A Gateway to Longer Term Savings:
Testing U.S. Savings Bonds to Help Low-income Tax Filers Start Saving

A Working Paper, May 7, 2007

Highlights

During the 2007 tax season, D2D Fund, Inc in cooperation with H&R Block and five community groups around the country offered U.S. Savings Bonds (Series I) to over 4,800 low and moderate-income ("LMI") tax preparation clients. The following is a preliminary report on the results of and this test and their implications for federal policy. Highlights of the report include:

- ***LMI tax filers exhibit a strong demand for bonds compared to other savings products*** – six percent (6%) of tax filers with a refund large enough to buy a bond ($50 or more) chose to do so; this compares with a 3.3% take up of IRAs for tax clients in another test.[1]
- ***Unique features of U.S. Savings Bonds appear to drive demand*** – buyers cited several bond features as particularly attractive, including:
    - Ability to save for the next generation – nearly four-fifths of bond orders included "co-owners," most frequently children or grandchildren.
    - Competitive rate for small investment – savings bonds offer a very competitive interest rate (4.52% in this test) for an investment as low as $50. Sixty-three percent of buyers cited rate and low minimum as the two most important savings bond attributes.
    - High name recognition – nearly 75% of bond purchasers and of a sample of decliners were aware of bonds prior to being offered the opportunity to buy one – despite the fact that all public promotion of US Savings Bonds has effectively ceased since 2003.
- ***Bonds appear well suited to serve as a stepping stone to longer term saving*** – low initial minimums, the absence of fees and no requirement for a bank account may position bonds to help LMI savers:
    - Begin long-term savings – with a minimum one year holding period, bonds provide an accessible, affordable way to begin longer-term saving for a population with little or no long-term investments (more than half of purchasers reported no existing savings).
    - Transition to mainstream financial products – long-term saving products (e.g., CDs, mutual funds) typically require significant minimum balances; bonds can be purchased in $50 increments, serving as a starter savings tool until higher balances are achieved.
- ***Low-cost policy changes could facilitate a "bond revival" for LMI savers at tax time*** – the federal government could unlock the potential of savings bonds for small savers by:
    - Tapping tax time – by adding a bond purchase option to tax returns.
    - Reinvigorating marketing – targeted marketing and promotion would complement and support a tax season bond purchase option.
    - Tailoring products to the LMI segment – among other things, purchasers expressed interest in a shorter holding period and more explicit emergency redemption policy.

---

[1] 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.

Introduction

Millions of Americans, particularly those living on low or moderate incomes, have little or no savings. However, studies have shown that a promising strategy to encourage saving for LMI households is to provide a convenient saving option during tax preparation, when many filers receive their largest lump sum of income in the form of a tax refund.[2] Unfortunately, considerable obstacles interfere with offering cost effective savings vehicles to these households at tax time. Furthermore, 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.[3]

Harvard Business School Professor and founder of D2D Peter Tufano and others have argued for the need for a savings tool to assist tax clients.[4] In "Reinventing Savings Bonds,"[5] Tufano advances 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 screening for new deposit account holders, ChexSystems, and therefore are open to any citizen.[6]

Savings bonds also support longer 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.

While the theoretical case for bonds may be compelling, the question remains whether low-income individuals would want bonds at tax time and, if they did, in what amount, for what purposes and if any such purchases would constitute new savings. To answer these questions, D2D Fund undertook two tests during the 2007 tax season. Preliminary results of the first of these, a test at Volunteer Income Tax Assistance (VITA) sites,[7] are presented below. A second test undertaken with Harvard Business School and H&R Block was also conducted during the 2007 tax season. Its

---

[2] See, for example, Peter, Tufano, Daniel Schneider and Sondra Beverly, August 2005 "Leveraging Tax Refunds to Encourage Savings", No. 2005-8, (Retirement Security Project),

[3] 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.)

[4] See Tufano "Leveraging Tax Refunds to Encourage Savings."

[5] Peter Tufano and Daniel Schneider, "Reinventing Savings Bonds," Working Paper, 2005 (available at http://www.people.hbs.edu/ptufano/.)

[6] In one test, 26% of LMI tax clients who applied for a savings account were denied by ChexSystems - 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).

[7] As per the IRS (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.

results, generated through 31 H&R Block offices, will be issued later this year; early indications are that this test confirms findings of the VITA pilot.

Although the data presented below are preliminary, they suggest that U.S Savings Bonds could be effectively deployed as a "gateway" or "stepping stone" savings tool for millions of Americans who currently do not save for periods longer than a few months. With relatively minor alterations (some of which reflect past practices), savings bonds could serve as a bridge from no savings to long-lasting savings for many families that may not even think of this as an option.

The VITA Savings Bond Pilot Test

In the fall of 2006, D2D Fund issued a Request for Proposal to VITA sites to participate in a pilot test to offer U.S. Savings Bonds to tax clients receiving federal refunds. To respond to the RFP, VITA sites had to offer savings bonds to all or nearly all tax clients during at least the first 45 days of the 2007 tax season, and expect to process at least 800 returns. In the RFP memo, D2D 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 five VITA organizations were selected:

- Baltimore CASH (Northwest Baltimore / Mondawmin Mall site)
- Denver Asset Building Coalition (Five Points site)
- Community Action Project of Tulsa County (CAPTC) (Exchange Center site)
- Food Change, New York City (Harlem site)
- Boston EITC (Roxbury Resource Center site)

Each site was asked to employ a "bond coordinator," who arranged site staff and tax preparer training, led client marketing efforts, managed operations and ensured surveys were collected. While D2D's objective was to offer bonds as much as possible 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 elected to stay open after the 45 day peak period ended.

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

- *Operations* – D2D and H&R Block 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. Block provided its 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.

For the pilot test D2D chose Series I Bonds rather than the better known Series EE Bonds, since I Bonds offered higher interest rates in early 2007 (4.52% yield) and could be bought at face value.[8]

[8] Series EE bonds purchased in paper rather than electronic form are sold at half their face value, a fact that D2D and its partners thought might be confusing for and difficult to explain to prospective buyers.

Series I Bonds are sold at face value and pay interest for 30 years at a rate adjusted every six months by the Treasury (on the basis of inflation over the prior six months, as measured by the Consumer Price Index) and includes a fixed portion which remains the same throughout the life of the bond (1.4% for bonds issued in early 2007). I Bonds cannot be redeemed for at least one year and prior to 5 years, redemption caries a penalty of the preceding three months' interest. Most banks will redeem bonds- rendering them highly portable. Paper I Bonds can be purchased for as little as $50 and in increments of $25 above $50. In the pilot tax clients could purchase I Bonds in their own name or in their own name *and* that of a "co-owner," who would have full rights to redeem the bond without the owner's permission or participation.

Findings

From January 22nd to March 31st 2007, 4,410 tax clients at four VITA sites[9] were offered the opportunity to purchase savings bonds.[10] Clients who ordered one or more savings bonds we label "purchasers."[11] Those that decided not to purchase bonds we classify as "decliners." This group includes tax clients who were unable to buy a bond either because they were not due a refund, were due a refund of less than $50 (the minimum bond purchase amount), or chose not to use direct deposit (and therefore could not "split" a portion of their refund into a savings bond). As a result, at least 40% of tax clients – those who chose to receive their refunds via paper check – were effectively unable to buy a savings bond.[12]

During the test period, 231 tax clients purchased a total of 377 savings bonds:[13]

Savings Bond Test Results	
Number of Clients Purchasing Bonds / Bonds Purchased	231 / 377
Average Amount Used to Buy Bonds / Client	$ 185
Median Refund Amount Used to Buy Bonds / Client	$ 100
Average Bond Size / Co-owner	$ 114
Maximum Refund Amount Used to Buy Bonds	$2,800
# of Bonds Purchased with "Co-Owners" (as Gifts)	317
Percent Bonds Purchased with Co-owners (as Gifts)	84%
Percent of Refund Used for Bonds / Client	5.8%

To place these results in context, we must consider take-up. Below we present take-up from two different perspectives. First, we show take up when calculated against all clients who were offered

[9] One VITA site dropped out of the pilot during the middle of the test for operational reasons; data from this site is excluded from all reported results except surveys of purchasers and decliner attitudes.

[10] 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 the Appendix. 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. **,**

[11] As of the writing of this paper we do not know how many of the clients who ordered bonds will ultimately receive them; clients whose refunds are less than anticipated, for instance, may not receive ordered bond(s).

[12] The Baltimore and Tulsa sites offered a pilot product from Western Union, "Quick Cash," which allowed refund recipients to instruct the IRS to direct deposit their refunds to Western Union for pick up in cash. Some Baltimore and Tulsa clients who wished to buy bonds but did not want, or were unable to accept, a direct deposit in to their own bank account used Quick Cash.

[13] 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.

a chance to buy bonds and had at least a federal refund large enough to purchase one ($50). Secondly, we list take up when measured against the subset of those clients who opted for direct deposit. We present this second take up rate because a meaningful percentage of clients were unable or unwilling to use direct deposit, which was a requirement for bond purchase (since bond purchases were facilitated by IRS Form 8888, which facilitates multiple direct deposits).

Savings Bond Take Up	
Clients with sufficient refund	6.0%
Clients using Direct Deposit	9.6%

Even using the lowest take up figure – 6.0% - we believe demand for bonds is notably robust and exceeds comparable products. 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 chose to make an IRA contribution.[14]

Possibly one reason for the relative ease with which tax preparers and bond coordinators were able to promote savings bonds at VITA sites was a high level of client recognition of Bonds. Over seventy-three percent of bond purchasers and decliners reported that they had heard of U.S. Savings Bonds before coming to the tax site. This high brand recognition occurs despite the fact that there has been no savings bond public promotion for the last four years.[15]

Strikingly, the overwhelming majority of bonds (84%) were purchased with co-owners, an option presented to allow tax clients to buy bonds as gifts. Seventy-two percent of bond buyers purchased bonds for their children or other family members (see table below). In effect, purchasers chose to set aside some of their refund into a long term savings product for a loved one.

I bought bonds for…(circle all that apply)	*n= 340*[16]
My kids	59%
Myself	28%
My Grandkids	9%
Other Relatives	4%
Total	100%

When asked for what they were saving, almost 70% of the responses fell into three categories: 27% for "Children / family," 24% for "Education" and 17% for "Retirement."

Both the average and median bond size seems small in light of the average refund size and D2D's prior experience with pilot tests of split refunds.[17] However, savings bonds represent *longer term* savings, an attribute underscored by the required one year holding period and three-month interest penalty for redemptions before five years.[18] In prior refund splitting studies, while tax clients

[14] See IRS data table available at http://www.irs.gov/pub/irs-soi/02in07ira.xls
[15] See Tufano, "Reinventing Savings Bonds", page 2.
[16] Note that the number of responses (n=300) 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).
[17] 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.
[18] Some readers may consider "long-term savings" that which is held for years or decades rather than a minimum of one year. For low-income individuals, we believe a commitment to a minimum of one year is fundamentally different than short-term savings, hence our use of the label "longer term saving."

allocated nearly 50% of their refunds to savings accounts, new savings were almost entirely depleted within nine months.[19] Bond purchasers, in contract, are committing not to access funds for at least one year. When purchasing bonds as gifts, it seems reasonable that tax clients do not intend to access the gifted funds again.

Equally important, many bond buyers report that their investment in bonds represents their only savings, or a significant addition to modest existing holdings. Fifty-four percent of purchasers said they had no existing "money saved or invested." Of the remaining 46%, over half (52%) reported less than $1,000 in funds currently saved or invested. For many tax clients, purchasing savings bonds then represents two major commitments – first to the *idea* of saving, and second to *long-term,* "no access" saving. Viewed in this light, the average 5.8% of refunds invested in bonds seems more reasonable.

From a public policy perspective it is important to consider if a savings product stimulates 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 – we asked purchasers 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.

If you had not bought a bond today, would you have saved more, the same or less of your tax refund?	N= 293
Would have saved less	53%
Would have saved same amount	29%
Would have saved more	13%
Don't know / no answer	5%
Total	100%

Key differences emerged between purchasers and decliners. As the table below shows, on average purchasers had higher adjusted gross incomes and half a dependent more, but were only 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, to claim the Child Tax Credit and more exemptions. The decision to buy bonds may be driven by large refunds, by the presence of dependents for whom to purchase bonds, or both. One can imagine that the larger a tax refund, the more able a refund recipient might feel to allocate at least $50 to savings. Given the clear interest among bond buyers in purchasing bonds for their children or dependents, it also makes sense that tax filers with more dependents 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 for whom to save – that combination drives purchases.

	Purchasers	**Decliners**
Average: N=	231	4,179
Adjusted Gross Income	$ 20,888	$18,105
# Dependents	1.3	0.6
Refund Size	$ 3,177	$ 1,373
Age	38.2	40.2

[19] See Sondra Beverly, Schneider, Daniel, Tufano, Peter, 2005, February, "Splitting Tax Refunds and Building Savings: An Empirical Test" Working Paper (available at www.d2dfudn.org/news/research.php)

Interesting points of comparison appeared between purchasers and decliners in a survey of 109 decliners. In particular, the two groups differed in their approach to checking and cash transactions but converged regarding existing savings. Because the decliner sample was drawn from all non bond purchasing tax clients, 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.

Savings Bond Purchasers & Decliners Comparison of Banking Habits		
	Purchasers	Decliners
Used bank and/or credit union to cash most checks in last 6 months	75%	61%
Used check casher / Wal-Mart, 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 cash checks, bond purchasers relied on depositories to a greater degree than decliners. Likewise, decliners 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 decliners are more alike than different.

Interpretations

D2D believes several interpretations can be drawn from the preliminary findings of this test:

1) *There is significant demand for U.S. Savings Bonds among LMI filers at tax time.* Six percent of eligible tax filers who were offered the chance to buy a bond did so. This rate compares favorably with take rates for IRAs and other savings products that have been offered at tax sites in similar studies.
2) *Despite no advertising of U.S. Savings Bonds to the LMI market for four years, there is still significant brand recognition.* Over 73% of bond purchasers had heard of U.S. Savings Bonds before they were offered a chance to buy one, yet fewer than 18% had previously purchased one for themselves or to give as a gift. This high awareness exists despite the fact that there has been no retail promotion of savings bonds whatsoever in four years.
3) *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,[20] an additional 3.2 million bond purchasers would be created annually. Assuming an average expenditure on bonds of $185 (the average from the pilot), an additional $600MM 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.
4) *The target customer for savings bonds appears to be parents, guardians or relatives of children*, as the overwhelming majority of bonds purchased were bought with children or grandchildren as co-owners. This high percentage of gifting raises several interesting questions. It may be possible, for instance, that bonds purchased for children remain

[20] Per IRS data from the 2004 tax season (available online at: http://www.irs.gov/pub/irs-soi/04in33ar.xls).

unredeemed for longer periods, perhaps until milestones are reached such as a graduation or marriage. Children, as a constant and important presence in most parents' lives, may provide a continuous motivation to consider recurring bond purchases, especially at tax time.

5) *Savings bonds offered at tax time could be a "starter" long term savings tool for LMI clients.* With their very low entry barriers ($50 minimum denomination[21], no fees), wide availability (no application process or ChexSystem review), no risk and attractive return, bonds offer an easy way to begin a savings habit for a population with little or no prior savings experience. Indeed, over half the bond buyers in the test reported no existing savings, suggesting many may have been first time savers. Yet, through repeated bond purchases over time, these new savers could accumulate enough money to consider more sophisticated, perhaps higher return saving products (e.g., CDs, IRAs, mutual funds). For the un- or under-banked, bonds may offer a way to "try out" owning a financial product, and/or to build the confidence to consider a mainstream banking relationship.

Recommendations

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

1) *Improve access to bonds at tax time* – by integrating a bond buying option in to the tax filing process, bonds would be offered to all federal tax refund recipients at least once a year.

   - Offer bonds as a refunds option – in the 1960s Americans could use their federal tax refunds to buy savings bonds by checking a box on their Form 1040. 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,[22] conceptually it is straightforward for the Department of the Treasury, which oversees both the Internal Revenue Service and the Bureau of Public Debt to retain the portion of tax refunds some citizens would elect to use to buy bonds.
   - Revive retail marketing of savings bonds – nearly 75% of bond purchasers and decliners had heard of savings bonds; nevertheless bond brand awareness may pass with this generation, given that the Bureau of Public Debt has had no retail marketing budget since 2003. Even advertising and promotion that is modest by private sector standards could help prospective buyers learn about a product that, our study suggests, is inherently attractive, especially to low-income parents. A marketing campaign would also be a logical complement to re-introducing an option to buy bonds with one's tax refund.
   - 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 a co-owner(s). The experience of this recent 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 possible.

2) *Tailor bonds for low-income savers* – as attractive as standard Series I Bonds were to low-income tax fliers 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

[21] Thirty-four percent of bonds ordered in the test were at the minimum $50 amount.
[22] 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).

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 funds set aside may 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 events such as job loss, medical disability and death of an immediate family member. A clarified policy should be publicized so that prospective bond buyers can read and consider before making a purchase decision.
- Preserve the option to buy paper bonds – in our study VITA site coordinators 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. In addition, many LMI tax filers still face a "digital divide," a further obstacle to opening and managing a Treasury Direct account for savings bonds.

Acknowledgements

D2D Fund would like to thank H&R Block, H&R Block Bank, Nets to Ladders, the Ford Foundation and the Annie E. Casey Foundation for their support of the savings bond pilot project. In addition, gratitude is due to the VITA sites that participated in the pilot and other members of the VITA community who contributed ideas and support for expanding saving opportunities at tax time.

About D2D Fund, Inc.

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

This working paper was prepared by Tim Flacke and Jeff Zinsmeyer of D2D and is preliminary. Questions, comments and suggestions are welcome (jzinsmeyer@d2dfund.org).

Appendix

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.[23] 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.[24] 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.

20% Tax Time Savings Incentive - Comparison of Savings Bonds & IRAs		
	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

One could imagine a special series of U.S. Savings Bonds funded exclusively through tax refunds, offered only to filers with incomes below a certain ceiling, made available via Form 8888 and issued at a discount. This product could serve as a bridge for tax fliers 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. This form of savings bond could offer a high rate of return that remained effectively tax free as long as any funds redeemed are rolled into an eligible asset building account, such as a 529 college savings account or Roth IRA. This program would be administratively simple, benefiting from the tax filing process as a means to target the subsidy.

---

[23] Michael Sherraden, Schreiner, Beverly, Sondra, "Income, Institutions, and Saving Performance in Individual Development Accounts", Economic Development Quarterly, Vol. 17 No.1, February 2003.
[24] 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.