New America Foundation

Asset Building Program

Connecting Tax Time to Financial Security

Designing Public Policy with Evidence from the Field

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The ability to accumulate and access savings is a fundamental determinant of economic security for many families, especially those with low incomes and limited resources. Since every family's circumstance is different, so too are their savings needs, which can range both in time horizon and flexibility of purpose. Current federal policy favors longer-term, targeted purposes, such as savings for retirement, leaving a void in policy supports for households whose savings needs are more immediate. This impedes a household's ability to build up a stock of flexible use savings that are accessible to buffer against financial shocks or to invest in ways that may improve their future, roles that serve as the underpinning for economic mobility.

Policy solutions to fill this gap need to address both the lack of resources that lower-income households can dedicate to saving and the lack of products that facilitate saving for flexible purposes. In response, the Asset Building Program at the New America Foundation has developed a proposal, The Financial Security Credit, which offers lower- and middle-income households the option to open an account and an incentive to save in that account at a moment when they are receiving an influx of resources—tax time.

Through a simple procedure integrated into the process of filing taxes, families can be linked to a range of savings products that are specific to their savings needs, including the flexible use savings of most consequence to low-income households. Over the past several years, versions of this concept have been tested in various forms across the United States, creating a rich research environment from which to distill insights that can inform a larger discussion of designing a scalable, nation-wide system for promoting savings at tax time among low-and moderate- income Americans. This paper will present the rationale for pursuing such a policy, review the existing evidence for the efficacy of tax-time savings programs, and explore the possibility of a national savings policy informed by those findings.

The Policy Case for Flexible Savings

Current policy provides tax benefits for contributions to particular types of accounts, such as IRAs, 401Ks, and 529 College Savings Plans, each of which are governed by an array of complex rules that define contribution limits and place restrictions on withdrawals. One implication of these rules is that families are penalized for accessing their money for alternative needs such as addressing the inevitable, unanticipated exigencies of life. There are no policy incentives in existence that help families build up a pool of resources that can be tapped at their discretion. Yet flexible savings can be a foundational building block for improving a family's current circumstances, managing life's expected and unexpected events, and improving their outlook for the future.[1] Needing first and last month's rent to move into a better neighborhood, taking classes to increase professional credentials and get a better job, taking time off work to care for an ailing child or parent, or getting by after job loss all require cash on hand that families can use at their own discretion.

Without sufficient savings at these moments, families incur a cost, either in terms of their present wellbeing – fewer hours at work resulting in a missed a rent payment or higher heating bills in winter resulting in missed meals– or future opportunities. This cost could be compounded by the long-term financial consequences of the decision to take on debt or draw down targeted investments in the absence of these resources.

In a 2012 survey of middle- and low-income households, 40 percent reported using a credit card to cover basic living expenses, such as rent or utilities. These families charging necessities were likely to be carrying a balance over $5,000 more than households who charged discretionary purchases.[2] For families already unable to pay for their basic needs, debt may bridge a short gap between what they have and what they need, but can compromise their ability to pay for it in the future. Consequently, taking on more debt may be necessary, which could account for their higher balances. In this way, debt displaces other, more productive uses, requiring additional resources to be used to fill a hole rather than building a foundation of economic security from which to move forward in their lives.

[1] This type of savings has also been referred to as "unrestricted savings" to differentiate from resources held in accounts that have penalties for non-qualified uses. See Lopez-Fernandini (2010).
[2] Garcia and Draut (2012).

Even among relatively higher-income earners, inadequate precautionary savings can project financial harm into the future. As a consequence of the Great Recession and its downward pressures on wages and employment, periods of economic strain were widely felt.

> While a macroeconomic shift like a recession illustrates the need that families at all income levels have for flexible savings, the destabilizing impact that everyday occurrences can have on low-income families makes this need particularly imperative.

Increasingly, families have had to turn to their retirement savings to supplement their income.[3] Hardship withdrawals from Fidelity-administered 401(k) plans, for example, increased by almost 40 percent from 2007 to 2010, covering the period beginning just prior to and ending immediately after the downturn.[4] Recent research shows that this practice is most pervasive among households without sufficient emergency savings: Among these households, 30 percent breach their retirement account, compared with 15 percent of those with emergency savings.[5]

Not only do these withdrawals have a 10 percent penalty upfront and trigger a higher tax bill, but the Government Accountability Office (GAO) found that even a modest hardship withdrawal of $5,000 could reduce the balance available at retirement from 5 to 12 percent.[6] Since households become reliant upon those resources after they leave the workforce, preventing premature leakage from those accounts is critical for a financially secure retirement.

[3] Morin (2010).
Fidelity Investments (2010).
[5] Fellowes and Willemin (2013), 6.
[6] Government Accountability Office (2009).

While a macroeconomic shift like a recession illustrates the need that families at all income levels have for flexible savings, the destabilizing impact that everyday occurrences can have on low-income families makes this need particularly imperative. Flexible savings can decrease the susceptibility of low-income households to hardship in the event of an emergency, unexpected expense, or loss of income by providing an immediately available stock of resources to smooth over potential disruptions in their consumption.[7] Among families that experience a job loss or health condition that limits their ability to work, at least 40 percent of liquid-asset poor families (those with flexible savings equaling less than the amount required to live three months at the federal poverty line) reported increased hardship, such as food insecurity or inability to pay bills, but for families that had liquid assets, this number was below twenty percent.[8]

By being accessible during a destabilizing event, flexible use savings could also serve as a firewall against subsequent, related "after-shocks." About half of all the economic shocks experienced in 2008 reoccurred in the same households in 2009 as a consequence of higher levels of unmet need.[9] A job loss, for instance, can compromise the ability to afford health insurance or medical care and result in an untreated illness that, in turn, compromises the ability to maintain work. Even an event as minor as a car breakdown could escalate to lost wages or lost employment without sufficient resources to finance the repair. Being able to access resources at a particular moment in time is a characteristic that makes flexible savings foundational to achieving economic stability in the short-term and security over the long-term.

Despite the importance of flexible savings to averting hardship, building resilience, and making productive investments over time, almost 68 percent of families in the bottom income quintile are classified as "liquid-asset poor," meaning they lack the resources to subsist for three months at the official poverty line without income.[10] For 2012, the amount needed to meet this threshold was $4,625 for a family of one parent and two children.[11] However, even sums below $2,000 have been shown to significantly reduce the incidence of negative financial or material outcomes, such as missing a rent or utility payment or foregoing adequate nutrition.[12]

In addition to the financial benefit of saving, the experience of saving can change the way an individual conceives of her future and can nurture certain attitudes, choices, behaviors, or "asset effects." These elements can in turn lead to beneficial outcomes, including the perpetuation of the act of saving itself.[13] Even having small amounts of savings has been shown to be correlated with positive behavioral changes.[14]

Despite the need for, and benefits of, saving, low-income families encounter significant challenges when trying to save. Beyond their lack of resources to convert into savings, they also lack access to the institutional supports, such as access to an account and an incentive to save in that account, that facilitate and encourage saving. In the context of retirement savings, for example, low-income workers are less likely to be offered a structured savings plan through their employers, such as a 401(k), which automatically diverts a portion of wages into an account, often with a direct match.[15]

Low-income households are similarly disadvantaged when saving for flexible uses. Owning a bank account, that is, a safe place to store money and access on demand, is the most basic building block of financial security. Nationally, 8.2 percent of American households do not have a bank account and 20.1 percent are underbanked, meaning that they may own a bank account but also utilize alternative

[7] Acs, Loprest, and Nichols (2009).
[8] McKernan, Ratcliffe, and Vinopal (2009).
[9] Hacker, Rehm, and Schlesinger (2010).

[10] Ratcliffe and Vinopal (2009).
[11] U.S. Census Bureau (2012).
[12] Mills and Amick (2010); Brobeck (2008).
[13] Yadama and Sherraden (1996).
[14] Sherraden, McBride, and Beverly (2010).
[15] Only 35% of those in the lowest quartile are offered the chance to participate in a defined-contribution retirement plan, compared to 68% for the highest quartile; U.S. Bureau of Labor Statistics (2012).

financial services and products, such as payday lenders.[16] For households with incomes under $15,000, a full 28.2 percent are unbanked and an additional 21.6 percent are underbanked; in fact, over 70 percent of all the unbanked households in the U.S. make less than $30,000 a year.

When institutional supports like an account are in place, research shows that even very-low-income households can and will save and develop strategies to save.[17] Expanding access to these supports is necessary for building savings and supporting the habit of saving, which together promote financial security.

Current policies that support saving are applied unevenly across the income spectrum, even as asset limits in public assistance programs place explicit restrictions, sometimes as low as $1,000, on the amount of savings that low-income families can accumulate.

Ideally, public policy would aim to compensate for existing barriers that low-income families encounter when trying to save. However, current policies that support saving are applied unevenly across the income spectrum, even as asset limits in public assistance programs, such as the Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), place explicit restrictions, sometimes as low as $1,000, on the amount of savings that low-income families can accumulate. In fact, in most states where an asset limit is in place, the threshold necessitates that families receiving benefits live in asset poverty.[18]

[16] Federal Deposit Insurance Corporation (2012).
[17] Sherraden, Schreiner, and Beverly (2003); Moore, Beverly, Sherraden, Sherraden, Johnson, and Schreiner (2001).
[18] Sprague and Black (2012). Currently the asset poverty rate exceeds the asset limits for SNAP in ten states and TANF in 41 states.

In addition to creating a disincentive to save, research shows that asset limits decrease the rate of account ownership itself. Among SNAP participants, eligible but non-participating households with a bank account are more likely to perceive that they are ineligible than other non-participating households.[19] Significantly, it appears that it is the account ownership itself, not the balance of the account, which is related to the decision not to participate.[20] This research suggests that some portion of applicants perceive that simply maintaining a bank account could jeopardize access to needed benefits.

While there are several programs and federal initiatives designed to overcome institutional barriers to saving, they are small in scale and modest in impact.[21]

The primary system for incentivizing savings is the tax code, which allocates hundreds of billions of dollars a year in subsidies through mechanisms like deductions and non-refundable tax credits. While this approach achieves a large scale, both in terms of resources deployed and households reached, it excludes the nearly 70 percent of Americans who do not itemize on their tax returns, rendering these benefits virtually inaccessible for much of the nation.[22] Further, this set of policies prioritizes saving for longer-term, restricted purposes, such as college or retirement, rather than the accumulation of flexible-use saving that are most closely aligned with the savings needs of lower- and middle-income households.

What is missing from current policy mechanisms, administered through the tax code or otherwise, is an accessible platform with meaningful incentives to support flexible use savings needed by all families.

[19] USDA Economic Research Service (2004).
[20] Huang, Nam and Wikoff (2010).
[21] Cramer, Black, and King (2012). For FY2013, $20 million was requested to support the Bank On USA initiative to expand access to basic financial services in underserved communities and $20 million was requested to support the Assets for Independence Act to provide matched savings accounts for low-income participants. Meanwhile, over $500 billion was allocated through tax expenditures to support asset building goals, such as homeownership, saving and investment, post-secondary education, and retirement security.
[22] Cramer and Schreur (2013).

The Tax Time Moment

Families that would greatly benefit from increased savings are missed by the current incentives delivered through the tax code. They are, however, captured by the tax filing process itself. Both the number of families that engage in this process and the significance of the resources they receive make the tax time moment a powerful savings opportunity.

This tax season, around 27 million households are likely to file for the Earned Income Tax Credit (EITC), a credit that boosts the value of work for low-wage earners by offering an additional subsidy for every dollar in earned income. In tax year 2012, the average value of the EITC was $2,335, with a potential maximum of $5,891.[23] Households with children could also be eligible to receive an additional $1,000 per child through the Child Tax Credit. For many households, their tax refund may be the largest lump sum of cash they receive all year.

These cash infusions can be used to cover everyday expenses or pay down debt, but they may also be directed toward meeting other savings objectives. This makes tax time a valuable and large-scale opportunity to promote saving and asset building.

Policymakers have implemented a series of changes to the tax-filing process to give households more flexibility in how their refund is delivered. These changes enable further asset-building opportunities, such as amending tax filing forms to allow tax filers to split their refund in up to three accounts and offering the option to purchase U.S. Savings Bonds with tax refunds. Yet additional measures are necessary to create a savings policy apparatus that reaches the families that are currently underserved by the existing system.

Experience from the Field

Efforts to offer savings opportunities to low-income households at tax time have proliferated, from United Way of Greater Los Angeles's Ramp-Up program to Ohio's SaveNOW. As a result, there is a diverse set of experiences from which to distill learnings that can inform the design of a federal policy with the potential to have impact at scale. This section will examine the two largest and most rigorously evaluated examples: $aveNYC/SaveUSA and Refund to Savings (R2S).[24]

In 2008, the New York Department of Consumer Affairs Office of Financial Empowerment (OFE) launched $aveNYC through a network of local Volunteer Income Tax Assistance (VITA) sites to test the potential of facilitated account opening and a direct match incentive for increasing savings among low-income households at tax time. After demonstrating promising results over three consecutive years, $aveNYC expanded into Tulsa, Oklahoma, Newark, New Jersey, and San Antonio, Texas under the name SaveUSA in the 2011 through 2013 tax seasons. The expansion was achieved with financing from the Social Innovation Fund (SIF), administered by the Corporation for National and Community Service (CNCS).

SaveUSA was designed to provide an easy and a meaningful way for low-income taxpayers to save for flexible purposes at tax time.

In contrast to the suite of behavioral and institutional interventions offered by SaveUSA through a facilitated enrollment process at VITA sites, R2S sought to test a comparatively modest approach. It built simple nudges into the tax filing process to prompt low-income households to direct a portion of their refund into a preexisting savings account. The initiative was brought to fruition through collaboration between the Center for Social Development at the University of Washington in St. Louis; Duke University; and Intuit, the developer of TurboTax.

[23] Internal Revenue Service (2013), "About EITC."

[24] Data from R2S is taken from Grinstein-Weiss, Comer, Russell, Key, Perantie, and Ariely (2014).

Individually, each of these pilots, SaveUSA and R2S, offers unique insights into how low-income tax filers respond to a series of interventions within a given context. Considered collectively, however, they form a body of evidence that strongly asserts the ability of low-income households to save and reveals the key features that should be included in a scaled-up federal policy. The remainder of this paper will discuss the design of each program and their impacts on the savings behavior of their participants, and synthesize findings into policy design considerations.

The design of R2S was focused singularly on evaluating what type of behaviorally informed features could produce the greatest return in terms of savers and savings.

Design Characteristics

SaveUSA was designed to provide an easy and a meaningful way for low-income taxpayers to save for flexible purposes at tax time. Accordingly, features of the account and process of opening the account coupled foundational institutional supports with strategies informed by behavioral economics to maximize participation and savings outcomes.

At the time of tax filing, the tax filer in the treatment group would be given the option of allocating a portion of her refund into savings. If the tax filer elected to participate, a short-term savings product, such as a CD, would be opened through a local financial institution. A minimum deposit of $200 was required to open the account, but a deposit of up to $1,000 was eligible for the match. If the initial deposit were maintained for a full year, a 50 percent match would be provided as an incentive. If the deposit were withdrawn prematurely, the participant would lose the potential match but face no other penalty.

Behaviorally informed features included the decision to limit the number of choices required of the participants, making account opening easy and deposits automatic to minimize the "hassles" that could act as barriers to opening an account, segregating the portion of the refund dedicated for saving from the portion returned for transacting and limiting access to the account, and illustrating the amount of the match that would be forfeited if a potential participant opted not to open an account and conveying the match only after the conclusion of the full year term.

The R2S approach, on the other hand, was premised on the idea that simple is scalable. To that end, the design of the intervention was focused singularly on evaluating what type of behaviorally informed features could produce the greatest return in terms of savers and savings.

In 2013, around 900,000 tax filers using TurboTax's Freedom Edition (available only to households earning below $31,000) participated in the largest-scale savings intervention to date. Those assigned to the treatment groups tested the efficacy of three behavioral mechanisms: automatic savings opportunities, motivational prompts, and default savings amounts. The ways these mechanisms were applied in this experiment are described below.

- *Automatic Savings Opportunities*. The tax filing process concluded by displaying the refund amount on a page that recommended that the tax filer save a portion of that refund, either by making a deposit into an existing account or purchasing a US savings bond. The tax filer could opt-out of saving by clicking the "I don't need to save" button at the bottom of the screen.
- *Default Savings Amounts*. In addition to prompting the tax filer to save, the software automatically allocated a portion of the refund to a savings option based on either a percent (25, 50 or 75) or a fixed amount ($100 or $200) of his refund. This step was intended to create a fixed reference

point, or anchor, for the amount the tax filer elected to save.

- *Motivational Prompts*. Some participants in the treatment was presented with one of three prompts intended to trigger the desire to save: "Do you have enough money for an emergency?," "Have a family or thinking of starting one?," or "Save for your future, and get peace of mind."

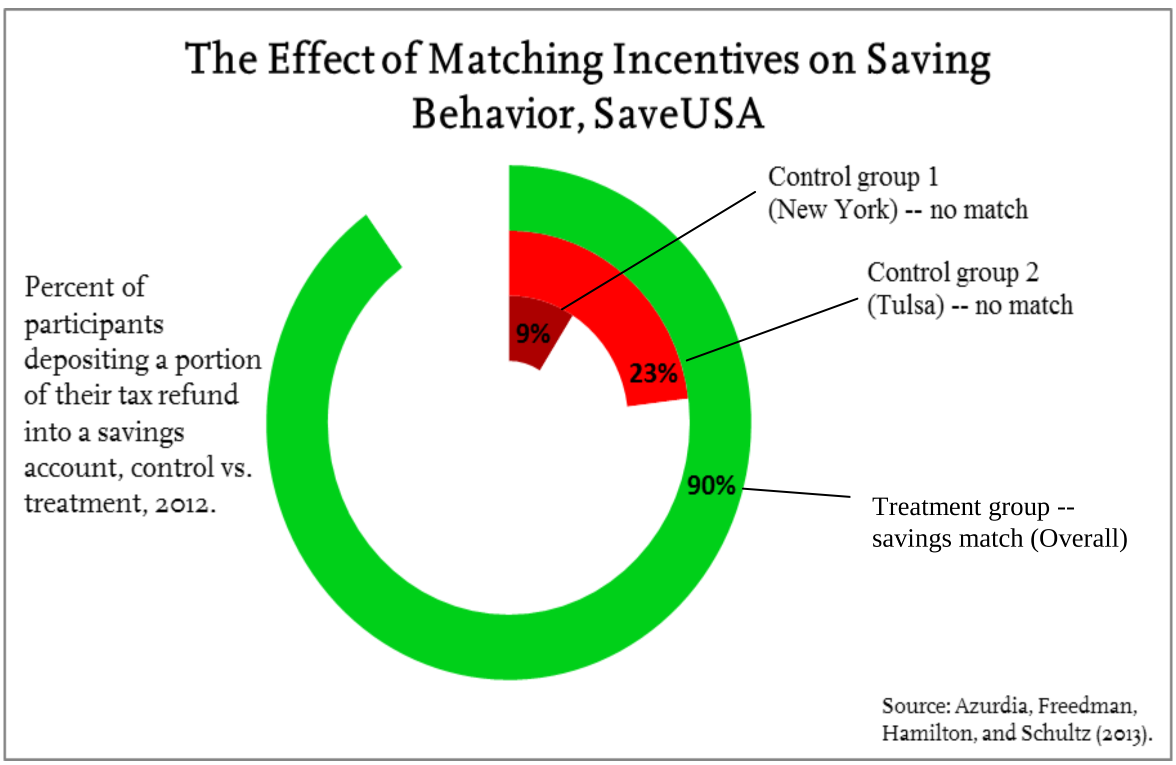
Outcomes and Impact

Both of these pilots benefit from a randomized-control design, which controls for self-selection among participants and for differences in other factors, such as demographics, by randomly assigning participants into either a treatment or control group. So, in addition to capturing the outcomes of the interventions by the treatment group, it is also possible to assess the impact of the intervention by comparing it against a control group.

In the case of SaveUSA, two-thirds of all of the participants assigned to the treatment group successfully deposited and held savings for the full year and received the match.[25] About 10 percent of the group was immediately disqualified due to a range of factors, including the IRS's withholding of the refunds for child support or student loan payments, or failure to pass a financial institution qualification check. Of those who were able to open the account and deposit at least the minimum amount, 74 percent received the match.

In comparison, few low-income tax filers in the control chose to save any of their refund. At the two sites where this randomized assignment took place, New York and Tulsa, respectively only 9 percent and 23 percent of participants directly deposited any of their refund, compared to 90 percent of the SaveUSA group. Among those who were eligible to receive the match, participants deposited, on average, $576 and received a $288 match, for a total of $864 at the conclusion of the initial program term.

The interventions tested in R2S produced modest, but statistically significant positive results showing an increase in both the number of savers and the amount deposited by participants in the treatment group. In total, 7.6 percent of tax filers receiving the treatment (compared to 6.8 percent who didn't) chose to save a portion of their refund, averaging $200 to $300 more in deposits or savings bond purchases than the control. These increases translate into



[25] Data on the results from the SaveUSA pilot are from Azurdia, Freedman, Hamilton, and Schultz (2013).

$5.92 million in savings than would not have occurred in the absence of the intervention. Of the six possible combinations of prompts and anchors tested, all, aside from 25-percent anchor and the "family"-oriented prompt, produced a higher level of savings.

In addition to evaluating the efficacy of different interventions in producing positive savings outcomes, both SaveUSA and R2S were motivated by the belief that those immediate positive outcomes could lead to increased financial wellbeing and continued savings behavior over time. In short, that this experience would provide an onramp to saving and its associated benefits.

While it's still too early to evaluate the impact of these interventions on the longer-term material wellbeing of their participants, follow-up surveys of participants in SaveUSA's predecessor, $aveNYC, provide some insight. Of those in the 2009 and 2010 cohorts, participants reported significantly lower rates of taking out loans and skipping bills than non-participants; were more likely to have resources on hand to cover expenses for emergencies or household expenses; and to feel an improvement of their financial circumstances. Importantly, many also reported renewed optimism in their ability to save and a commitment to continue doing so.[26] In the short-term, R2S participants who deposited into a savings vehicle reported 6 months after tax filing less incidence of financial hardship and higher confidence in being able to secure $2,000 in case of an emergency.

It is clear from the results of SaveUSA and R2S that the interventions helped to promote the persistence of savings and continued savings behavior in the middle-term. Nearly half of all 2011 SaveUSA participants reported maintaining a portion of their savings nine months after they received their match, and a quarter of match recipients maintained the entirety of their balance. Similarly, 28 percent of R2S participants reported having a portion of their saved refund after six months. Significantly, nearly 40 percent of SaveUSA participants in the 2011 tax season chose to participate during the 2012 tax season, including nearly half of all 2011 participants who had received the match.

Over time, both of these programs will continue to generate findings revealing their long-term impacts. Due to the complicated and strained financial circumstances of the households targeted by these interventions, an improvement in a single variable is unlikely to alleviate a significant and entrenched level of hardship. What these interventions are capable of doing, however, is encouraging movement from one step to the next along the savings continuum by establishing proximity and inertia. In this way, both helped increase participants' financial capabilities by creating an accessible entry point for new savers and reinforcing the savings behavior of participants who were already engaged in saving.

Findings and Policy Implications

At the most basic level, these pilots succeeded in encouraging a significant level of savings that likely would not have occurred otherwise. Achieving these results through a federal policy approach is less a matter of replicating these interventions directly, and more about affirming the concept tested by them and translating key features into scalable design.

Indeed, both SaveUSA and R2S affirmed the core assertion that low-income households could save at tax time when presented with appropriate supports to do so. SaveUSA and R2S participants faced a range of financial hardships coming into the program. The average income across all sites for SaveUSA was $17,928, just under the official poverty threshold for a parent with two children.[27] A slight majority (53.5 percent) were single filers with children. In the original $aveNYC cohorts, one-third reported not being able to pay their rent or mortgage in the previous six months and half could not pay bills or paid them late. Fifty percent had no savings account and 26 percent had no bank account. Similarly, R2S participants had an average

[26] Center for Community Capital (2013).

[27] Azurdia, Freedman, Hamilton, and Schultz (2013).

income of $14,566 and averaged $46,000 in debt at the beginning of the intervention.

After these interventions, however, significant numbers of these low-income and financially challenged individuals chose to save. Below are key design features that supported these successes and can be used to inform federal policy design.

Key Design Features of SaveUSA and R2S that inform federal policy:

1.) Embedding the opportunity to save into the tax filing process
2.) Facilitating account opening
3.) Aligning savings product and savings need
4.) Integrating incentives and behavioral features
5.) Removing savings disincentives within the broader policy context

Embedding the opportunity to save into the tax filing process

The value of tax refunds and the infrastructure of the tax filing process provided the platform for structuring SaveUSA and R2S. The tax filing process presented a mechanism for transferring a significant amount of resources that could then be dedicated to saving. The average total tax refund among all SaveUSA participants was $3,762 and $4,111 among the New York participants.[28] This average total tax refund among R2S participants was $1,831.

In both cases, higher deposit amounts were correlated with positive savings outcomes. In SaveUSA, higher deposits were correlated with a greater likelihood that a participant would meet all of the requirements to receive the matching deposit; in R2S, higher deposits were correlated with the likelihood that savings would persist six months after the intervention. The tax refund was the mechanism by which participants achieved the necessary level of savings to experience these positive results.

Embedding the option to save into the tax filing experience increased the likelihood of participants making that choice, even in the absence of a financial incentive to do so. In the case of R2S, displaying the refund amount as automatically allocated between a checking and savings option doubled the number of participants who split their refund.

Facilitating account opening

The decision to save is predicated on access to a savings vehicle. The option to open an account during tax filing creates opportunities to save even among those without a preexisting account. About 30 percent of the SaveUSA participants in New York were unbanked, so tax filing offered a point of access to a savings vehicle, which made possible the decision to save.[29]

It is instructive to compare the results of SaveUSA and R2S in light of the divergent experiences of participants with respect to access to savings vehicles. SaveUSA participants automatically had access to a savings account, but R2S required that participants have access to a preexisting account. Notably, 39 percent of R2S participants identified a preference for receiving their refund in a method other than the method available to them. Fully half of the unbanked respondents chose a new checking or savings account, the most basic form of financial vehicles. Including the option to open account at this time could have increased the choice to save among those participants without a convenient or attractive way to save, as it did in SaveUSA.

[28] Ibid., 3.

[29] Ibid., 4. 69 percent of participants in New York and 85 percent in Tulsa that were assigned to the control group routed their savings into a checking or savings account. Since the participants were randomized, it's safe to assume that a similar percentage had bank accounts in the treatment group. This percentage of banked individuals is similar to that in the $aveNYC program the year before, in which 18 percent had no checking account (Azurdia et al. [2013], 1).

Aligning savings product and savings need

The short-term savings product offered by the SaveUSA intervention provided an accessible entry point for low or new savers and, significantly, aligned with the participants' stated preferences for saving for emergencies and general purposes. Two-thirds of R2S savers elected to direct a portion of their refund into a basic savings account. In contrast, only 5 percent chose to save in a retirement account. It is unclear whether this is a result of preference or constraints of existing account ownership. However, the previously cited desire to open a new flexible-use vehicle among the unbanked participants is consistent with stated savings objectives of other low-income savers.[30]

Integrating incentives and behavioral features

Both SaveUSA and R2S demonstrated that the choice to save and amount to save can be motivated by financial and non-financial factors. In a survey of $aveNYC participants, the availability of the match was listed as the "most important reason" for opening an account. The presence of a meaningful incentive, in the form of a direct match, made saving valuable for households with tight financial margins.

Other aspects of the match design also proved significant in determining the amount to save. In all three years of $aveNYC, about half of participants saved up to the match. A doubling of the match limit from $500 in 2008 and 2009 to $1,000 in 2010 resulted in an increase in average savings from $380 to $700, without a decline in participation. It is important to note that at the same time the average refund amount increased from $3,303 to $4,155 as a result of the EITC and Child Tax Credit expansion passed in the American Recovery and Reinvestment Act. And as previously discussed, the size of the initial deposit is linked to the size of a participant's refund. So while the effects of each variable could not be distinguished from each other, the observation that the match limit is treated as a savings target is consistent with other matched savings experiences.[31]

[30] See Bricker et al. (2012), 16.
[31] Sherraden, McBride, and Beverly (2010); Sodah and Lister (2006).

Importantly, multiple other design features proved successful at encouraging savings as well. The participation and savings produced by R2S were driven exclusively by behavioral techniques. The decision on the part of participants to dedicate a portion of the refund to savings in the intervention group was a result of three simple changes to the tax-filing software: making savings a default option, anchoring the savings amount to a fixed portion of the refund amount, and providing motivational prompts.

For $aveNYC participants, limiting access to the account and awarding the match at the end of the one-year term rather than at the time of filing reinforced the "mental accounting" and "loss aversion" that contributed to program participation and completion. Fifty-nine percent reported participating because the funds would be hard to access.

Savings interventions exist within a broader policy context

Factors aside from the design of the savings intervention itself also have an impact on how successful a policy ultimately is and must be considered in tandem. R2S participants who believed that saving a portion of their refund could imperil their receipt of public benefits were much less likely to have those savings after six months. In reality, the American Taxpayer Relief Act of 2012 exempted tax refunds from counting as assets in calculating program eligibility for a period of twelve months.

As previously referenced, public perception of program eligibility rules are much more generalized than they are nuanced, so even beneficial provisions such as this exemption are likely to go unnoticed. One fundamental way to combat the perception that savings is a liability and to get rid of the explicit barrier to saving is the wholesale elimination of asset limits across public assistance programs.[32] Until this takes place, concern over losing

[32] See Sprague and Black (2012).

public benefits will continue to be a competing consideration for low-income families striving to save.

A Federal Policy Response: The Financial Security Credit

No current federal policy, in part or in whole, embodies the design features recommended by SaveUSA and R2S. The closest representation is the Saver's Credit, which offers a tax credit to low- and moderate-income tax filers for deposits to qualified retirement accounts. It is, however, the very absence of the design features discussed in this paper that have branded the Saver's Credit a policy failure: For tax year 2011, just over 6 million[33] of an estimated 60 million eligible tax filers[34] claimed the credit. In addition to being largely inaccessible, the Saver's Credit delivers little value for savers: the average credit in 2011 was just $175.[35]

In contrast, the New America Foundation has developed the concept of a refundable tax credit that is designed to be widely accessible to low- and moderate-income households and to meet the savings needs of potential recipients. The Financial Security Credit would, for the first time, provide low- and moderate-income households with the opportunity to choose for themselves the savings purposes that are most needed in their unique financial situations. A legislative version of this idea was originally proposed by Senator Robert Menendez (D-NJ) in the 110th Congress as the Saver's Bonus Act (S. 3372)[36] and more recently as the Financial Security Credit Act by Representative Jose Serrano (D-NY) in the 113th Congress (H.R. 2917).[37]

The Financial Security Credit would offer several unique features reflected in the SaveUSA and R2S experiences that would create a pathway for households with little or no savings experience to develop the habit of saving and advance up the economic ladder. It would achieve these goals through three, broadly defined features.

First, the Financial Security Credit Act would be accessible for, and beneficial to, striving families. The very-low-incomes of the families participating in SaveUSA and R2S would have produced modest if any federal tax liability, limiting the possible benefit of policies like the nonrefundable Saver's Credit or other tax subsidies. The Financial Security Credit, on the other hand, is designed to be available to families with incomes up to approximately $70,000 a year. It would provide a meaningful 50 percent match (on amounts up to $1,000) on every dollar deposited, and direct that match directly to the preferred account.

Second, the Financial Security Credit would meet the real savings needs of working families by providing them with choice and flexibility. Unlike existing savings subsidies, tax filers could choose to save and have the credit applied to accounts ranging from longer-term, restricted accounts, such as IRAs, 401(k)s, and 529 college savings plans, to flexible-use accounts, such as a basic savings account or a savings bond. By offering a broader array of savings options, the Financial Security Credit would offer households the flexibility to save for the purposes that best fit their needs, which in turn would increase the likelihood that they will make the choice to begin saving in the first place. In particular, the inclusion of incentives to save for short-term, unrestricted uses presents an accessible entry point for households that struggle to make ends meet. By helping families first satisfy their short-term needs and attain financial stability through building a stock of flexible-use savings, the Financial Security Credit would make the longer-term prospect of saving for retirement or college more realistic and accessible.

Third, if tax filers do not already have an account, the Financial Security Credit would allow them to use their tax refund to open a new account directly on the federal income tax form. This feature is particularly important for

[33] Internal Revenue Service (2013), "Individual Income Tax Returns 2011."
[34] Gale, Iwry, and Orszag (2004).
[35] Based on calculations of the total dollar amount received from the Saver's Credit and the total number of returns that claimed the credit in tax year 2011. Internal Revenue Service (2013), "Individual Income Tax Returns 2011."
[36] Senator Robert Menendez (D-NJ) introduced S.3372, the Saver's Bonus Act of 2007, on July 31, 2008.
[37] Rep Jose Serrano (D-NY) introduced H.R. 2917, the Financial Security Credit Act of 2013, on August 1, 2013.

the population who would be eligible for the Financial Security Credit, since those households are less likely to have a preexisting account. Accordingly, The Financial Security Credit would facilitate the entry of new savers into the marketplace.

The Financial Security Credit provides a model for a federal policy solution that builds off knowledge of the real challenges faced by striving families. Additionally, it incorporates the demonstrably successful design elements discussed in this paper and applies them to support the multiple savings needs that families encounter. In doing so, it provides great assistance in building savings among the low- and moderate-income families least served by current policy options. The outcomes of SaveUSA and R2S speak both to the need for this type of policy and the potential for its success on a national scale.

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