



**\* Preliminary \***

**Tax Time Savings:  
Testing US Savings Bonds at H&R Block Tax Sites**  
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**Executive Summary**

During the 2007 tax season, Professor Peter Tufano, founder of D2D Fund, collaborated with H&R Block to study offering U.S. Savings Bonds (Series I) at 27 H&R Block tax preparation 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 which resulted in tax time savings of \$50,100.<sup>1</sup>

Among the key preliminary learnings of this pilot study:

- This pilot showed that significant demand was exhibited by commercial tax preparation clients for US Savings Bonds at tax time. 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, it is possible to buy bonds on behalf of others. In our experience, this feature was appealing to clients in this study. Almost 70% of purchasers bought 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 their 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.” Among clients in our research study, the savings bond take-up rate was higher than for these products. Additionally, bond purchasers exhibited a higher take-up rate of these savings products as well.
- Preliminary analyses indicate that the offices that sold bonds (i.e., treatment offices) reported higher total tax time savings among clients than offices not selling bonds (i.e., control offices). Because both treatment and control offices surveyed research participants, we posit a “bond offer effect” in Block treatment offices that resulted in a higher rate of tax time savings among clients in offices selling bonds this tax season.

This memo discusses the details of the 2007 tax season H&R Block US Savings Bond pilot which ran for 14 weeks in two cities: Boston, MA and Schaumburg, IL. The paper reviews preliminary findings related to take-up rate, bond purchasing decisions, and buyer data collected through the

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<sup>1</sup> “Purchasers” / “Buyers” are clients who placed an order to have bonds purchased on their behalf by H&R Block.

tax form. This report concludes with some initial interpretations as well as early policy recommendations.<sup>2</sup>

## Introduction

Peter Tufano and others have argued for the need for a savings tool to assist tax clients.<sup>3</sup> In “Reinventing Savings Bonds,”<sup>4</sup> Tufano and Schneider advance several reasons why savings bonds are particularly well suited for the LMI saver:

- 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, 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 Patriot Act or Know Your Customer requirements, which means bond applications can be accepted by tax preparers, at community based organizations, or at other venues.
- Universal access – bond buyers are not subject to the industry standard credit and debit screening for new deposit account holders, ChexSystems, and therefore are open to any citizen.<sup>5</sup>

Savings bonds also support long term savings. Unlike bank accounts, bonds offer an “out-of-sight and out-of-mind” quality, as holders receive no monthly statements and are not tempted to withdraw funds at ATMs.

H&R Block and Professor Tufano conducted a three-week pre-experiment in 14 Block offices during tax season 2006 for the purposes of testing the operational feasibility of offering bonds to Block clients. In the summer of 2006, Professor Peter Tufano and D2D began working with H&R Block to explore offering US Savings Bonds during tax season 2007 at H&R Block tax preparation offices. Lessons learned from that pre-experiment helped shape the design and implementation of the 2007 bond project.

## The H&R Block US Savings Bond Test

During the 14 weeks of tax season 2007, 3,729 H&R Block clients in Boston, MA and Schaumburg, IL with federal refunds greater than \$500 were given a scripted offer to purchase Series-I US Savings Bonds. In-office and back-office processes were developed by H&R Block to support this offer. A research survey was included in the design in order to gather data and ensure a consistent conversation between Tax Pros and clients about savings and bonds. Participating

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<sup>2</sup> This memo is a companion to D2D’s earlier memo, “A Gateway to Long Term Savings: Testing US Savings Bonds to Help Low-Income Tax Filers Start Saving.” While the aforementioned paper reviewed preliminary highlights from a savings bond test at Volunteer Income Tax Assistance (VITA) sites, the focus of this paper is the largest commercial tax preparer in the US, H&R Block.

<sup>3</sup> See Tufano, et.al. “Leveraging Tax Refunds to Encourage Savings.” (available online at <http://www.people.hbs.edu/ptufano>)

<sup>4</sup> Peter Tufano with Daniel Schneider, “Reinventing Savings Bonds,” *Tax Notes*, October 31, 2005, 1-20. (available online at <http://www.people.hbs.edu/ptufano/>.)

<sup>5</sup> In one test, 26% of LMI tax clients who applied for a savings account were denied by a bank’s ChexSystems policy. 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)).

districts and offices were chosen based upon tax client demographics, geographic location, and the supportiveness of District management.

*The Product: Series-I US Savings Bonds*

In all H&R Block offices nationwide, clients had the opportunity to invest in two savings products, each with its own procedures and in-office marketing material. The H&R Block “Easy Savings” account is an H&R Block Bank account requiring a \$300 minimum initial contribution while offering a 5% APR during the 2007 tax season. For retirement savings, H&R Block offers an Easy IRA product which also requires a \$300 minimum contribution, and, depending on a client’s situation, may reduce the client’s tax burden through a tax deduction for a contribution, qualification for the Saver’s Credit, or both. The offices in this research study were relatively representative offices in terms of product offering and processes for these options.

For this pilot test, tax clients were given the opportunity to invest in an additional savings product, Series-I US Savings Bonds. Series-I US Savings Bonds are sold at face value, pay interest for 30 years, and have a rate that is adjusted every six months by the Treasury on the basis of inflation over the prior six months, as measured by the Consumer Price Index. At the time of this study, the Series-I bond had a rate of 4.52%. Additionally, these bonds are exempt from state and local taxes, have unique tax treatment when proceeds are spent on education, and can be bought for others. While there are fixed rate Series-EE US Savings Bonds available, only one bond option was offered in this study in order to simplify the operations.

*Pilot Locations: 31 H&R Block Offices*

Thirty-one (31) tax preparation offices from two districts were selected to be part of the TS’07 US Savings Bond project—27 treatment (“survey and offer”) offices and 4 control (“survey-only”) offices. Participating districts and offices were chosen based upon tax client demographics, geographic location, and the supportiveness of District management. The two districts were located in Boston, MA (20 offices) and Schaumburg, IL (11 offices).<sup>6</sup> Each District had a field management team, and, combined, encompassed over 400 H&R Block tax professionals—approximately 30% of these Tax Pros were new to H&R Block in TS’07.

In determining treatment and control offices, we analyzed Boston District tax season 2006 client data. The samples were compared across average percentage (%) of EIC returns, the weighted average AGI, the weighted average EIC refund, the Easy Savings take-up rate, and the Easy IRA take-up rate. The treatment group was assigned a slightly lower weighted average AGI to account for the Schaumburg District offices assumed higher AGI demographics for the overall treatment sample. The table (*Table I*) below summarizes the key data:

<i>Table I.</i> Sample Analysis (TS’06 Data)	Weighted Avg. AGI	Weighted Avg. Refund for EIC Recipients	Avg. % of EIC Returns	Easy Savings Take-Up Rate	Easy IRA Take-Up Rate
Control Offices	\$ 38,534	\$ 2,989	25%	0.009 %	0.25 %
Treatment Offices	\$ 35,732	\$ 3,300	27%	0.010 %	0.23 %

Schaumburg, IL is a medium-volume District in a relatively affluent suburb of Chicago. The

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<sup>6</sup> All eleven (11) of the Schaumburg offices participated in the TS’06 pre-experiment.

median household income for the area surrounding the offices was approximately \$64,000. Boston, MA is a high-volume District incorporating offices in the city as well as the surrounding Northern suburbs. The median household income for the area surrounding the offices was approximately \$42,000; however, given the size of the District, average AGI varied by office location.

### *Client-Facing Operational Processes*

Based on the design of operations this year<sup>7</sup>, only H&R Block clients with anticipated federal tax refunds of \$500 or higher could participate in the research study and receive an offer to purchase US Savings Bonds. Following the completion of the federal tax return, Block's Tax Preparation Software (TPS) would automatically display a set of screens for all clients with an anticipated tax refund of \$500 or more. At the outset, clients were asked if they would respond to survey questions in order to help researchers studying US Savings Bonds.<sup>8</sup> For clients who agreed to take the survey, Tax Pros read a series of five (5) research questions which acted as a de facto US Savings Bonds bond offer. These questions were:

1. Do you plan to save some of your Federal refund?
2. One month/year after you receive your Federal refund, how much will you have left?
3. Have you ever heard of US Savings Bonds before today?
4. Have you ever purchased a US Savings Bond for yourself or someone else?
5. Which two key features of US Savings Bonds appeal to you most? (list of 8)

After these questions, an offer screen appeared giving the client the chance to allow H&R Block to act as the purchasing agent for the client if she wanted to buy bonds for herself and/or up to four additional people (i.e., co-ownership). Following this offer screen, several remaining survey questions were asked. If a client chose to purchase a bond, the Tax Pro had to remember to open an Easy Savings bank account which acted as the conduit for tax refund dollars destined for bond purchase.

Tax preparers administered the short research survey in both the treatment and control offices, but only the treatment offices included the embedded bond offer. The research survey questions are included in the Appendix. Preliminary results of this survey will be discussed below, but eventually bond responses will be linked to bond purchasing and tax filing information allowing researchers to more fully understand which types of clients did or did not purchased bonds.

At the offer screen (if not before), the Tax Pro had to explain the other components of the bond purchase process. This process required that the client open an H&R Block Easy Savings account with a \$300 minimum deposit. In an effort to model the \$50 minimum bond purchase available everyday at financial institutions, clients spending less than \$300 on bonds were given the following options for funds remaining in the Easy Savings Account: (1) keep it in the Easy Savings account; (2) direct deposit the funds into another bank account; or (3) send the balance to the client in a paper check. The options were separate and distinct from any other settlement options offered to the client at the end of the tax preparation process.

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<sup>7</sup> Clients who wished to buy a US Savings Bond were required to open an H&R Block Easy Savings account in order to facilitate the bond purchase. Because the Easy Savings account has a \$300 minimum and because many tax clients want to pay their tax preparation fees out of the refund, clients with a refund lower than \$500 would have been unlikely to have enough of their refund available to both allocate funds to tax preparation fees and the \$300 Easy Savings minimum deposit.

<sup>8</sup> It was not required that a client complete a research survey in order to purchase a US Savings Bond. In fact, 10 clients purchased US Savings Bonds but opted out of participating in this research study.

### *Additional Supporting Processes*

A number of other key components were part of this year's savings bond pilot:

- During six 90-minute sessions, the majority of 400+ tax professionals were trained on US Savings Bonds, the Tax Preparation Software (TPS) system processes, research protocols, and the highlights of the bond fulfillment process;
- Various marketing materials were deployed to each of the 27 bond offer offices including small posters (i.e., privacy panels), table tents, pamphlets, and a Tax Pro cheat sheet with key aspects of the product and process;
- US Savings Bonds were discussed with Tax Pros who attended mid-season training in Schaumburg, IL and Boston, MA.

### **Preliminary Findings**

Significant demand was exhibited among Block clients for US Savings Bonds. Based on research survey data, two key factors may explain clients' appetite for bonds: (1) Block clients have high US Savings Bond brand awareness despite the current lack of overall product marketing for bonds; and (2) clients who planned on saving their refund before meeting with their Tax Pro were more likely to buy savings bonds.

#### *Preliminary Take-Up Rate Analysis*

3,729 tax clients completed research surveys and were given an offer to purchase US Savings Bonds. Each of these clients received the de facto bond offer script of the first five research survey questions outlined above. 220 of these clients chose to buy US Savings Bonds; this is a take-up rate of 5.9%. Based on research period observation and post-season Tax Pro focus groups, we know that this take-up rate is understated by the number of tax clients that wanted to buy bonds, but opted out of the purchase once the intricacies of the H&R Block bond purchasing process were explained to them.<sup>9</sup>

Alternatively, we have created a more conservative estimate which assumes that more tax clients may have received the offer than those who agreed to a research survey. In this calculation, the total number of offers is 20,111 which were all the clients with federal refunds greater than \$500 who worked with a Tax Pro who completed at least one research survey during the study period. This works out to a take-up rate of 1.09%. However, there is no guarantee that savings bonds were discussed with these clients, or even the majority of these clients. Tax Pros indicated during post-season focus groups that if a client chose not to participate in the research survey, then the bond offer was probably not made at all.

The 220 clients above include 55 clients—25% of purchasers—who placed an order with an H&R Block Tax Pro, but did not receive a US Savings Bonds.<sup>10</sup> This is the order error rate that resulted when Tax Pros did not set up the Easy Savings account which was the conduit account designed to hold the funds necessary to execute a purchase on behalf of a tax client.

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<sup>9</sup> For example, one client in a Schaumburg office was observed mid-season by the research team agreeing to purchase a bond in direct response to the question, "Would you like to purchase a US Savings Bond today?" However, once the Tax Pro outlined the mechanisms involved, the client responded, "Wait, I can buy a bond at any bank, right? This sounds too complicated, so I'll just do that later."

<sup>10</sup> Additionally, two bond client Easy Savings accounts were under-funded by their Tax Pros.

*Preliminary Demand Analysis*

Of the 3,729 savings bonds offers, 220 clients purchased Series-I US Savings Bonds spending a total of \$50,100, or an average of \$228 each. Most likely, the high average amount was affected by the \$300 minimum requirement for the Easy Savings product. This operational effect could come from two places: (1) clients who desired the least complicated purchase process; (2) deft Tax Pros who focused clients on \$300 or higher bond sales in order to avoid discussing the process complexities.

Brand awareness is high among Block clients, and previous experience with the product is significant. 87% of all Block clients surveyed had heard about US Savings Bonds. 35% of Block clients had previously either: (1) purchased a bond for themselves; (2) purchased for someone else, or (3) purchased for themselves and someone else.

*Preliminary Buyer Characteristics*

Purchasers of bonds were from households with lower average Adjusted Gross Income (AGI), more dependents, and had larger refunds than non-purchasers or the control group (*Table A*). The prevalence of the Earned Income Credit (EIC) and Child Credit is higher among purchasers compared to non-purchasers. Compared to non-purchasers, bond buyers are more likely to use check cashing outlets to cash checks, and are more likely to have had a savings account in the past but no longer have one now. This raises the possibility that many bond purchases represented first time savings or a renewed attempt at savings with a product better suited to these clients’ needs.

<i>Table A. Bond Buyer Characteristics</i>	(Treatment Group) Clients who...		Control Group
	Bought Bonds	Did Not Buy Bonds	Survey-Only
Number of Clients	220	3,509	1,485
Adjusted Gross Income (AGI)	\$ 36,828	\$ 41,171	\$ 42,056
Total Refund	\$ 3,836	\$ 2,951	\$ 2,724
Earned Income Credit (EIC)	\$ 1,039	\$ 605	\$ 528
Number of Dependents	1.31	0.83	1.57
Child Tax Credit	\$ 398	\$ 314	\$ 204

Delving deeper into the purchasers provides further insight into buyer characteristics. Based on the process design, purchasers fell into three different categories: those who bought for (1) self-only; (2) self and others; and (3) others-only. Our results showed (*Table B*) that the majority of purchasers opted to purchase bonds as gifts, and those buyers invested \$36,175, or 72% of all dollars invested in bonds, in gifts for others. It follows that these clients also invested more on average than the self-only purchasers.

<i>Table B. Bond Purchaser Type Buying Behavior</i>	Client bought bonds for...		
	Self-Only	Self and Others	Others-Only
Number of Clients	68	38	114
% of Buyers	31%	17%	52%
Total Dollars Invested in Bonds	\$9,850	\$12,725*	\$27,525
% of Dollars Invested in Bonds	20%	25%	55%
Average Invested Per Client	\$145	\$335	\$241

\* Of the total, \$ 4,075 was invested in Self and \$8,650 was invested for Others.

Examining the tax data (*Table C*) for these clients provides indicators and potential drivers behind the purchasing behavior seen above. On average, buyers who bought bonds as gifts had a higher refund than self-only purchasers; at the same time, gift buyers had significantly more dependents. It appears that tax clients with available investment dollars—in the form of a tax refund—and dependents to spend it on, took advantage of this tax time opportunity to purchase savings for others, a unique feature of US Savings Bonds.

<i>Table C.</i> Bond Purchaser Type Characteristics	Client bought bonds for...		
	Self-Only	Self and Others	Others-Only
Adjusted Gross Income (AGI)	\$ 36,530	\$ 32,597	\$ 38,416
Total Refund	\$ 2,683	\$ 4,283	\$ 4,375
Earned Income Credit (EIC)	\$ 415	\$ 1,324	\$ 1,316
Number of Dependents	0.60	1.82	1.57

Similarly, household formation also appears to play a role in the type of purchase decisions made by bonds buyers. Additional analyses around filing status reveal that the self-only purchasers were more likely to file under “Single” whereas purchasers for “self and others” and “others-only” were more likely to file under “Head of Household”; these purchasers were also more likely to file under “Married – Filing Jointly”.

#### *Bonds as Gifts*

This data clearly indicates that buying US Savings Bond as gifts for others was an attractive value proposition at tax time. On average, tax clients who purchased bonds for others did so for two additional people. This observed gift giving was probably due to how a Tax Pro framed the offer for her tax client. Tax Pro feedback noted that bond offers which involved discussions around saving for children or grandchildren seemed most effective. Furthermore, some of the in-office bond marketing included visual images of children. The co-ownership feature that facilitated gift purchases was also highlighted during pre-season Tax Pro training sessions.

#### *Preliminary Analysis of Tax Time Savings*

According to the research survey, approximately 40% of bond buyers reported that they had no savings or investments. As a result, the product may have appealed to first time savers. Of those who reported savings, approximately 22% reported total savings and investments of \$1,000 or less. Survey data indicated that purchasers found the 4.52% savings bond interest rate highly appealing; although to a lesser degree, these clients were also drawn to the low minimum, the lack of fees to purchase or cash in, and the ability to give bonds as a gift.

<i>Table D. Total Tax Time Savings: Treatment versus Control</i>	(Treatment Group) Clients who...		Treatment Group	Control Group
	Bought Bonds	Did Not Buy Bonds	Offer and Survey	Survey-Only
Total No. of Clients	220	3,509	3,729	1,485
Total No. of Tax Time Savers	220	43	263	11*
% of Clients Savings at Tax Time	100 %	1.2 %	7.1 %	0.7 %
Average Saved Per Client (By Type)	\$ 360	\$ 573	\$ 394	\$ 1,748
Median Saved Per Client (By Type)	\$ 300	\$ 325	\$ 300	\$ 1,000
Total Tax Time Savings	\$ 79,123	\$ 24,627	\$ 103,750	\$ 19,225
US Savings Bonds	\$ 50,100	\$ 0	\$ 50,100	\$ 0
Easy Savings	\$ 11,175	\$ 4,602	\$15,777	\$ 800
Easy IRA	\$ 17,848	\$ 20,025	\$ 37,873	\$ 18,425

The appeal of these features may explain why bonds positively impacted the tax time savings rate in our treatment group (*Table D*) –7.1% of treatment office clients chose to save as compared to 0.7% of clients in control offices. Additionally, non-purchasers in bond offer offices were almost 60% more likely to save at tax time than tax clients in the control offices.

Beyond total tax time savings, it appears (*Table E*) that the likelihood of saving tax refund dollars in an Easy Saving product and/or an Easy IRA product was higher in our treatment offices than the control. Although not exactly comparable, the research study take-up rates also compare favorably to the national take-up rate for the Block savings products.<sup>11</sup>

<i>Table E. Easy Savings and Easy IRA Take-Up: Treatment versus Control</i>	(Treatment Group) Clients who...		Treatment Group	Control Group
	Bought Bonds	Did Not Buy Bonds	Offer and Survey	Survey-Only
Total No. of Clients	220	3,509	3,729	1,485
Easy Savings				
No. of Clients Taking	46	8	54	2
% of Clients Taking (By Type)	21 %	0.2 %	1.4%	0.1 %
Total Dollars (\$) Saved	\$ 11,175	\$ 4,602	\$15,777	\$ 800
Average Dollars (\$) Invested by Takers	\$243	\$ 575	\$ 292	\$400
Easy IRA				
No. of Clients Taking	19	37	56	9*
% of Clients Taking (By Type)	8.6 %	1.05 %	1.5 %	0.6 %
Total Dollars (\$) Invested	\$ 17,848	\$ 20,025	\$ 37,873	\$ 18,425
Average Dollars (\$) Invested by takers	\$ 939	\$ 541	\$ 676	\$ 2,047
Median Dollars (\$) Invested by takers	\$ 300	\$ 300	\$ 300	\$ 1,000

\*One Control group client invested \$10,000 in an Easy IRA product.

<sup>11</sup> The national take-up rate for Easy Savings was 0.2% and for Easy IRA was 0.9%.



A number of things might be driving this observed behavior. A “bond offer effect” may have created an office environment in which savings options were more readily discussed with tax clients. Perhaps even for those clients who chose not to purchase bonds, a further exploration of the savings account or IRA options found a desirable fit for the client’s needs. Research effect might also be in evidence, but it should be noted that the control office data is from tax clients who took the same research survey as clients in the offer offices; the only difference was that control offices did not have an imbedded savings bond offer.

*Preliminary Findings in Context: Implementation in the Current State*

The findings discussed above reflect the current operational context. Additional consideration should be given to the obstacles inherent in the operational processes, the channel bias inherent in commercial tax preparation, and the operational reality that each individual Tax Pro decides what to discuss with a client.

H&R Block tried to create the most viable replication of a \$50 minimum bond purchase possible in time for tax season 2007. Even so, the opening of the Easy Savings conduit account and its \$300 minimum were two process components that impacted behavior in a number of ways. Tax Pros who found the whole process too complicated to explain probably did not choose to try and sell bonds. Conversely, a small percentage of savvy Tax Pros tried to avoid the conversation altogether by trying to get clients to spend at least \$300 on bonds. The study also observed an order error rate of 25% due to a failure on the part of Tax Pros to open the necessary bank account; this left the client assuming he/she was getting a bond(s) and H&R Block with no method to purchase the bond(s) on the client’s behalf.

Multiple forms of research feedback indicate that this complexity may have turned bond purchasers into non-purchasers once all the details were explained to them. In addition, clients had to be comfortable with opening a bank account as part of this bond purchase, something that is not ordinarily a requirement to purchase bonds. Assuming all the money deposited in the Easy Savings account was spent on bonds, clients had to trust Block to handle their money, complete the purchase on their behalf, and immediately close the bank account. For those spending less than \$300 on bonds, the client had to be comfortable with a delay in getting the remaining funds after three weeks or more.

Additionally, the commercial tax preparation channel includes an inherent bias toward instant tax refunds. Interestingly, 79% of non-purchasers cited “choose not to save at this time” as the rationale behind not purchasing a bond.<sup>12</sup> In effect, this response reflects the fact that US Savings Bonds (and other savings products) compete for share of refund dollars with an array of refund settlement products in the commercial tax preparation channel.

Given the limited amount of “pull” marketing done around savings, in general, and US Savings Bonds, in particular, this pilot relied on whatever one-on-one tax professional “push” marketing could be generated through small-scale training and field management. Equivalent marketing materials were developed to mirror those of Easy Savings and Easy IRA products, but, like all savings products offered in H&R Block offices, the US Savings Bond take-up rate and purchase data is inextricably linked to Tax Pro behavior.

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<sup>12</sup> 733 non-purchasers did not answer Question 15 of the research survey.

## **Preliminary Interpretations**

The preliminary findings discussed above lead to some initial interpretations for this research study:

1. When offered, 5.9% of tax clients placed an order to purchase US Savings Bonds with their commercial preparer. But let's assume the more conservative take-up rate of 1.09%. If bonds were available to the approximately 16 million H&R Block tax filers, then we might expect at least 174,000 purchasers in a given tax year. If each of these clients saved \$100 on average (also conservative), that would represent \$17.4 million saved at tax time in H&R Block offices through investments in US Savings Bonds.<sup>13</sup>
2. Demand appears to be among LMI tax filers and among those with no savings. The product appears to appeal to H&R Block clients with lower than average Block client AGI, higher refund amounts, larger EIC payments, and more dependents. This product appears to connect with the LMI market, and it might also give an H&R Block Tax Pro another opportunity to discuss savings options with clients.
3. Purchasing bonds as gifts is a unique attribute that appealed to H&R Block tax clients. 70% of purchasers bought bonds for others. The co-ownership feature of US Savings Bonds affords tax clients the opportunity to actually give the gift of savings to children and grandchildren. Furthermore, this attribute provided tax professionals something different to talk to clients about when discussing an array of savings options.
4. At H&R Block, the current operational requirements to offer bonds to clients are onerous for both tax professionals and corporate headquarters. The in-office order error rate of approximately 25% was indicative of the process challenges. Additionally, the impact of these processes on normal tax preparation and the inherent process complexity probably deterred many tax professionals from offering bonds to clients.
5. Selling bonds at tax time did not depress savings, and it may have increased tax time savings. Block offices in the treatment group experienced a higher rate of tax time savings than offices in the control group. Additionally, Easy Savings and Easy IRA product take-up rates in the treatment offices were higher than control. Finally, bond purchasers were significantly more likely to save additional refund dollars in an Easy Savings and/or invest in an Easy IRA.
6. Bonds still have significant brand value which positively impacted take-up. Brand awareness was high among Block clients, and previous experience with the product was prevalent among buyers too. 87% of all Block clients surveyed had heard about US Savings Bonds. 35% of Block clients had previously either: (1) purchased a bond for themselves; (2) purchased for someone else, or (3) purchased for themselves and someone else.

## **Preliminary Recommendations**

Based on the preliminary interpretations, a number of initial recommendations can be made to facilitate US Savings Bond sales and savings at tax time among clients of commercial tax preparers:

1. Create the Opportunity to Buy Bonds at Tax Time. Without any prompting, bonds are not

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<sup>13</sup> This estimate does not include the potential "sales lift" to other savings products observed in this study.

likely to be sold. In order to create this opportunity, we recommend simplifying the purchase process at the Federal level to allow tax filers to buy bonds using Form 8888. The expansion of Form 8888 should allow for the purchase of co-ownership bonds for dependents listed on the tax return. At a minimum,

- a. Such a change will facilitate the purchase of bonds at the \$50 minimum;
  - b. This change will also reduce the need for any other additional bank accounts to be established to house funds to facilitate the purchase process;
  - c. Tax professionals will face a much less cumbersome process during the busy tax season; and
  - d. The tax professional and the consumer should have the chance to act on the impulse to buy savings at tax time.
2. Build/Maintain Awareness. In the last five years, marketing and advertising of US Savings Bonds has been significantly reduced by the federal government.<sup>14</sup> We recommend increasing national marketing of US Savings Bonds in order to generate demand in commercial preparer offices at tax time. Given the amount of information about other tax products, bonds could benefit from marketing that would drive demand at tax time by clients interested in exploring this saving opportunity with their tax preparer.
  3. Provide an Incentive. H&R Block tax preparers and other commercial preparers want to get a client the largest refund possible; it is good business. For LMI tax filers with a tax liability, IRA investment is subsidized in this manner, but bonds are not. Offering a tax credit, preferably refundable, for LMI filers would have the double impact of providing incentives for tax preparers and tax clients to examine saving. For example, the Savers Credit could be expanded to include US Savings Bonds in order to provide incentives for both the tax filer and the tax preparer to offer bonds.

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<sup>14</sup> In 2003, Treasury eliminated advertising and closed the 41 regional marketing offices for the bond program. (Source: [http://www.usatoday.com/money/perfi/bonds/2003-09-08-bonds-cover\\_x.htm](http://www.usatoday.com/money/perfi/bonds/2003-09-08-bonds-cover_x.htm))

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- *Field Managements* – Mark Alan Lung and Matthew Grabel, the District Managers;
- *Tax Preparers* – The 400+ Tax Pros in Boston and Schaumburg;
- *Marketing* – H&R Block Marketing Team developed pamphlets, Smart Cards, table tents, and privacy panels for in-office US Savings Bond marketing; and
- *Information Technology* – The H&R Block IT team developed the necessary IT to support the research survey and bond purchase process.

D2D would also like to thank Harvard Business School Research Associate Emily McClintock Ekins for her help in making this pilot successful and her ongoing research assistance.

## **Research Statement**

No private information was shared with Harvard Business School or D2D Fund. All information analyzed for this study was anonymous. All data was received by signed consent of the individual tax preparation client. Clients who declined to participate in the research study were able to purchase US Savings Bonds. However, Tax Pros rarely attempted to sell bonds to clients who declined to answer survey questions. A small number of clients did purchase bonds but chose not to participate in the research study; the tax and survey data presented here does not include any information regarding those clients. It should be noted also that this experiment did not test whether or not tax filers with a tax liability would purchase US Savings Bonds nor did federal refund recipients with less than \$500 owed them quality for an offer.

## **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 is preliminary. Questions, comments and suggestions are welcome.

## Appendix: Research Survey

### *Question 1*

Do you plan to save some of your Federal refund?

- Y. Yes
- N. No

### *Question 2*

One month after you receive your federal refund, about how much of it will you still have left?

- A. None (0%)
- B. A Quarter of my Refund (25%)
- C. Half my Refund (50%)
- D. Three Quarters of my Refund (75%)
- E. All of My Refund (100%)

### *Question 3 (Skip if #2 is "A")*

One year after you receive your federal refund, about how much of it will you still have left?

- A. None (0%)
- B. A Quarter of my Refund (25%)
- C. Half my Refund (50%)
- D. Three Quarters of my Refund (75%)
- E. All of My Refund (100%)

### *Question 4*

Have you ever heard of US Savings Bonds before today?

- Y. Yes
- N. No

### *Question 5*

Have you ever purchased a US Savings Bonds for yourself and/or someone else before?

- A. Yes, for myself.
- B. Yes, for someone else (i.e., child or grandchild)
- C. Yes, for myself AND someone else (e.g., child or grandchild)
- D. No, I have never purchased a bond.

The Following Answer Choices Apply to Questions 6 and 7

- A. \$50 Minimum
- B. Competitive Interest Rate (4.52%)
- C. Protected from inflation
- D. Lose last three months of interest if redeem before 5 years
- E. Backed by the US Government
- F. No fee to purchase or to cash in
- G. Can give as gift to someone
- H. One year holding period

### *Question 6 (see list above)*

I am going to read you some key features of US Savings Bonds. Which one appeals most to you?

### *Question 7 (see list above)*

Now, of the remaining key features of US Savings Bonds which one appeals most to you?

*Question 8*

Over the last six months, where did you cash most of your checks?

- A. Credit Union
- B. Bank
- C. Check Cashing Outlet
- D. Grocery Store
- E. Wal – Mart
- F. Convenience Store
- G. Other

*Question 9*

Do you have or have you ever had a savings account?

- A. Yes, I currently have one.
- B. No not currently, but I have had a savings account.
- C. No, I have never had a savings account.
- D. Decline to answer

*Question 10*

Not including any savings/investments planned for your Federal Refund this year, do you [or your spouse] have any money saved or invested in savings, checking, or money market accounts, CDs, IRAs, 401(k)s, 403(b)s, Stocks, Savings Bonds, Bonds, or have money saved at home?

- Y. Yes
- N. No

*Question 11*

Altogether, how much do these savings/investments amount to (not including any Federal refund you might receive this year)?

\*\*Note: Does NOT include house, car, etc.

- A. \$0
- B. \$1 to \$1,000
- C. \$1,001 to \$2,000
- D. \$2,001 to \$5,000
- E. \$5,001 to \$10,000
- F. \$10,001 to \$20,000
- G. \$20,001 to \$40,000
- H. Above \$40,000

*Question 12*

What is your (and your spouse's) most important reason for saving and investing? (please select one)

- A. Education
- B. Retirement
- C. Housing (e.g., home, home improvement, or rent)
- D. Car
- E. To Get Ahead
- F. Emergencies
- G. Children / Family
- H. Everyday Household Expenses (e.g., pay future bills)
- I. To Enjoy Life (e.g., vacations, entertainment)
- J. Appliances or Electronics (e.g., Washer / Dryer, TV)

*Question 13*

About how much do you think you [and your family] need to have in savings for emergencies and other unexpected things that may come up?

Answer: Please Provide \$\$ Amount

*Question 14*

Some investments offer higher returns but are more risky. Risk means you could lose some of the money you invested. Which of the statements below comes closest to describing the amount of financial risk that you (and your spouse) are willing to take when you save or make investments?

- A. Take substantial risks expecting to earn substantial returns
- B. Take above average risks expecting to earn above average returns
- C. Take average risks expecting to earn average returns
- D. Not Willing to Risk

*Question 15 (Not Purchasing Bonds, Only)*

Why did you not purchase a bond today? (Please select the most important reason.)

- A. The purchasing process is too confusing, too complex, and takes too much of my time.
- B. Interest rate is too low
- C. Required holding period of one year
- D. Afraid of losing bond
- E. Don't trust US government
- G. Afraid of bond theft
- H. I don't totally understand what a US Savings Bond is, how it works, or why it would benefit me.
- I. Choose not to save at this time