



## America's Best Kept Saving Secret Testing U.S. Savings Bonds to Help Low-income Tax Filers Begin Saving

March 2008

### Executive Summary

During the 2007 tax season, the D2D Fund, Inc. ("D2D") and four Volunteer Income Tax Assistance ("VITA") sites conducted a U.S. Savings Bond pilot test. From January 22<sup>nd</sup> to March 31<sup>st</sup> 2007, D2D and its partners offered Series I U.S. Savings Bonds to 4,841 low and moderate income ("LMI") tax filers in four cities. This paper presents the results of this pilot, research and policy implications and specific recommendations for action. Key research findings include:

- **Demand for U. S. Savings Bonds among LMI tax filers is strong, and is driven by high brand awareness and attractive product features** – six percent (6%) of tax filers with refunds large enough to buy a bond (\$50 or more) did so, and bought a total of 377 bonds worth \$42,800. This compares with a 3.3% take up of IRAs for tax clients in another test.<sup>1</sup> Nearly 75% of bond purchasers had heard of bonds despite the fact that the U.S. Treasury stopped promoting them in 2003.
- **Bond purchasers, typically single, working parents, bought a significant number of bonds as gifts for the next generation** – using tax filing status "Head of Household" as a proxy for a single parent, the profile of a bond purchaser is that of a single, working parent with a sizeable refund. 84% of these purchasers ordered bonds "co-owned" with others – mostly children or grandchildren – indicating an interest in securing the financial futures of their offspring.
- **Tax filers who bought bonds bought them for the *long term*** – with a 30 year life, a required one-year holding period and three-month interest penalty for redemptions before five years, bonds represent *long term* savings. 52% of purchasers surveyed after the pilot said they intended to hold onto the bonds for more than 10 years.
- **Savings Bonds may represent starter or first time savings for many** – more than half (54%) of purchasers reported no existing money "saved or invested" and 67% of those surveyed after the pilot said they would have spent the money if they hadn't bought bonds.

This initial research leaves a number of questions worthy of further study, such as:

- **Scale** – How can savings bonds be offered at scale over the long term? How can demand seen during the pilot be replicated? How much is demand dependent on one-on-one selling by costly "specialists"? How can bonds be made available and distributed easily and broadly?
- **Gifting** – Why was gifting so popular? Why might parents be willing to save for their children when they are unwilling or unable to do so for themselves? Are LMI tax filers as likely to buy bonds if they cannot do so as gifts for their offspring?
- **Long-term impact** – It is easier to calculate the immediate effect a bond purchase has on an

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<sup>1</sup> See Esther Duflo, Gale, William, Liebman, Jeffrey, Orszag, Peter and Saez, Emmanuel, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block", no. 2005-5 (Retirement Security Project), May 2005. Note, in this test, clients required at least \$300 refund to open IRA and were drawn from higher income sample.

LMI tax filer than it is to measure the long-term impact. Are first time bond buyers more likely than non-buyers to purchase bonds in subsequent years? How will bond buyers' overall savings and debt levels change over time, especially when compared with non-buyers?

- **Bonds as starter product** – pilot findings suggest bonds hold special appeal for tax filers with little or no savings. Might bonds offered at tax time have a special role to play as starter products that induce LMI individuals to begin saving or, ultimately, to consider additional financial products?

There are a number of straightforward, low-cost steps that could be taken to dramatically increase the accessibility of U.S. Savings Bonds to all tax filers. The Federal Government could unlock the potential of savings bonds for small savers by:

- Tapping tax time –adding a bond purchase option to tax returns.
- Reinvigorating marketing – coordinating marketing and promotion to complement and support a tax season bond purchase option.
- Tailoring products to the LMI segment – creating an explicit emergency redemption policy and shortening the bond term.

## Introduction

Millions of Americans, particularly those living on low or moderate incomes, have little or no savings. According to the 2004 Survey of Consumer Finances,<sup>2</sup> the mean net worth of families in the lowest 25 percent of the distribution of net worth is *negative* \$1,400. Studies demonstrate that a promising strategy to encourage saving by LMI households is to provide a convenient saving option during tax preparation, when many receive their largest lump sum of income in the form of a tax refund.<sup>3</sup> Unfortunately, considerable obstacles interfere with offering cost effective savings vehicles to these households at tax time. These obstacles include account fees, high minimums and credit screening mechanisms such as ChexSystems. ChexSystems is a credit-screening device which maintains a database of involuntary bank account closures. From 2000 to 2005, there were approximately 30 million checking accounts reportedly closed for excessive overdrafts<sup>4</sup>. In one test, 26% of LMI tax clients who applied for a savings account were denied by ChexSystems.<sup>5</sup> Even when low income tax clients have been able to save at tax time, they tend to draw their savings down to zero within a matter of months.<sup>6</sup>

Peter Tufano, Harvard Business School Professor and founder of D2D, and others have argued for a universal, low-cost savings tool to assist tax clients.<sup>7</sup> In “Reinventing Savings Bonds,”<sup>8</sup> Tufano advances several reasons why savings bonds are particularly well suited for the LMI saver:

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<sup>2</sup> Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances, Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore

<sup>3</sup> See, for example, Peter, Tufano, Daniel Schneider and Sondra Beverly, August 2005 “Leveraging Tax Refunds to Encourage Savings”, No. 2005-8, (Retirement Security Project),

<sup>4</sup> See Dennis Campbell, Asis Martinez Jerez and Peter Tufano, “Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures”

<sup>5</sup> See Sondra Beverly, Daniel Schneider, and Peter Tufano, “Splitting Tax Refunds and Building Savings: An Empirical Test”, Working Paper, February 2005 pg. 13, (online at [www.d2dfund.org/news/research.php](http://www.d2dfund.org/news/research.php))

<sup>6</sup> See, for example, Sondra G. Beverly, Jennifer Tescher, Jennifer L. Romich, David Marzahl, 2002 “Linking Tax Refunds and Low-Cost Bank Accounts: Findings from the Extra Credit Savings Program”, Working Paper No. 277 (Joint Center for Poverty Research, Chicago, Ill.)

<sup>7</sup> See Tufano “Leveraging Tax Refunds to Encourage Savings.”

<sup>8</sup> Peter Tufano and Daniel Schneider, “Reinventing Savings Bonds,” Working Paper, 2005 (available at <http://www.people.hbs.edu/ptufano/>).

- Low minimum & high return – savings bonds may be purchased for as little as \$25, but offer a rate of return in line with or exceeding that offered by certificates of deposit (CDs), most of which require a substantially higher minimum investment.
- No fees – there are no fees to buy, maintain or redeem savings bonds.
- Simple purchase – bond buyers need not comply with financial institution USA Patriot Act requirements, which means orders for bonds can be accepted by tax preparers, at community based organizations or in other venues.
- Universal access – bond buyers are not subject to the ChexSystems, and are therefore open to any citizen.

Savings bonds also support longer term savings, with their 30 year life and required one-year holding period. Unlike bank accounts, bonds offer an “out-of-sight and out-of-mind” quality, because holders receive no monthly statements and are not tempted to withdraw funds at ATMs.

While the theoretical case for bonds may be compelling, key questions remain:

- Will low-income individuals want bonds at tax time and, if they do, in what amount, for whom and for what purposes?
- Will their purchases constitute new savings?
- Do bonds support ongoing long term saving?
- Can savings bonds be effectively deployed as a “stepping stone” or “entry way” savings tool for current and future generations of Americans?

To address these questions, D2D undertook two tests during the 2007 tax season. Results of one of these, a test at Volunteer Income Tax Assistance<sup>9</sup> sites are presented below. A second test undertaken with Harvard Business School and H&R Block (“HRB”) was also conducted during the 2007 tax season. Its results, generated through 31 HRB offices, have been presented in a preliminary paper and confirm findings of the VITA pilot. A summary of findings from this paper appears in Appendix I.<sup>10</sup> See Appendix II for a brief primer on Savings Bonds.

## **The VITA Savings Bond Pilot Test**

D2D offered 4,841 LMI tax clients<sup>11</sup> at four VITA<sup>12</sup> sites the opportunity to purchase Series I U.S. Savings Bonds in a pilot test. The pilot ran from January 22<sup>nd</sup> to March 31<sup>st</sup> 2007.

In the fall of 2006, D2D issued a Request for Proposal to VITA sites wishing to participate in a pilot test offering U.S. Savings Bonds to tax refund recipients. VITA sites responding to the RFP agreed to offer savings bonds to all or nearly all tax clients during at least the first 45 days of the 2007 tax season, and expected to process at least 800 tax returns. In the RFP memo, D2D

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<sup>9</sup> As per the IRS ([www.irs.gov/individuals/article/0,,id=107626,00.html](http://www.irs.gov/individuals/article/0,,id=107626,00.html)), “The VITA Program offers free tax help to low- to moderate-income (generally, \$39,000 and below) people who cannot prepare their own tax returns. Certified volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country.” Over 2MM tax returns were prepared by VITA sites in 2005.

<sup>10</sup> The full report “Tax Time Savings: Testing US Savings Bonds at H&R Block Tax Sites” is available on D2D’s web site at [www.d2dfund.org/research.php](http://www.d2dfund.org/research.php).

<sup>11</sup> This number includes 431 tax filers who participated in an Incentive Bond test in Tulsa to test the take-up rate for bonds offered at a 20% discount (dubbed Incentive Bonds). See Appendix IV for an explanation of this experiment.

<sup>12</sup> One VITA site (Foodchange, New York) dropped out of the pilot during the middle of the test for reasons unrelated to the pilot; data from this site is excluded from all reported results except surveys of purchasers and non-purchaser attitudes.

guardedly noted, “This may not be easy. It has not been tried before. Bonds may have a stodgy image and, since 2003, their redemption period has been increased to one year.”

Tax preparation sites from the following four VITA organizations participated in the pilot:

- Baltimore CASH Campaign (Northwest Baltimore / Mondawmin Mall site)
- Denver Asset Building Coalition (Five Points site)
- Community Action Project of Tulsa County (CAPTC) (Exchange Center site)
- Boston EITC Campaign (Roxbury Resource Center site)

D2D asked each organization to employ a “bond coordinator” who arranged site staff and tax preparer training, led client marketing efforts, managed operations and collected surveys. While D2D’s objective was to offer bonds during the peak 45 day period at the start of tax season, sites differed in the number of days and hours open, times when bonds were marketed to clients, and the volume of clients served. Some sites continued to offer bonds after the 45 day period.

Several parties cooperated to provide essential elements of the project:

- *Operations* – D2D and HRB worked together to create a bulk processing system to manage bond orders received from VITA sites. H&R Block Bank placed bond orders with the Bureau of Public Debt. HRB and Block Bank provided their services free of charge.
- *Tax Preparer & VITA Staff Training* – a Texas-based technology provider, Nets to Ladders (N2L), worked with D2D to create an online computer based training program to teach tax preparers and staff at VITA sites about bonds and pilot procedures. N2L provided its services to the sites and D2D free of charge.
- *Marketing* - With help from VITA site staff and bond coordinators, D2D produced bilingual brochures, posters and leaflets featuring a “Save Some of your Refund with U.S. Savings Bonds” tagline and common visual theme. See Appendix III for examples of the marketing material used at the sites.

In the pilot, “purchasers” were tax clients who ordered<sup>13</sup> one or more savings bonds. “Non-purchasers” were those who did not order bonds. This group includes tax clients who may not have been offered a bond, were unable to buy a bond either because their refunds were insufficient to meet the \$50 minimum bond threshold or they did not use direct deposit (and therefore could not “split” a portion of their refund into a savings bond). The decision to bypass direct deposit means that 40% of all tax clients in this study were unable to buy a savings bond. However, it is possible that the desire to purchase savings bonds prompted tax clients to use direct deposit. Six percent of purchasers opted to buy Quick Cash from Western Union<sup>14</sup> so that they could buy bonds. See highlight box “The un-banked and savings bonds: using Quick Cash” in the “Findings” section of this paper for more on Quick Cash and its impact on the pilot.

## Data Collection

During the TS ’07 tax season, all four VITA sites surveyed purchasers and non-purchasers to better

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<sup>13</sup> To our knowledge, 17 clients did not receive bonds they ordered. The IRS delayed the refunds of five taxpayers and did not split the refunds of an additional five taxpayers; seven taxpayers’ refunds were offset by the Treasury to pay outstanding debts, rendering the refunds insufficient to buy bonds.

<sup>14</sup> In two sites, these clients could buy a bond by also buying “Quick Cash” from Western Union. Quick Cash is a pilot product from Western Union designed for tax refund recipients who do not wish to, or are unable to, receive IRS direct deposits into a bank account.

understand their motivations for purchasing (or not purchasing) bonds, and their general propensity towards savings. D2D also obtained tax data (TaxWise Reports provided by the VITA sites) for both purchasers and non-purchasers.

In July and August 2007, the sites conducted a follow-up survey by telephone with bond purchasers. To supplement this effort, HRB contracted with a surveying firm to call bond purchasers. Together, HRB and the VITA sites contacted 29% of all bond purchasers (68 purchasers) (“Follow-up Survey”).

## Findings

The findings presented here are based on data about 4,410<sup>15</sup> clients at the four sites who were offered the opportunity to buy savings bonds. They do not include participants in an Incentive Bond Experiment, described in Appendix IV, unless specifically stated.

### Demand for U. S. Savings Bonds

#### Take-Up Rate – How do Savings Bonds Compare with Other Savings Products?

The table below presents take-up from two perspectives. The first row shows take-up when calculated against all clients who were offered bonds and had a federal refund large enough to purchase one (\$50). There were 3,849 clients in this category<sup>16</sup>. The second row lists take up when measured against the subset of this group who opted for direct deposit, but excludes those clients who used Quick Cash (see highlight box “The un-banked and savings bonds: using Quick Cash” later in this section). There were 2,404 clients in this category<sup>17</sup>. This second take up rate is important because a meaningful percentage of clients could not or did not wish to use direct deposit, a requirement for bond purchase (since bond purchases required IRS Form 8888, which facilitates multiple direct deposits). Calculating take-up rate in these two ways allows us to separate the appeal of savings bonds from tax filers’ comfort or discomfort with direct deposit.

SAVINGS BOND TAKE UP	
Clients with sufficient refund	6.0%
Clients using Direct Deposit	9.0%

Even using the lower 6.0% take up figure we believe demand for bonds is robust and exceeds that for savings products commonly opened or funded at tax time. For example, IRS data for tax year 2002 show 3.4% of tax filers with Adjusted Gross Incomes between \$1 and \$20,000 who were eligible to make an Individual Retirement Account (IRA) contribution did so.<sup>18</sup> In addition, the 6% take-up rate compares favorably with a 3.3% take up of IRAs for tax clients in another test.<sup>19</sup>

<sup>15</sup> Different sites were open for different lengths of time during the test and offered bonds to numbers of tax clients ranging from 770 (Denver) to 1,711 (Tulsa). For one week (1/29-2/3), the Tulsa site ran an “incentive bond test” described in Appendix IV. During this period, 431 clients were offered bonds (with 60 accepting). The results of this test are not included in reported take up rates and profilers of purchasers and decliners, but are included in survey data regarding purchaser and decliner attitudes.

<sup>16</sup> Of the 4,410 clients that were offered bonds, 561 did not have a sufficient refund, leaving 3,849 clients that did.

<sup>17</sup> Of the 3,849 clients that did have sufficient refund, 1,445 could not or did not opt for direct deposit.

<sup>18</sup> See IRS data table available at <http://www.irs.gov/pub/irs-soi/02in07ira.xls>.

<sup>19</sup> See Esther Duflo, Gale, William, Liebman, Jeffrey, Orszag, Peter and Saez, Emmanuel, “Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block”, no. 2005-5

### How many Savings Bonds were purchased?

During the test period, 231 tax clients purchased 377<sup>20</sup> savings bonds totaling \$42,800. An additional 60 tax clients purchased “Incentive Bonds” offered at the CAPTC site in Tulsa. Counting the Incentive Bond Experiment, 291 tax clients purchased 437 bonds worth \$54,155 (including \$2,565 worth of incentive funds).

SAVINGS BOND TEST RESULTS (DOES NOT INCLUDE INCENTIVE BONDS)	
Number of: Clients Purchasing Bonds	231
Individuals for Whom Bonds were Purchased	377
Average Amount Spent on Bonds per Client	\$ 185
Median Amount Spent on Bonds per Client	\$ 100
Average Amount Spent on Bonds per Bond Holder	\$ 114
Maximum Refund Amount Used to Buy Bonds	\$1,200

### Average Bond Size and Demand for Long Term Savings

The average (\$185) and median (\$100) bond size may seem small, as does the average portion of refunds being allocated to bonds (6%), in light of the average refund size (\$3,143) and D2D’s prior experience with pilot tests of split refunds.<sup>21</sup> However, savings bonds represent *longer term* savings,<sup>22</sup> an attribute underscored by their product design. In prior refund splitting studies, while tax clients allocated nearly 50% of their refunds to savings accounts, new savings were almost entirely depleted within nine months.<sup>23</sup> Bond purchasers, in contrast, are committing not to access funds for at least one year, and are accepting a minor financial penalty for accessing their savings any time before five years. When purchasing bonds for others (377 bonds were bought for or with others), it seems likely tax clients do not intend to access the funds for their own use again. Evidence from the follow-up survey supports this claim. In response to the question “Do you have something in mind that you would like your children or grandchildren to use their savings bonds for, when they cash them in” an overwhelmingly large number (77%) of respondents said they had education-related use in mind – a use that would preclude those buying for others from accessing the bond for their own needs. (See “Saving for others: for whom do LMI Tax Clients Buy Savings Bonds?” later in this section for more information on savings bonds bought for children and grandchildren)

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(Retirement Security Project), May 2005. Note, in this test, clients required at least a \$300 refund to open an IRA and were drawn from a higher income sample.

<sup>20</sup> Seven clients bought 7 bonds after the test period concluded, and 8 clients bought 14 bonds at the site that dropped out of the test; adding these figures and the Incentive Test, a total of 306 clients bought 495 bonds.

<sup>21</sup> In three consecutive pilot tests of split refunds (the option to divide a tax refund between a spending and saving account) D2D found that clients, on average, saved between 45% and 48% of their refunds.

<sup>22</sup> Some readers may consider “long-term savings” that which is held for years or decades rather than a minimum of one year. For LMI individuals, the authors believe committing to save for at least one year is significantly different than holding fully liquid, short-term savings, hence the label “longer term saving.”

<sup>23</sup> See Sondra Beverly, Schneider, Daniel, Tufano, Peter, 2005, February, “Splitting Tax Refunds and Building Savings: An Empirical Test” Working Paper (available at [www.d2dfund.org/news/research.php](http://www.d2dfund.org/news/research.php)).

### Follow-up Survey: Purchasers Buy Bonds for the Long term

Survey results indicate bond purchasers intend to save for the *long term*. When asked “How long do you plan to hold your savings bonds before cashing them in?” 52% of respondents said that they would hold them for 10 years or more. In response to the question “How long do you hope your children or grandchildren will hold on to the savings bonds you bought them, before cashing them in,” 68% said they hoped that their children and grandchildren would hold on to the bonds for 10 years or more.

### Who Buys Bonds?

To explore the question of “who buys bonds,” D2D mined tax return and survey data from purchasers and non-purchasers. Key differences emerged between the two groups. As the table below shows, purchasers averaged higher adjusted gross incomes and half a dependent more, but were slightly younger. More dependents may explain the larger tax refunds, as, depending on income, dependents allow tax filers to claim a larger Earned Income Credit (“EIC”) and Child Tax Credit (“CTC”).

	Purchasers	Non-Purchasers
Average: N=	231	4,179
Adjusted Gross Income	\$ 20,888	\$18,105
Number of Dependents	1.3	0.6
Refund Size	\$ 3,177	\$ 1,373
Age	38.2	40.2

The above table suggests that tax clients with more dependents and larger refunds were more likely to buy bonds.

If one considers a tax client with filing status “Head of Household” as a proxy for a single parent, the profile of a bond purchaser is that of a single, working parent with a sizeable refund. A higher proportion of purchasers filed using Filing Status of “Head of Household” than did non-purchasers<sup>24</sup>. One can imagine that the larger a tax refund, the more able a refund recipient might feel to allocate some amount to savings. Given the clear interest among bond purchasers in purchasing bonds for their children or dependents, it also makes sense that tax filers with dependents (a requirement for Head of Household filing status) would have more motivation to buy bonds. And it may be that when both factors come together – more funds available for saving and the presence of children or other family members for whom to save – that combination drives purchases.

### Who Demands? – New Savers?

Many bond purchasers reported that their investment in bonds represented their only savings, or a significant addition to modest holdings. Fifty-four percent of purchasers said they had no “money saved or invested.” Of the remaining forty-six percent, over half (52%) reported less than \$1,000 in funds currently saved or invested.

From a public policy perspective it is important to consider whether a savings product stimulates

<sup>24</sup> The weighted average percentage of bond purchasers filing as “Head of Household” was 69%, compared to 37% for non-purchasers.

new savings or simply diverts funds that would have been saved elsewhere. In addition to the data reported above regarding the number of purchasers with no current savings – and, we can speculate, therefore a low likelihood of saving part of their tax refund – purchasers were asked directly about the effect of the savings bond offer on their savings behavior. As presented in the table below, more than half reported they would have saved less if they had not bought a bond.

<b>IF YOU HAD NOT BOUGHT A BOND TODAY, WOULD YOU HAVE SAVED MORE, THE SAME OR LESS OF YOUR TAX REFUND?</b>		N= 293
Would have saved less		53%
Would have saved same amount		29%
Would have saved more		13%
Don't know / no answer		5%
<b>Total</b>		<b>100%</b>

#### **Follow-up Survey: Prior Refund Savings Intentions**

When asked “If you had not bought savings bonds, most likely, what would you have used that part of your refund for?” in the **follow-up survey**, 67% said that they would have spent (rather than saved) the money. Bills were by far the most often cited target of spending; other reasons bond buyers cited frequently were buying things for their children and grandchildren, making car loan payments, buying clothes and buying shoes for themselves.

#### **Who Demands? – The Bankable and UnBanked**

One can learn something about those who buy bonds by comparing them with those who do not. Comparing purchasers and a survey of 109 non-purchasers, the two groups differed in their approach to checking and cash transactions but were more similar regarding existing savings. Because the non-purchaser sample was drawn from all tax clients who did not buy a bond, it likely included some who did not pick direct deposit, were not due a federal refund or whose refund was less than the \$50 necessary to buy a bond.

<b>SAVINGS BOND PURCHASERS &amp; NON-PURCHASERS: COMPARISON OF BANKING HABITS</b>		
	Purchasers	Non-Purchasers
Used bank and/or credit union to cash most checks in last 6 months	75%	61%
Used check casher, Wal-Mart or other big store to cash most checks in last 6 months	6%	14%
Have savings account	65%	56%
Have any money saved or invested	45%	40%
If money saved or invested, balance \$1 to \$1,000	52%	48%

To the extent they cashed checks, bond purchasers relied on depositories to a greater degree than non-purchasers. Likewise, non-purchasers were more likely than purchasers to use other non bank institutions to cash checks. In analyzing savings data, however, differences begin to disappear.

For both groups, less than 50% report monies saved or invested and, for each group, around 50% of those reporting savings or investments have balances below \$1,000. This suggests that, from a savings perspective, purchasers and non-purchasers are more alike than different.

#### **The un-banked and savings bonds: using Quick Cash**

The Baltimore and Tulsa sites offered “Quick Cash,” a pilot product from Western Union designed for tax refund recipients who do not wish to, or are unable to, receive IRS direct deposits into a bank account. Quick Cash buyers instruct the IRS to direct deposit their refunds to Western Union, where they can pick up their funds in cash at locations around the country. Some Baltimore and Tulsa clients who wished to buy bonds but did not want to use direct deposit for the balance of their refunds, used Quick Cash. This allowed un-banked clients to buy savings bonds, provided they paid \$10 for the Quick Cash service. Fourteen clients or 6% of purchasers took advantage of this arrangement. While the number of clients that purchased bonds using this mechanism is small, it suggests that bonds – which, on their own, do not require buyers to have a bank account – appeal to a segment of un-banked or under-banked refund recipients.

#### **Supply for U. S. Savings Bonds**

In addition to the attractive product features of bonds mentioned earlier in this paper (low minimum & high return, no fees, simple purchase and universal access), two unique attributes stand out from the analysis of our results: their “gifting” quality and strong name recognition.

#### **Saving as a Gift : for whom do LMI tax clients buy Savings Bonds?**

The pilot design presented taxpayers with the option to buy savings bonds for “co-owners” by placing their name and that of a co-owner on purchased bonds. The results were striking: 73% of bond purchasers bought bonds for others and 84% of all bonds bought were purchased with a co-owner, accounting for 82% of the total dollar amount spent on bonds (see table below). Purchases are categorized below into three segments: purchasers who bought

1. only for themselves,
2. for themselves and for one or more co-owners,
3. only for co-owners.

	1. Self-only	2. Self and Others	3. Others Only	Total
Purchasers	62	20	149	231
Percent of Purchasers	27%	9%	64%	
<b>Total Purchasers (Self and Others and Others Only)</b>	<b>73%</b>			
Bonds	62	56	259	377
Percent of Bonds	16%	15%	69%	
<b>Total Bonds (Self and Others and Others Only)</b>	<b>84%</b>			
Amount	\$7,800	\$6,625	\$28,375	\$42,800
Percent of Amount	18%	15%	66%	
<b>Total Amount (Self and Others and Others Only)</b>	<b>82%</b>			

Survey results corroborated the gifting characteristic of savings bonds as well as more extensively portrayed the gift recipients. As the table below shows, 72% of bond purchasers stated they

purchased bonds for their children or other family members.

<i>I bought bonds for...(circle all that apply)</i>		<i>n= 340<sup>25</sup></i>
My kids		59%
Myself		28%
My Grandkids		9%
Other Relatives		4%
<b>Total</b>		100%

#### **Follow-up Survey: for whom did Bond Purchasers Buy Bonds?**

When asked the question “For whom did you buy a savings bond?” in the **follow-up survey**, “children or stepchildren” and “grandchildren or step-grandchildren” comprised 74% of responses. Further, when asked “If you purchase savings bonds next tax season, for which people are you likely to buy them?”, “children or stepchildren” and “grandchildren or step-grandchildren” comprised 71% of responses.

### **Brand Recognition**

One possible reason for the relative ease with which tax preparers and bond coordinators were able to promote savings bonds was the high level of tax client recognition of U.S. Savings Bond name. More than seventy-three percent of bond purchasers and a sample of non-purchasers reported that they had heard of U.S. Savings Bonds before coming to the tax site. This high brand recognition occurred despite the fact that savings bonds have not been promoted publicly for the last four years.<sup>26</sup>

### **Interpreting the Findings**

Several interpretations can be drawn from the findings of this first-year test:

- 1) *Demand for savings bonds in the LMI market is strong, driven by high brand awareness and product features that expand accessibility.* Six percent of eligible tax filers who were offered the chance to buy a bond did so. More than 75% of LMI bond purchasers had heard of US Savings Bonds even though marketing of bonds ceased in 2003. The low minimum (\$50) required to buy bonds, and the fact that they can be opened without screening procedures like ChexSystems increases product accessibility to LMI tax clients. In addition, other attributes, such as a bond’s unique “gifting” quality have strong appeal.
- 2) *Bond purchases by LMI tax filers could generate substantive annual savings.* If 6% of the roughly 54 million tax refund recipients with adjusted gross incomes under \$30,000 chose to buy bonds,<sup>27</sup> an additional 3.2 million bond purchasers would be created annually. Assuming the pilot’s average bond expenditure per filer of \$185 an additional

<sup>25</sup> Note that the number of responses (n=340) exceeds the number of respondents (n=300) because some buyers purchased bonds for more than one recipient (e.g., for themselves *and* for their children).

<sup>26</sup> See Tufano, “Reinventing Savings Bonds”, page 2.

<sup>27</sup> Per IRS data from the 2004 tax season (available online at: <http://www.irs.gov/pub/irs-soi/04in33ar.xls>).

\$600,000,000 of savings could be generated each year. Survey and tax return data suggest the majority of this would be *new* savings. For instance, 53% of bond purchasers stated they would have saved less of their refund if the bond option had not been available.

- 3) *The large number of bond purchases for children and grandchildren suggests a strong interest among bond buyers to save for their children's futures.* A high percentage of bond purchasers (typically single, working parents) bought bonds for their children and grandchildren. In surveys, a majority of these purchasers expressed the hope that their children or grandchildren will hold the bonds until they reach key life milestones, such as enrollment in or graduation from college<sup>28</sup>. As a constant and important presence in most parents' lives, children may provide an on-going motivation to consider recurring bond purchases, especially at tax time. There is precedent for this parental behavior, embodied in asset-building programs for children such as the Child Trust Fund ("CTF") in the United Kingdom, and SEED (Saving for Education, Entrepreneurship and Downpayment) Children's Savings Account demonstration in the US.<sup>29</sup>

## Topics for Further Research

While the pilot test answered several basic questions surrounding savings bonds, it also revealed that much remains to be learned about the full potential of bonds as a tax time saving instrument for low-income individuals. Questions worthy of further study include:

- *Why did such a high percentage of tax clients choose to buy savings bonds with co-owners? Can the co-ownership option be leveraged to further encourage saving for LMI Households?*

Eighty-four percent of bonds in the pilot were bought with co-owners, presumably as gifts to the purchasers' children, grandchildren and/or step children. Yet, it is not clear why gifting was so popular. To capitalize on the appeal of giving bonds as gifts, key questions must be explored. Why might parents be willing to save for their children when they are unable or unwilling to do so for themselves? Is this behavior a form of "mental accounting" whereby a parent can "lock up" money in a child's name as a strategy to decrease the likelihood she will spend it? Are LMI tax filers as likely to buy bonds or save if they cannot do so as gifts for their offspring? Are there implications for how bonds might be marketed to LMI individuals?

- *What is the long-term impact of U.S. Savings Bonds on the LMI tax filers who buy them?*

Although the immediate impact of a bond purchase on its holders' personal savings is easily calculated, the longer term effects are unclear. Knowing how long bonds are held before redemption, the events that trigger redemption and for what redeemed funds are used would shed light on the long term impact of bond purchases, if any. Are year one bond buyers more

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<sup>28</sup> In response to the question "What is your (and your spouse's) most important reason for saving?" 26% of tax payers surveyed said "Children/family" and 26% said "Education".

<sup>29</sup> The CTF is a long-term savings and investment account for children launched by the UK government in 2005. In "The Case for Child Accounts" (page 19), the Aspen Institute's Initiative on Financial Security, notes that: "Awareness of the Child Trust Fund is very high and parents are interested in making contributions: 77% expect to make additional contributions and 38% expect to make regular contributions (at a median value of £24 per month). Since the introduction of the CTF, 32% of accounts are receiving regular contributions, mainly made by parents." For more on CTF visit [www.Childtrustfund.gov.uk](http://www.Childtrustfund.gov.uk). SEED is a policy, practice, and research initiative designed to test the efficacy of and inform policy for a national system of asset-building accounts for children and youth. SEED operations began in Fall 2003, and the initiative is proposed to end in 2015. For more on SEED visit [www.cfed.org/SEED](http://www.cfed.org/SEED).

inclined to buy bonds in the future? How will bond holders' overall savings and debt levels change over time when compared to those who do not buy bonds? To explore these questions, researchers will need to track and study bond purchasers and holders (including buyer's children) in a longitudinal study.

- *Can savings bonds serve as a starter or “gateway” product?*

Findings from the pilot suggest bonds hold special appeal to first time savers and those with modest existing savings. This observation raises the possibility that bonds offered to LMI tax clients could play a special role as a “starter” savings product – a tool that appeals particularly to those who wish to begin saving, and/or to those who have typically avoided mainstream financial products and services. Consumers who are suspicious of for-profit institutions may be willing to buy a government issued bond when they would not consider a traditional savings, checking or Individual Retirement Account (“IRA”). Repeat bond buyers may gradually accumulate enough savings to meet the minimum balance requirements of other long-term saving options (e.g., investment accounts, 529 plans or IRAs). Further research could help determine if LMI bond purchasers wish to and can successfully transition to other savings products, or if bond purchasers who have previously used alternative financial service providers are more likely to consider mainstream, and often lower-cost, financial transaction products.

- *Do public assistance program asset limits discourage savings bond purchases?*

Many LMI individuals, especially parents, use public assistance programs to help provide for themselves or their children – or believe they may need to do so at some point in the future.

Eligibility for these programs often requires that applicants have total financial assets under a defined limit. While these eligibility tests are intended to target public support only to those who are genuinely in need, they also create a disincentive to save. For policies to encourage saving among LMI individuals to be effective, research is needed about the extent to which these asset limits discourage saving. Anecdotal evidence suggests asset limits cause at least some LMI individuals to reject saving, and breed an atmosphere of uncertainty around products or programs designed to encourage saving.

- *How might savings bonds be offered at scale over the long-term?*

To the extent bonds hold promise as a tax-time saving instrument, a key consideration is how VITA sites and other tax preparers can make them available to LMI clients. Three areas must be explored to answer this question:

- *Demand* – how can an appetite for savings bonds be fostered widely? The pilot demonstrated that clients will buy bonds when approached one-on-one by a trained VITA staff person; but can this demand be replicated through lower cost means such as a broad-based marketing campaign?
- *Supply* – how can bonds be made available easily and widely? D2D and its partners set up an elaborate processing mechanism in order to offer bonds to tax clients. To broaden bond availability, a simple, low-cost way to offer bonds at tax time is needed. Systems that simulate, to the degree possible, a ready supply of bonds at tax time can help predict policy changes that could create such a supply – a bond purchase option for federal tax refunds, for instance – would impact bonds sales.

- *Distribution* – how can bonds be distributed efficiently? How important is active “selling”

### **Tax Preparer Survey**

#### *Philosophical support for savings at tax time.*

A survey of 41 tax preparers conducted during the pilot suggests that philosophically, at least, volunteer tax preparers support saving at tax time: 72% of those surveyed “agreed or strongly agreed” that the tax preparation process is a good opportunity to talk with clients about their financial future, 100% thought that it was a good idea to encourage tax refund recipients to save a portion of their refund and 94% thought it was appropriate to discuss savings with clients.

#### *Does a saving offer depend on the inclination or judgment of the tax preparer?*

22% of tax preparers surveyed said they did not offer bonds because they were not convinced bonds are a good option for most clients, they did not understand them well enough to present them to clients, thought it was not their place to offer savings options to clients or they grew tired of clients turning down the offer. 17% of tax preparers surveyed said they did not offer bonds because they had trouble remembering to do so.

by specialists (e.g., “bond coordinators”) versus relying on tax preparers to offer bonds? Questions to study include how to effectively motivate and train tax preparers to promote saving generally, and bonds specifically, at tax time, and how to ensure bond ordering is easy for both tax preparers and clients.

## **Recommendations**

Several steps could be taken to help realize the potential of US Savings Bonds as a long-term savings tool for low and moderate income families, including:

- *Improve access to bonds at tax time* – by integrating a bond buying option into the tax filing process, bonds would be offered to all federal tax refund recipients at least once a year.
  - Offer bonds as a tax refund option – in the 1960s Americans could use their federal tax refunds to buy savings bonds by checking a box on their Form 1040A, as shown in Appendix V. Re-introducing this option and combining it with the new split refunds capability would allow refund recipients to use a part of the funds due them to buy bonds. As noted elsewhere,<sup>30</sup> conceptually it is straightforward for the Department of the Treasury, which oversees both the Internal Revenue Service and the Bureau of Public Debt, to facilitate this process internally.
  - Ensure co-ownership at tax time – if the option to buy bonds with a tax refund is re-introduced, allowance should be made for refund recipients to buy bonds with co-owner(s). The experience of this tax season test demonstrates that LMI tax filers strongly favor the ability to save for loved ones. A tax time bond purchase option must preserve this unique bond feature in order to attract the most savers, and savings, possible.
  - Revive retail marketing of savings bonds – bonds currently enjoy high consumer

<sup>30</sup> See Peter Tufano, April 2007, “Just Keep My Money! Part 1 The Potential for a Refund Driven Savings Bond Program (available online at [www.d2dfund.org/news/research.php](http://www.d2dfund.org/news/research.php)).

recognition, nevertheless such brand awareness may pass with this generation, given that the bond marketing budget for the Bureau of Public Debt was eliminated in 2003. Even a modest revival of advertising and promotion could help more prospective buyers learn about an inherently attractive savings product. A marketing campaign would also be a logical complement to re-introducing an option to buy bonds with one's tax refund.

- *Tailor bonds for low-income savers* – as attractive as standard Series I Bonds were to low-income tax filers in this study, a handful of minor modifications could make them even more appealing to small, often first-time savers.
  - Allow holders of Individual Taxpayer Identification Numbers (ITINs) to buy bonds – the requirement that bond holders have a Social Security Number could be updated to include ITINs, as the tax consequences of bond redemption can be reported via either number.
  - Clarify and expand the emergency redemption policy – for many low-income families, long-term saving is a risky undertaking, as illiquid funds will not be available when a crisis hits. At present, the Bureau of Public Debt's policy for emergency bond redemptions is unclear and unpublicized. The BPD should clarify and publish the circumstances under which emergency redemption before one year is permissible, as well as consider expanding the policy to cover easily documented events such as job loss, medical disability and death of an immediate family member<sup>31</sup>. A clarified policy should be publicized so that prospective bond buyers can read and consider it before making a purchase decision.
  - Shorten the term on savings bonds to six months – Five years ago savings bonds were offered with six month terms. In January 2003, the BPD extended the minimum offering term to one year for bonds bought on or after February 1, 2003. While long term savings is important, a shorter term redemption option may reduce the risk of buying a bond and therefore increase bond sales to LMI buyers. Furthermore, the high percentage of gifting as well as purchaser feedback suggests that most are interested in longer term savings.
  - Preserve the option to buy paper bonds – in the pilot VITA site staff reported that many clients liked receiving a paper bond – a physical manifestation of their savings – particularly when they wished to give a bond as a gift. The online alternative purchase method (via the Treasury Direct web site), despite its efficiency advantage, adds a level of complexity and unfamiliarity to the purchase process for many prospective low-income bond holders. For bond redemptions, it requires the bond holder to have a bank account. In addition, many LMI tax filers still face a “digital divide,” a fundamental obstacle to opening and managing a Treasury Direct account for savings bonds.
- *Consider purchase incentives in savings bond policy* – findings from the pilot suggest incentives can spur sales of savings bonds at tax time, just as tax deductions and credits spur IRA sales and contributions. One can imagine a special series of U.S. Savings Bonds funded exclusively through tax refunds, offered only to filers with incomes below a certain ceiling (perhaps those eligible for the EITC), made available via Form 8888 and issued at a discount. This product might serve as a bridge for tax filers who do not yet have a tax burden and therefore could not benefit from the variety of asset building financial products given preferential tax treatment. These bonds could offer a high rate of return that remained effectively tax free as long as any funds redeemed were rolled into an eligible asset building account, such as a 529 college savings account or Roth IRA. (Already, interest can be tax free on savings bonds that are used for education purposes). Such a program would be

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<sup>31</sup> 34% of purchasers surveyed during the tax season said that “U.S. Savings Bonds would be better if you could cash them in any time for emergencies (job loss, disability)”

administratively simple, benefiting from the tax filing process as a means to determine eligibility for the subsidy. The machinery is in place (or can be adopted from IRAs, for example), but certain issues would need to be addressed, such as the need to ensure that funds invested in bonds would ultimately be used to purchase or save for a predetermined asset.

## **The Future: Legislation and Further Innovation**

The 2007 savings bond pilot test produced some exciting results. In 2008, D2D expanded its efforts to offer savings bonds at tax time in order to explore research questions raised in this paper and to help more LMI tax filers save. Ultimately, however, projects D2D and its partners sponsor cannot realize the potential of savings bonds. Fully capitalizing on the promise of savings bonds will require changes at the state and Federal level. Recent developments demonstrate growing interest in savings bonds at the policy level:

- Federal legislation – in August, 2007, Senators Hillary Rodham Clinton (D-NY) and Gordon H. Smith (R-OR) introduced the New Savers' Act. The bill includes a series of innovative proposals to help increase the personal savings rate, which has been negative for the past two years and is at its lowest level since the Great Depression. The Act calls specifically for encouraging saving at tax time, making savings bond purchases possible through the tax return filing process, and increased marketing and promotion of U.S. Savings Bonds.<sup>32</sup>
- State legislation – a bill introduced by Assembly member Eng of the California Legislature, the Refund to Savings Act (AB 1693), proposes amending the state income tax form to allow filers to purchase U.S. Savings Bonds with a portion of their California state tax refund.<sup>33</sup>
- Local government – on a pilot basis, beginning in 2008 the City of San Francisco is offering recipients of its Working Families Credit (about twelve thousand low-income families in 2007) the option to take their benefit in the form of a savings bond rather than a paper check or direct deposit.

The fact that legislation advancing savings bonds as a universal, accessible savings option has so quickly emerged at both the state and federal level suggests the benefits of bonds are easily understood and D2D's timing in advancing a bond policy agenda is fortuitous. Advocates of long-term economic stability and independence for working families have long sought the key to unlock the savings potential of tax season. While much work remains to be done, bonds appear to hold tremendous promise as a tool to advance the asset building concept and move millions of hard working families – and the nation as a whole – closer to lasting economic security.

## **Acknowledgements**

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<sup>32</sup> See [http://www.newamerica.net/publications/resources/2007/new\\_savers\\_act](http://www.newamerica.net/publications/resources/2007/new_savers_act) for a summary of the Act, or <http://www.govtrack.us/congress/billtext.xpd?bill=s110-1967> for the text of the bill.

<sup>33</sup> For more on the Refund to Savings Act, see <http://www.newamerica.net/node/4934>

program, and then hosted the training tutorial for VITA site staff to use. Gratitude is also due to the VITA sites that participated in the pilot and gave generously of their time to make it a success, before, during and after the 2007 tax season. 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. Finally, D2D would like to thank Emily McClintock, a former research assistant at Harvard Business School, for her help with analysis of tax and survey data.

### **About D2D Fund, Inc.**

D2D Fund, Inc. ([www.d2dfund.org](http://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 Preeti Mehta on the basis of an earlier version by Timothy Flacke and Jeff Zinsmeyer of D2D. Questions, comments and suggestions are welcome ([pmehta@d2dfund.org](mailto:pmehta@d2dfund.org)).

## **Appendix I: HRB Savings Bond Pilot Summary Results**

During the 2007 tax season, D2D founder and Harvard Business School professor Peter Tufano collaborated with H&R Block to study a U.S. Savings Bonds (Series I) offering at 27 H&R Block tax preparation offices and 4 control offices. 3,729 clients with federal refunds greater than \$500 received a scripted offer to purchase US Savings Bonds. 220 (or 5.9%) of these clients chose to purchase bonds spending an average of \$228 each and generating tax time savings of \$50,100.<sup>34</sup>

Among the key preliminary learnings of this pilot study:

- Commercial tax preparation clients exhibited significant demand for U.S. Savings Bonds at tax time. In particular, low-to-moderate income (LMI) households and clients with little or no savings demonstrated an interest in tax time savings with bonds.
  - Compared to H&R Block clients who were not offered bonds, purchasers had lower adjusted gross income (AGI), higher tax refund amounts, a greater number of dependents, and were more likely to file as head of household.
  - Approximately 40% of bond buyers reported that they had no savings or investments when surveyed during the study. Of those who reported savings, approximately 22% reported total savings and investments of \$1,000 or less.
- Unlike many other savings vehicles, bonds may be bought on behalf of others. This feature appealed to clients in this study, with almost 70% of purchasers buying savings bonds for others. In focus groups and surveys, H&R Block Tax Professionals (“Tax Pros”) indicated that clients seemed to respond to bond discussions focused on saving for children and grandchildren, and, more specifically, saving for children’s education.
- In all H&R Block offices, two savings products were available to clients: (1) a 5% APR savings account, “Easy Savings,” and (2) an IRA product, “Easy IRA.” Tax clients in the research study bought savings bond at a higher rate than they purchased these other products; in addition, bond buyers bought Easy Savings and Easy IRA accounts at a higher rate than tax clients who did not buy bonds.
- Preliminary analyses indicate that offices which offered bonds (“treatment offices”) reported higher total tax time savings by clients than offices not offering bonds (“control offices”). Through data gathered from surveys in both treatment and control offices, researchers are positing a “bond offer effect” which resulted in a higher rate of tax time saving among clients in offices selling bonds.

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<sup>34</sup> “Purchasers” or “buyers” are clients who placed an order to have bonds purchased on their behalf by H&R Block.

## Appendix II: US Savings Bonds - a brief primer

U.S. Savings Bonds are a low-risk savings instrument backed by the full faith and credit of the U.S. government. They were first issued in 1776 to finance the Revolutionary War. Since then, often during war time, U.S. Savings Bonds have been sold to raise public debt. The Treasury Department issued Liberty Bonds to raise money during World War I and again to finance World War II, appealing to Americans' sense of patriotism. During both, World Wars I and II, bonds were marketed extensively by the Federal Government (as "War Bonds" during World War II) and priced so they were affordable to "small savers". The promotion of bonds continued through peacetime. U.S. Savings Bonds are an attractive savings option for American families today, but the government stopped actively promoting them in 2003.

D2D chose to offer Series I Bonds ("I Bonds") for the pilot test rather than more common Series EE Bonds because I Bonds are simpler to explain to potential purchasers and because they paid a higher rate of interest during the 2007 tax season. I Bonds are purchased at face value and accrue interest monthly much like savings accounts and certificates of deposit. They are compounded semi-annually. In early 2007 they yielded 4.52% – a rate adjusted every six months by the Treasury.<sup>35</sup> I Bonds pay interest for up to 30 years, generally cannot be redeemed prior to one year<sup>36</sup> and if redeemed prior to 5 years, are subject to a redemption penalty equal to the amount of the preceding three months' interest. Paper I Bonds can be purchased for \$50 or in denominations of \$75, \$100, \$200, \$500, \$1,000 and \$5,000, and most banks will redeem them, making them highly portable. In the pilot, tax clients were offered the opportunity to purchase I Bonds in their own names, or in their own names and that of one or more "co-owners." The latter option was intended to allow tax clients to buy bonds for others, presumably as gifts. Co-owners had full rights to redeem the bond without the purchaser's permission or participation. The co-ownership option proved to be important, as an overwhelming majority of bond buyers took advantage of this feature.

Although better known than I bonds, D2D chose not to offer Series EE bonds. Series EE bonds earn a fixed rate and are purchased at 50% of their face value (for example, a \$100 EE bond costs \$50) with a guaranty to reach face value in 20 years.<sup>37</sup> Series EE Bonds held less than 20 years are redeemed at the value of principal and accrued interest, which will generally be less than face value<sup>38</sup>. D2D chose I Bonds because, being more like savings accounts in structure (i.e., fixed principle amount), they seemed easier to explain and compare with competing savings products.

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<sup>35</sup> Interest payments are composed of a fixed portion which remains the same throughout the life of the bond (1.4% for bonds issued in early 2007) and variable portion based on inflation during the preceding six months as measured by the Consumer Price Index.

<sup>36</sup> Treasury rules allow for bond redemptions prior to one year in the event of emergencies, as determined by the Secretary of the Treasury; in practice, this provision seems only to apply to major, wide-spread disasters (for example, hurricane Katrina) and not emergencies individuals experience (e.g., job loss, disability, etc.).

<sup>37</sup> An annual interest rate of 3.47% will double the value of a bond in 20 years.

<sup>38</sup> For more on both types of Savings Bonds, see [www.Treasurydirect.gov](http://www.Treasurydirect.gov).

### Appendix III: Marketing material examples

## Buy a Savings Bond with some of your refund

**Save Some**

- Easy & Free • Highest Rate
- Low Minimum • Safe & Secure

*"I used part of my refund to buy a savings bond for each of my children"*

**Spend Some**

You decide what to save and what to spend!  
*Ask your tax preparer!*

## Purchase Savings Bonds AT the Tax Site

U.S. Savings Bonds 4.5% Interest Rate  
Can Start with as little as \$50.00  
No Fees



**Save Some** You decide what to save and what to spend! **Spend Some**

Use some of your tax refund to purchase U.S. Savings Bonds – its free, fast, easy and sensible. *Ask your tax preparer!*

## **Appendix IV: Savings Bonds as an Asset Building Tool – The Tulsa Incentive Savings Bond Experiment**

U.S. Savings Bonds offered at tax time appear to be an important tool for long-term saving, especially for small savers. With their apparent popularity with LMI tax clients, one cannot help wonder if they might have more potential. In particular, could bonds form the core of a low cost, scalable asset building *program* for low and moderate-income families?

Sherraden and Beverly have identified six institutional variables which form the basis of an asset building program: access, information, incentives, facilitation, expectations and limits.<sup>39</sup> Savings bonds offered by tax preparers provide a useful starting point for addressing several of these variables: access, information and perhaps facilitation. In addition, arguably “expectations” can be fostered by marketing material and tax preparer prompting. However, on two points – incentives and limits – savings bonds as currently designed, even when offered at tax time, fall short of being a full asset building program.

On the question of incentives, D2D and CAPTC tested how tax clients would respond to an offer of a subsidized savings bond rate of return. How would take-up rates be influenced if savings bonds were offered at a discount? How much more funds be invested? For one week, D2D and CAPTC offered U.S. Series I Bonds to tax clients at a 20% discount (with a \$60 subsidy limit per client). Thus, a tax client could use \$80 of their refund to purchase a \$100 savings bond – an effective year one return of 30.75%.

The bonds were marketed as “20% off” and the response was strong as shown below. To compare, in 2005 sixty H&R Block St. Louis metropolitan offices offered the company’s Express IRA product with a 20% incentive match.<sup>40</sup> Seen below, take up rates for bonds were roughly 50% higher than for IRAs, and takers for bonds had less than half the average Adjusted Gross Income. The two studies differ in many ways, but the contrast in take up rate and taker income level suggests that savings bonds resonate strongly with the LMI tax client segment.

<b>20% Tax Time Savings Incentive - Comparison of Savings Bonds &amp; IRAs</b>		
	Bonds w/ Incentive	IRAs w/ match
Take Up – Clients with Sufficient Refund	15.2%	9.6%
Take Up – Clients using Direct Deposit	18.1%	-
Adjusted Gross Income	\$ 20,704	\$ 44,789
Minimum Required Investment	\$ 50	\$ 300

<sup>39</sup> Michael Sherraden, Schreiner, Beverly, Sondra, “Income, Institutions, and Saving Performance in Individual Development Accounts”, *Economic Development Quarterly*, Vol. 17 No.1, February 2003.

<sup>40</sup> Esther Duflo, Gale, William, Liebman, Jeffrey, Orszag, Peter, Saez, Emmanuel, “Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block”, no 2005- 5 (Retirement Security Project), May 2005.

## Appendix V: 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
<div style="display: flex; justify-content: space-between;"> <div style="width: 40%;"> <p><b>1. Name</b> (If a joint return of husband and wife, use first names and middle initials of both)</p> <p>Home address (Number and street or rural route)</p> <p>City, town, or post office      Zone      State</p> </div> <div style="width: 60%;"> <p><b>2. Your Social Security Number</b>      <b>3. Wife's Social Security Number</b></p> <p><b>4. Check one:</b>  <input type="checkbox"/> Single;   <input type="checkbox"/> Married filing joint return (even if only one had income);  <input type="checkbox"/> Married filing separate return—if wife or husband also filing separately, give name _____</p> </div> </div>				
<p><b>5. WAGES SHOWN ON FORMS W-2 AND OTHER INCOME</b></p> <p>If item 5 is \$10,000 or more, or if item 6 is over \$200, use Form 1040.</p>		<p><b>FEDERAL INCOME TAX WITHHELD</b></p> <p><b>7. Total Federal income tax withheld</b></p>		
<p><b>6. INTEREST, DIVIDENDS, AND OTHER WAGES</b></p> <p>Your      Wife's</p>		<p><b>8. If you had an expense allowance or charged expenses to your employer, see instruction 4 and check here <input type="checkbox"/> if appropriate.</b></p> <p><b>Enclose Form 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, see page 10 of the 1962 Instructions.</b></p> <p><input checked="" type="checkbox"/> Check here <input type="checkbox"/> if you want refund applied to U.S. Savings Bonds.</p>		
<p><b>9. TOTAL INCOME</b></p> <p>10. Enter tax from Tax Table or from tax computation schedule</p> <p>11. If item 10 is larger than item 7, enter balance due</p> <p>12. If item 7 is larger than item 10, enter refund</p>		<p>EMPLOYEE'S NAME. Where employed. Write (W) before name of each of wife's employers</p>		

U.S. TREASURY DEPARTMENT • INTERNAL REVENUE SERVICE

☒ Check here ☐ if you want refund applied to U.S. Savings Bonds.  
**LIST YOUR EXEMPTIONS AND SIGN ON OTHER SIDE.**