THE $AVENYC ACCOUNT

Innovation in Asset Building

Research Update

December 2010

NYC™
Department of Consumer Affairs
Office of Financial Empowerment
nyc.gov/ofe

A. Introduction

The New York City Department of Consumer Affairs Office of Financial Empowerment (OFE) launched the $aveNYC Account pilot program in February 2008. The $aveNYC program helps New Yorkers with low incomes to build savings, offering a 50 percent match incentive if they deposit a portion of their tax refunds into a branded "$aveNYC Account" and maintain that initial deposit for at least one year.

Unlike conventional asset-building efforts that require participants to commit to long-term savings goals, $aveNYC makes it as easy as possible for people to start saving, at a windfall moment such as receiving a large tax refund, regardless of the ultimate savings purpose. For many with no savings, the greatest savings goal is to withstand emergencies and unexpected income shortfalls.

Capitalizing on lessons learned from behavioral economics, $aveNYC combines the simple decision to forego a portion of the refund with limited access to the account during the year and a generous match. This is designed to precipitate short-term savings with the intention of moving individuals on a pathway toward longer-term savings and greater financial stability.

Through the $aveNYC pilot program, DCA's OFE is exploring the following key asset-building questions:

1. Do families with very low incomes save if presented with the right incentives and opportunities, linked to the windfall moment of receiving a large tax refund?
2. Can an incentivized savings program be implemented at a large scale? Does the tax return offer the mechanism and opportunity for large-scale implementation?
3. Can short-term, non-goal directed savings promote longer-term savings and improve financial stability?

Using data collected from participants' tax returns, $aveNYC Account activity and survey responses, this update builds on the 2009 research brief, *The $aveNYC Account: Innovation in Asset Building,* and presents highlights from the three program years.

B. 2008 – 2010 $aveNYC Account Program Results

Over three years, the $aveNYC Account program has successfully encouraged New Yorkers with low incomes to build savings at tax time. To date, approximately 2,200 New Yorkers with low incomes chose to participate in the $aveNYC program, fully exhausting private match dollars available and saving $1.4 million in total, with an average savings of $561. Approximately 80 percent of participants saved for the full term, despite incomes averaging approximately $17,000. Additionally, 70 percent of participants maintained their accounts beyond their program term; and 30 percent participated again in the program the following year.

Roughly nine percent of eligible Volunteer Income Tax Assistance (VITA) filers opened $aveNYC Accounts, jumping from six percent in the first year to 10 percent in 2010. The take-up rate was even higher among Earned Income Tax Credit (EITC) filers and filers who directly deposited their tax refund, 11 percent and 17 percent respectively.

Table 1: $aveNYC Highlights

	2008	2009	2010	Total
$aveNYC Accounts	151	952	1,360	2,165[1]
Total Savings	$58,539	$362,741	$961,518	$1,382,798
Average Savings	$388	$381	$707	$561
Participation Rate	6%	9%	10%	9%
Full Year Savers	76%	80%	NA	79%

[1] Total $aveNYC Accounts only includes individual $aveNYC Account holders. Over the three years, 29% of account holders have participated in multiple years.

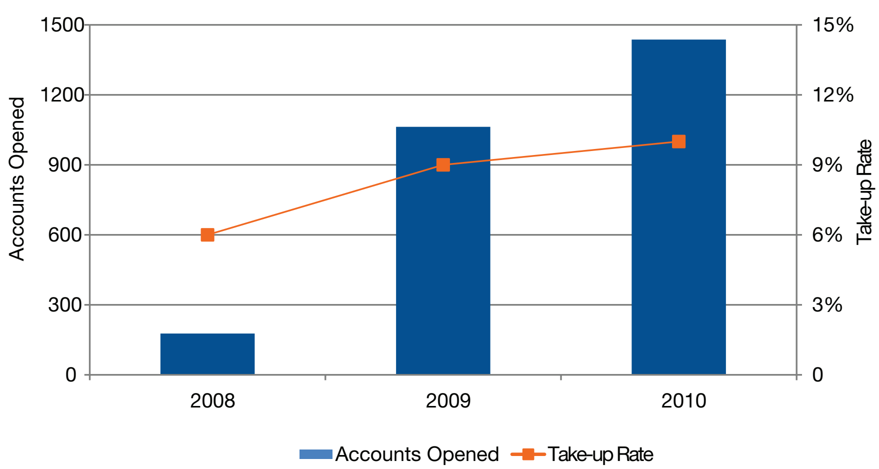
1. Program Implementation - Lessons Learned

The $aveNYC Account was offered at select VITA sites throughout New York City during the 2008, 2009 and 2010 tax seasons. During the first year, the account was offered only to those filing for the EITC and marketing and promotion strategies were left up to the individual VITA organizations.

After the first year, DCA's OFE identified key implementation lessons and adopted programmatic shifts for the second year. As a result of adopting these implementation strategies, the program experienced a 50 percent increase in take-up, from six percent in 2008 to nine percent in 2009. Key implementation changes included:

- **Expanded eligibility:** Finding that limiting eligibility to EITC filers posed both a challenge to on-site promotion of the program and a barrier to certain filers with low incomes, particularly immigrants, OFE expanded eligibility to include all VITA filers receiving a refund equal to or greater than the minimum amount to open an account.
- **Staff and Training:** OFE required partners to hire an Asset Specialist for each site, responsible for onsite marketing, account opening and tracking. OFE conducted intensive training for Asset Specialists emphasizing principles of behavioral economics to ensure the process was hassle free, and marketing efforts appealed to filers' identity.
- **Marketing:** OFE expanded its marketing efforts and incorporated the $aveNYC program into the Agency's larger Earned Income Tax Credit Campaign. This included mass marketing through press channels, advance mailings to previous VITA filers and broader dissemination of materials beyond the VITA site alerting filers about the opportunity *before* they reached the tax site.

Figure1: $aveNYC Account Program Progress



2. Committing to Save

Despite participants' low incomes, their contribution levels and ability to save for a full year indicate a willingness to save when presented with the right opportunity.

To date, participants have contributed $1.4 million to their $aveNYC Account, an average of $561. Over half of all participants contributed the maximum amount to be eligible to receive the maximum match amount. This is impressive, particularly given that roughly 50 percent of participants reported having no savings account prior to opening the $aveNYC Account.

> "When I opened the $aveNYC account, I was able to save for the first time .... I hold back, deprive myself, so that I can get the computer for my son and other things."
>
> -$aveNYC Participant

Also of note, participants are largely using this account to save for increased stability: 71 percent reported saving for emergencies, followed by 63 percent intending to save for household expenses, 45 percent for child-based expenses, and 40 percent for paying off debt.

In 2008 and 2009, participants were required to deposit a minimum of $100 from their refund, and were eligible to receive a 50 percent match up to $250. In 2010, OFE increased the program contribution parameters, increasing the minimum amount to $200 and the maximum match amount to $500, allowing for a 50 percent match on the first $1,000 saved. This change was a response to findings in the first two years that participants who contributed $100 were considerably more likely than those contributing $500 to close their account prior to receiving the match.

By shifting program parameters, OFE was able to dramatically increase total savings among participants without reducing take-up of the opportunity. Participants contributed an average $700 in 2010 compared to $380 in 2008 and 2009, almost doubling their contributions. Interestingly, the distribution of savings was only slightly different in 2010 than in 2008 and 2009, with 47 percent contributing the maximum amount allowed for the match, compared to 55 percent in 2008 and 2009. On average, participants contributed 21 percent of their refund to savings in 2010, compared to 16 percent in 2009. This increase in savings levels was also evident among participants who saved in multiple years. In 2009, the average contribution was 14 percent, while in 2010 these same participants contributed an average of 21 percent.

Figure 2: 2008 and 2009 $aveNYC Contribution Amount

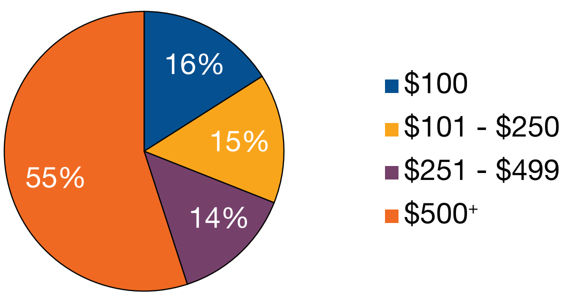
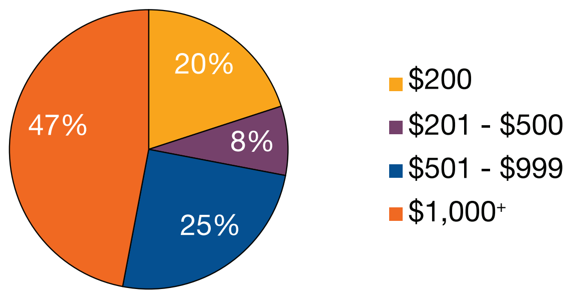


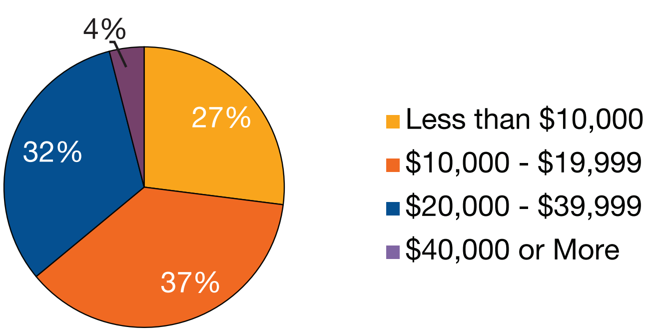
Figure 3: 2010 $aveNYC Contribution Amount



3. Profile of $aveNYC Account Holders

During the first program year, households with very low incomes demonstrated that they can and will save when presented with the right incentive and opportunity. The average income of participants was $17,900, one-third of the City's median household income. For participants in 2009 and 2010, two-thirds earned less than $20,000 in the year prior to opening their $aveNYC Account.

Figure 4: 2009 and 2010 Income Distribution



Over the three years, participant demographics remained largely consistent. Participants were more likely to be single and have children compared to eligible filers who chose not to participate; 79 percent of participants are single with children compared to 54 percent of eligible non-participants.

Participant household composition appears to be linked to the EITC, which awards the highest credit to families with two or more children. Four out of five participants received the credit, with an average refund of $5,700. Interest among EITC filers is largely due to the high refund amounts they receive, which presumably makes it easier to decide to save a portion of their refund. $aveNYC participants who received the EITC received, on average, $3,800 more than participants who did not receive the EITC. Findings indicate that the refund amount matters more in choosing to participate compared to income and other demographic indicators and also matters in savings levels.

4. $aveNYC Participants One Year Later (2008 and 2009 participants)

The $aveNYC Account incentive structure encourages participants to segregate money formally as savings for at least one year. Approximately four out of five participants (79 percent) saved for the full year to receive the match. At the end of the two program years, participants had accumulated over a half million dollars. The average balance at the end of one year for successful savers was $625, and approximately 65 percent of all account holders accumulated $500 or more in savings at the end of the year. As of September 2010, 80 percent of Year 3 participants remain on track to receive the match.

At the end of each program year, approximately 70 percent of participants who received their match maintained their $aveNYC Account, rolling over the account for an additional year. Of those who received the match, 29 percent are annual savers who continue to participate in the following year's program. Among 2010 participants, 20 percent are annual savers, of whom 10 percent have held their accounts for three years.

Table 2: 2008 and 2009 Account Status at the end of Program Year

Account Status as of Year End	2008	2009	Combined
Percent of Accounts Receiving Match	76%	80%	79%
Total Savings at Program End	$73,246	$473,708	$546,954
Average Balance	$637	$623	$625
Account Status of Match Recipients			
Rolled Over for Additional Year	50%	40%	42%
Participated in Following Year	24%	30%	29%
Total Continued Saving after Program	74%	70%	71%

Participants with higher contribution amounts were significantly more likely to save for the full year; 84 percent of filers who contributed the maximum amount to their $aveNYC Account saved for the full year compared to 68 percent of participants who contributed $200 or less.

C. Impact Evaluation

DCA's OFE is working with the University of North Carolina Center for Community Capital to study the impact of the $aveNYC program on savings behavior, debt levels, financial conditions and perceptions of financial stability. Using both quantitative and qualitative data, researchers will determine the impact of program participation using a quasi-experimental design, tracking program participants and a comparison group of VITA filers who were not offered the account.

Researchers have conducted baseline and follow-up surveys with 2009 participants and 2010 baseline surveys. Findings from the first three program years and survey findings are scheduled for release in May 2011.

D. Policy Update

The success of $aveNYC has demonstrated that a strong, targeted savings incentive can offer a realistic first step for individuals and families to begin saving. $aveNYC was designed for replication as a federal tax credit, and its recent inclusion in the Corporation for National Community Service's Social Innovation Fund grant to New York City confirms its potential as permanent national policy. In particular, federal policymakers should design a federal "Saver's Bonus" tax credit, similar to the $aveNYC initiative and similar to a proposal introduced in the 110th Congress by Senator Menendez from New Jersey. Tax time is the ideal moment for families with low incomes to save because the EITC can provide up to 35 percent of a taxpayer's annual income in a single check. Federal matched tax credits, like the ones proposed in the Saver's Bonus bill and like the $aveNYC program, would motivate individuals to start saving or save more than they otherwise would. Furthermore, the impact evaluation still to come from SaveUSA will continue to shed light on whether this successful starter savings vehicle offers solutions to longer-term federal savings initiatives that have not so far dynamically engaged the population of savers targeted by $aveNYC.

The Department of Consumer Affairs Office of Financial Empowerment (OFE) was established in December 2006 as the first initiative of Mayor Michael R. Bloomberg's Center for Economic Opportunity (CEO). For more information, visit nyc.gov/ofe