

# Tax-time savings: An antidote to financial insecurity

by David Marzahl

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*The Center for Economic Progress (CEP) helps low-income, working families as a trusted provider of tax and financial services. CEP's mission comes to life through its three core service areas: tax preparation, tax legal clinic and asset building program. The thousands of families served by CEP each year lack assets and often face difficulties making ends meet. They typically report a lack of savings and are often challenged by debt. Residing in communities where affordable and accessible financial services are scarce, CEP's programs and more than 1,000 volunteers work to measurably improve their financial health and well-being.*

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The value proposition of 'What It's Worth' is the opportunity, working collaboratively between the public, nonprofit and private sectors, to address the growing economic insecurity and financial stability plaguing a growing number of Americans. The results of countless polls and surveys evidence the financial uncertainty facing the least advantaged in our economy. The aftermath of the Great Recession and the loss of assets for many, combined with reduced job security, downward pressure on wages, and higher out-of-pocket health expenses are some of the drivers behind this insecurity.

At the Center for Economic Progress (CEP),<sup>1</sup> a local and national leader in providing free tax and financial services for low-income families, we are committed to both macro-level policy changes and implementing incremental changes that could effect positive change for our constituents. With a front-line presence in 15 Chicago area communities, and central Illinois, CEP reaches more than 20,000 families each year. From this broad base, we are able to leverage our services to influence change whether through the Illinois and Federal Earned Income Tax Credit (EITC) programs, advocating for increased regulation of paid tax preparers, or by simplifying access to income support programs.

CEP is Illinois' leading provider of no-cost, high-quality tax, and financial services, leveraging the power of 1,000 volunteers to measurably impact the financial health and well-being of the families we serve. We have more than two

decades of experience providing tax preparation assistance to low-income working families, and have generated more than \$600 million in refunds, while helping our clients save millions of dollars in fees and expenses. Partnering with banks, credit unions, and pre-paid card providers, CEP has also tripled the direct deposit rate of previously unbanked or underbanked clients over the past decade so that in 2016, almost four out of five chose to electronically deposit their tax refund rather than accept a paper check.

CEP is increasingly focusing on improving our clients' financial capability through all of our programs – tax preparation, financial coaching, and legal representation and advice. With the typical CEP taxpayer receiving a refund of \$2,000, compared to \$2,700 for all US taxpayers, we have increasingly focused on new and creative ways to leverage the "tax-time money moment" to benefit our clients. This approach is especially relevant given growing evidence of month-to-month income and expense volatility as a driver of financial uncertainty for many Americans. At CEP, we believe that using a tax refund to smooth income and expenses presents an ideal opportunity to help consumers address some of the income and expense shocks they experience each year.

Over the past three years, we've operated a tax-time savings initiative called 'Life Happens; Save for It.' Applying lessons we've learned, and coupled with colleagues at Doorways to Dreams (D2D)<sup>2</sup> and America Saves,<sup>3</sup> which operates a nationwide prize-linked savings campaign,

Figure 1. Tax-time savings campaign, 2016



Source: Center for Economic Progress.

SaveYourRefund,<sup>4</sup> and researchers at the Center for Social Development at Washington University through their Refund to Savings (R2S)<sup>5</sup> campaign, we've dramatically increased the number of people electing to save all or a portion of their refund at our community tax sites. Starting with 140 tax-time savers in 2014, we increased that number to 470 savers in 2015 and to 789 savers in 2016 – an almost six-fold increase in three years (see Figure 1). This increase required training of both staff and volunteers, rolling out a customer-focused marketing campaign, rethinking the layout of our community sites to maximize visibility, introducing savings products from both financial institutions, as well as Treasury's new "myRA"<sup>6</sup> and integrating weekly prize drawings to stimulate participant interest. The initiative has involved many moving parts and had to overcome countless challenges, but the data we've generated and many positive anecdotes clients have shared, underscore the importance of future expansion and partnering with both government and the private sector to increase our current 10 percent take-up rate and inform other tax-time efforts taking place across the country.

While the initial commitment to savings is important, we also wanted to know what clients actually did with their refunds over time, to help us document the full impact of the initiative. We surveyed all 789 participants four months after the initial commitment to save at tax time. Twenty percent of our savers responded to the survey, yielding the following information:

- 82 percent of our tax-time savers either save occasionally or regularly during the year;
- 54 percent of tax-time savers indicated their reason for savings was to shield against future emergencies;

- Surprisingly, just over 50 percent of savers were able to maintain their savings balance 120 days after depositing their refund, longer than we had expected; and
- 34 percent of savers had reduced their overall savings balance, primarily to pay bills.

So what does this mean for the work and mission of CEP? We are expanding our commitment to tax-time savings and have decided to fully integrate our financial capability efforts into each of our tax sites over the next two years. We intend to rigorously evaluate our initiative this coming year, in conjunction with Prepare + Prosper,<sup>7</sup> a Minnesota-based peer organization, and have received a grant from the MetLife Foundation to further test our assumptions and understand the respective roles of staff, volunteers, and perceptions of our clients. Given the enduring financial uncertainty faced by many American families, we hope to better understand how increased emergency savings can improve their financial health and well-being.

## Notes

1. Center for Economic Progress, available at <http://www.economicprogress.org>.
2. Doorways to Dreams Fund, available at <https://www.saveandinvest.org/doorways-dreams-d2d-fund>.
3. America Save\$, available at <http://www.americasaves.org>.
4. SaveYourRefund, available at <https://saveyourrefund.com/home>.
5. Refund to Savings, available at <https://csd.wustl.edu/OurWork/FinIncl/financialbehavior/R2S/Pages/Refund-to-Savings1.aspx>.
6. U.S. Department of the Treasury, myRA, available at <https://myra.gov/how-it-works>.
7. Prepare + Prosper, available at <http://prepareandprosper.org>.

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## Biography

David Marzahl is CEO of the Center for Economic Progress.

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