a; Form 1040A, line 44a; Form 1040EZ, line 11a; Form 1040NR, line 72a; Form 1040NR-EZ, line 23a; Form 1040-SS, line 12a, or Form 1040-PR, line 12a.		<div style="border: 1px solid black; padding: 2px;">12</div>
Issue method: Paper bond certificate(s) mailed to the address on your tax return		
<div style="display: flex; justify-content: space-between;"> <ul style="list-style-type: none"> Series I Bonds have an annual interest that changes every 6 months They are an accrual type security. Interest is added to the bond monthly, and compound semi-annually. Interest is paid when you cash the bond. They are sold at face value; i.e., you pay \$50.00 for a \$50.00 bond Minimum term of ownership: 1 Year <ul style="list-style-type: none"> Most financial institutions will redeem I bonds for customers with acceptable identification Interest-earning period: up to 3 years Early redemption penalties: before 5 years you forfeit 3 most recent months interest - no penalty after 5 years </div>		
<div style="display: flex; justify-content: space-between; font-size: 0.8em;"> For Paperwork Reduction Act Notice, see back. Cat. No. 21858A Form 8888 (2008) </div>		

Appendix D: Bond Orders and Take up Rates

Bond Orders, ^a Take Up Rates & Direct Deposit Use (R2A Research Sites)	Totals	Baltimore	Boston	Chicago	Delaware	Philadelphia	Rochester	Tulsa (Exchange)	Tulsa (Educare)
Bond Buyers (Numerator)	737 ^b	90	63	176	27	63	100	136	82
Clients Served at Tax Site	17,333	1,610	1,817	2,530	2,152	964	3,551	3,583	1,126
And also offered bonds	15,129	1,610	1,817	1,196	2,152	786	3,066	3,390	1,112
Clients Eligible (Denominator) ^c									
with refunds >=\$50	12,237	1,230	1,238	1,040	1,566	655	2,691	2,890	927
...and who used direct deposit	8,210	666	563	753	1,012	466	1,799	2,236	715
Take up Rate ^d									
for those with refund \$50+	6.0%	7.3%	5.1%	16.9%	1.7%	9.6%	3.7%	4.7%	8.8%
...and also used direct deposit	9.0%	13.5%	11.2%	23.4%	2.7%	13.5%	5.6%	6.1%	11.5%
Direct Deposit Use ^e									
Direct Deposit	60%	47%	34%	68%	54%	66%	66%	72%	71%
Check	40%	53%	66%	32%	46%	34%	34%	28%	29%

Number & Dollar Value of Bond Orders	R2A Sites (8)	Portal Sites (24)	All Sites (32)
Bond Buyers	739	347	1,086
Value of Bonds Ordered	\$129,350	\$73,200	\$202,550
Registrants	1,253	557	1,810
Average Value of Bond(s) Ordered per Buyer	\$175	\$211	\$187
Average Number of Registrants per Buyer	1.70	1.61	1.67

^a In some cases, clients who ordered bonds did not receive them (for example, if the client's actual refund was less than expected).

^b Only 737 (of 739) buyers are included in this table because two-weeks of "client flow" (denominator) data were unavailable from our Philadelphia site, a period when two bonds were sold; in order to avoid overstating take up rates in this site, bond buyers and non-buyers for this two-week period are excluded.

^c Eligible tax clients include those who met the criteria listed below and were offered a chance to buy a savings bond. Eligibility criteria were a) \$50 or greater tax refund, which was the minimum amount required to order a bond, and b) \$50 or greater refund *and* use of direct deposit, which was necessary in order to direct part of the client's tax refund to a clearing house account set up to facilitate bond purchases.

^d We report the lower take up rate (for those who had a sufficient refund) in order to show two measures of the demand for savings bonds. Some clients who did not use direct deposit, presumably, had the option to do so if they had felt a bond purchase was a sufficiently strong reason.

^e For those clients expecting a federal tax refund.

Appendix E: Characteristics of Bond Buyers and Non-Buyers

Characteristic (All figures are averages)	Bond Buyers (n = 732)	Non- Buyers (n = 14,397)
Age	39.0	41.8
Number of Dependents	1.3	0.6
Adjusted Gross Income (AGI)	\$ 19,299	\$ 16,928
Household Head Count	2.3	1.7
Federal Tax	\$ 440	\$ 765
Earned Income Tax Credit (EIC)	\$ 1,753	\$ 651
Child Care Tax Credit	\$ 56	\$ 17
Child Tax Credit	\$ 584	\$ 237
Education Tax Credits (Hope, Lifetime Learning)	\$ 33	\$ 30
Unemployment Income	\$ 316	\$ 243
Saver's Credit	\$ 19	\$ 11
Taxable Interest Income	\$ 17	\$ 85
Non Taxable Interest Income	\$ -	\$ 2.8
Dividend Income	\$ 3	\$ 19
Withholding	\$ 1,483	\$ 1,303
Refund	\$ 3,179	\$ 1,318
Number of W2s	1.6	1.4
Marginal Tax Bracket	11.3%	11.8%

Appendix F: Repeat Bond Buyers

Savings Bond Repeat Buyers, 2007 to 2008	Totals	Baltimore	Boston	Denver	Tulsa
Bond Buyers in 2007	298	81	49	34	134
'07 Buyers Who Returned to a Tax Site Offering Bonds in '08					
...and had a refund of \$50+	205	46	35	24	100
...and bought a bond in 2008	78	25	12	8	33
Repeat Rate	38.0%	54.3%	34.3%	33.3%	33.0%

Appendix G: Savings Bonds and Alternative Savings Products

CD Sales and Take up Rates	Totals (4 sites)	Baltimore	Delaware	Philly	Rochester
Buyers (Numerator)	78	0	53	3	22
Clients Eligible (Denominator)					
with sufficient refunds ^a	6,515	1,252	1566	625	3072
and you used Direct Deposit	4,179	672	1012	453	2042
Take up Rate					
for those with sufficient refund	1.2%	0.0%	3.4%	0.5%	0.7%
...and also used direct deposit	1.9%	0.0%	5.2%	0.7%	1.1%

Savings Bonds & CD Comparison	U.S. Series I Savings Bonds	Certificates of Deposit (CDs)
Pilot Product Features		
Minimum to Open	\$50	\$30 - \$500
Rate of Return	4.28%	2.5% - 3.5%
Term	30 years	3 months
Awareness		
“familiar” with ^b	65%	39%
Sales		
Take-up Rate	737 6 - 9%	78 1.2 - 1.9%

^a Refund required to open a CD was \$30 in Baltimore (including \$5 to become a member of a credit union), \$50 in Delaware and Rochester, and \$150 in Philadelphia; all CD options required use of direct deposit.

^b Survey of 1,229 bond buyers and non-buyers.

(Appendix G Continued)

Saving Product Comparison ^c	U.S. Series I Savings Bonds	Certificates of Deposit (CDs)	Savings Accounts
Accessibility			
Eligibility	Anyone with a Social Security Number	<ul style="list-style-type: none"> • Must have Identification • Must pass ChexSystems 	<ul style="list-style-type: none"> • Must have Identification • Must pass ChexSystems^d
Minimum to Start	\$50	\$1,000 - \$5,000	\$5 - \$100
Minimum Balance	\$50	\$1,000 - \$5,000	\$300 for no fees ^e
Elections to Make	None	None	None
Return			
Fees	None	None	\$3-\$5 / month ^f
Earnings (TS08)	4.84% ^g	3.18% ^h	2.25% ⁱ
Risk			
Investment Loss	None ^j	None ^k	None ^l
Theft / Loss	None ^m	None	None
Inflation	return always at or exceeds inflation	no protection	no protection
Redemption			
Portability	Redeem at financial institutions nationwide	Withdrawals only from institution holding deposits	Withdrawals only from institution holding deposits
Fee	None	None	None
Early withdrawal Penalty	3 month interest ⁿ	Greater of 3 months interest or \$25 ^o	None
Facilitate Gifting	YES	No	No

^c For Savings Account and CD information, based on a June 19, 2008 survey of Bank of America, Wachovia, Washington Mutual and Wells Fargo statement savings products.

^d ChexSystems is a commercial service used by the banking industry to identify consumers who have mismanaged, or committed fraud with, bank accounts in the past.

^e In many cases, fees may also be waived for customers who make automated monthly deposits of \$25 or more.

^f Fees apply for balances under \$300.

^g For Series I U.S. Savings Bonds issued between May 1, 2008 and October 31, 2008 per TreasuryDirect.gov.

^h National average for a 1 year CD as of June 15, 2008 per Bankrate.com.

ⁱ National average for Passbook Savings account as of June 15, 2008 per Bankrate.com.

^j Savings bonds are backed by the “full faith and credit of U.S. Government.”

^k Ibid.

^l Deposits in financial institutions are generally insured by the FDIC, FSLIC or NCUSIF.

^m Lost or stolen savings bonds can be replaced by the Bureau of Public Debt.

ⁿ For redemptions prior to 5 years; redemptions prior to 1 year not permitted.

^o Example penalty from CDs surveyed; some CDs do not allow early withdrawals or do not readily reveal the early withdrawal penalty fee.