

Social Innovation Fund to Nationally Replicate Successful Economic Opportunity Programs

Program Design Paper for \$aveUSA:

A tax-time savings program

in

New York, NY; Newark, NJ; San Antonio, TX; Savannah, GA and Tulsa, OK

The Mayor's Fund to Advance New York City ("The Mayor's Fund" or MF) and the NYC Center for Economic Opportunity (CEO) were awarded a Social Innovation Fund (SIF) grant by the Corporation for National and Community Service in July 2010. This grant provides a unique funding opportunity to develop and replicate innovative anti-poverty programs in selected cities across the country. We are seeking qualified non-profit organizations or state or local government agencies in partner cities to become CEO SIF providers (also referred to as sub-grantees) and operate particular program models that will be evaluated over five years. Requests for Proposals (RFPs) will be released in late September and October by The Mayor's Fund and CEO to support the replication of five innovative programs in the following geographic areas: Kansas City, MO; Memphis, TN; New York, NY; Newark, NJ; Northeast Ohio; San Antonio, TX; Savannah, GA; Tulsa, OK. One or more of the program models will be offered in each partner city; not all cities will operate each program. Visit www.nyc.gov/ceo for more information.

This design paper describes **\$aveUSA**, a tax-time savings program.

Households throughout the United States do not save enough money to smooth consumption throughout their lifetime and weather economic storms. In 2008, the personal savings rate was below 1 percent,¹ indicating that most Americans are spending more than they earn. Roughly 30 percent of working families have zero or negative net worth.² This is particularly true for families with low and moderate incomes, one out of five of whom do not have a bank account in which to save.³

\$aveUSA Program Design

The \$aveUSA program seeks to address this issue by offering eligible individuals with low incomes a 50 percent match if they deposit a portion of their tax refund into a "\$aveUSA Account" and maintain the initial deposit for approximately one year. The decision to save a portion of their refund, combined with limited access to the account and a generous match,

¹ Bureau of Economic Analysis, Personal Savings Rate, Accessed October 06, 2008: <http://www.bea.gov/briefrm/saving.htm>. In the third quarter of 2008, personal savings increased to greater than 2% of national income for the first time since fourth quarter 2004.

² McKernan, Signe-Mary, and Caroline Ratcliffe. 2008. "Enabling Families to Weather Emergencies and Develop: The Role of Assets." New Safety Net Paper #7, The Urban Institute. Accessed October 21, 2008: http://www.urban.org/UploadedPDF/411734_enabling_families.pdf

³ FDIC. 2009. National Survey of Unbanked and Underbanked Households. Available at <http://www.economicinclusion.gov>

may lead individuals on a pathway from short-term saving to longer-term saving and greater financial stability.

The \$aveUSA program is intended:

- To replicate and test the effectiveness of a viable and scalable model for fostering saving and asset accumulation at tax time.
- To study the impact of short-term, non-goal directed saving on long-term saving and overall financial stability.
- To encourage local, state and/or federal policy to create tax mechanisms to incentivize saving for low-income working adults.

\$aveUSA is to be offered to eligible tax filers at Volunteer Income Tax Assistance (VITA) sites in New York City, Tulsa, San Antonio, Newark, and Savannah during the 2011, 2012, and 2013 tax seasons. Participants will receive a 50 percent match, up to \$500, if they deposit at least \$200 of their tax refund into a “\$aveUSA Account” and maintain the initial deposit for approximately one year. Providers will need to have the capability to collectively enroll the following in each city into the \$aveUSA program:

- Savannah, GA: 250 VITA filers into the \$aveUSA program each year
- Newark, NJ: 350-500 VITA filers into the \$aveUSA program each year
- San Antonio, TX: 600 VITA filers into the \$aveUSA program each year
- New York, NY and Tulsa, OK: 600-800 VITA filers into the \$aveUSA program; plus, an additional 600-800 VITA filers into a control group per city in 2011

Participants will be required to open the account at the tax site and contribute via direct deposit using IRS Form 8888 to split their tax refund. \$aveUSA eligibility will be determined by:

- Income: Tax filers must be eligible for VITA tax preparation services as determined by local guideline in the cities in which \$aveUSA is implemented – typically, with reported AGI of \$55,000 or less for filers with dependent children, or \$25,000 or less for individuals without children; and
- Refund size: Individuals must receive at least a \$200 tax refund from their state/city and/or federal tax return.

Providers selected to operate \$aveUSA will be required to work with financial institutions that will hold the accounts, and to create systems to facilitate account opening at \$aveUSA VITA sites. Alternatively, the Mayor’s Fund may be able to help identify financial institutions willing to offer the \$aveUSA Account at participating VITA sites in certain cities. Financial institutions must be willing to:

- Ensure that accounts can be opened at the tax site at all times either by (1) a financial institution representative being present at all times during VITA operating hours; or (2) devising an appropriate process for remote opening of accounts at the VITA location, with intermediary assistance by VITA staff; and
- Open and maintain a savings account, called “\$aveUSA Account,” for every VITA filer who enrolls in the program, with the following features:
 - Allows a minimum \$200 deposit to open the account
 - Allows deposits and withdrawals via teller transaction but not through ATM access, point-of-sale transactions, or paper checks

- Capacity to convert the account to a traditional, market-interest-rate savings account, if the account balance falls below the initial direct deposit made by the account holder
- Waives any maintenance or online statement fees
- Online access to account information, without the capacity to make online transfers, bill payments or purchases
- Interest earnings at market rate for traditional savings accounts
- No or limited ChexSystems review

Implementation Considerations

\$aveUSA builds on early promising findings from a similar program — \$aveNYC — operated in New York City. \$aveNYC has attracted over 2,200 savers in its first three years of operation, 23 percent of whom did not have a bank account, and 40 percent of whom reported having no savings or history of saving when they entered the program.⁴ Participants in 2008 and 2009 accumulated more than half a million dollars in savings, in some of New York’s poorest communities. The majority of participants (80 percent) saved for at least one year and received the match funds, and 70 percent continued to save even after receiving the match.

New York City’s program operating experience indicates that marketing and training are vital to program success. In \$aveNYC’s initial pilot year, 6% of eligible filers and 12% of those who received refunds via direct deposit participated in the program. In \$aveNYC’s second year, with greater staff training and an additional year of experience among partner non-profits, 9% of eligible filers and 18% of those who direct deposited refunds opened a \$aveNYC account. This suggests that clear procedures, staff training, and intensive and effective marketing will be key to the successful implementation of \$aveUSA.

As a result, selected \$aveUSA organizations will be expected to require staff and volunteers to complete intensive training prior to the start of the 2011 tax season. Training will need to cover all aspects of \$aveUSA, including: strategies for marketing the \$aveUSA account and overcoming barriers to recruitment (i.e., hesitancy about using banks, products seeming “too good to be true”, concerns about sharing information with government agencies, etc.); how to respond to anticipated questions from filers; the full range of products offered; detailed protocols on the account-opening process; and consciousness-raising exercises on the value of asset building in low-income communities.

The Center for Economic Opportunity (CEO), the Office of Financial Empowerment (OFE) and MDRC⁵ will provide technical assistance and support to sites to develop marketing and publicity strategies to attract potential savers. Assistance will also be provided in the training of staff and volunteers to maximize filer participation and opening of actual accounts. CEO, OFE and MDRC will specify procedures for tracking and transmitting data on \$aveUSA participants.

⁴ The \$aveNYC pilot program is being studied by the Center for Community Capital at UNC-Chapel Hill, using a quasi-experimental design.

⁵ The Center for Economic Opportunity (CEO), in the New York City Mayor’s office, designs, implements and evaluates innovative anti-poverty programs. MDRC is a nonprofit, nonpartisan social policy research organization that specializes in managing and evaluating multi-site, anti-poverty initiatives. The Office of Financial Empowerment (OFE) has a mission to educate, empower, and protect New Yorkers with low incomes so they can build assets and make the most of their financial resources. CEO, MDRC and OFE will spearhead the \$aveUSA program.

Research Considerations

The effectiveness of \$aveUSA will be determined using a random assignment research design in two of the four cities participating in \$aveUSA. As part of the overall research effort, all participating VITA organizations in all four cities will be expected to recruit substantial numbers of eligible filers, collect baseline demographic and tax data on participants, and facilitate the collection of account data from financial institutions.

Additionally, in the two cities where the random assignment research will be conducted, additional research steps will be required. Individuals visiting the VITA sites who are found to be eligible for a refund and express an interest in savings will be assigned at random — using procedures developed by MDRC — to either a program group, eligible for the \$aveUSA match, or a control group (also called the “business as usual” group), not eligible for the match but still informed of various other existing savings options.⁶ In each of these two cities, sites will be required to recruit 1,200-1,600 research participants during the 2011 tax filing season.

⁶ In order to ensure relatively high take up of the offer, random assignment would occur *after* eligible individuals express a commitment to divert a portion of their refund into a savings account. Findings from \$aveNYC indicate that about 10 percent of eligible filers took up the match offer, although this percentage varied across sites.