Department of Consumer Affairs
Office of Financial Empowerment

# Tax Time Savings: Lessons from SaveNYC

## Promising Pathways to Wealth-Building Financial Services

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# DCA's Office of Financial Empowerment
## *Strategic Priorities*

### *Educate*
- Increase access and strengthen quality of financial education services
- Coordinate large-scale public awareness campaigns, including the annual Tax Credit Campaign

### *Empower*
- Research and develop safe and affordable banking and asset-building products, in partnership with financial institutions
- Share best practices and influence national policy with Cities for Financial Empowerment and other partners

### *Protect*
- Protect workers with low incomes from unfair and predatory practices through targeted advocacy and enforcement

# The SaveNYC/USA Approach

## *Leveraging the tax moment to get on a pathway to savings*

- Traditional asset building programs require significant time and resource investment, and place restrictions on goals and outcomes.
  - Programs do not address need for emergency cushion and make it difficult for new savers and those with short term horizon.

- Roughly two-thirds (64%) of households with incomes under $25,000 have less than $500 in emergency savings. However low income households report needing around $1,500 to cover emergencies. (CFA, 2008)

- The EITC is the largest tax benefit program for working individuals. In 2011 (for TY 2010) the maximum EITC was $5,666.

- Controlling for income, education, work and other demographic factors, EITC-filers are twice as likely as non-EITC filers to have savings. (DCA, 2008)

# SaveNYC/USA Program

***In 2008, NYC launched a pilot savings program to test whether an incentivized savings vehicle linked to EITC would spark savings among low- income tax filers***

- 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?
- Can short-term, non-goal directed savings promote longer-term savings and improve financial stability?
- Does increased saving lead to other effects on well-being, both in the short- and longer-term?

# SaveNYC/USA Program Model

- **Delivery** is built around Volunteer Income Tax Assistance (**VITA**) sites
- **Match 50 percent** of savings if save for approximately one year
- CD-like **savings account**, money available in emergencies
- **EITC / tax refund** is windfall moment
- **Amounts:** $200 minimum deposit; $500 maximum match (on $1000 or more of savings)
- **Not tied** to long-term savings goal

THE $AVENYC ACCOUNT
What will *you* save for?

## *SaveNYC attracts very low wage workers with little history of saving*

- **Savers have very low incomes:**
  - Average income: $17,504
  - 76% received the EITC.
- **Single mothers most likely to save:**
  - 77% are women
  - 78% have dependent children
- **Little savings history:**
  - 26% were unbanked at program start
  - 40% did not have a savings account
  - 35% have savings for 1 month worth of expenses

Source: Program Administrative Data and Survey Data

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# *Low income households can save when given the right incentive and opportunity - SaveNYC Findings*

- **80% of account-holders saved for a full year**
  - Post-match balance: $1.7 million (average $914)
  - People who withdrew were typically experiencing financial hardship or unemployment
  - No evidence that people accumulated debt to keep accounts open

"(SaveNYC) is money I know I have and cannot touch."

"I could never have been able to do it by myself"

- **High balance savers most likely to save for a full year**
  - 31% of filers who contributed less than $200 closed their account before receiving match, compared to 15% of filers who saved more than $200

- **Participants paid bills on time, took out fewer loans**
  - Significantly less likely to skip paying bills or to take out loans

Source: Program Administrative Data and Survey Data

# *Low income households can save when given the right incentive and opportunity - SaveNYC Findings*

- **Match recipients typically used the money to pay household expenses, reduce debt, or cover emergencies**
  - Under 30% spent the full amount after receiving the match; 40% continued to save full amount and match
  - For those who spent some, most common uses were to pay household expenses, purchase necessities, or pay down debt

"Just because I come from a low-income budget, my life as a low-income person doesn't mean that I can't Save."

- **Participation in SaveNYC associated with a positive impact on financial well-being**
  - SaveNYC participants more likely than a comparison group to have sufficient savings to survive without income for one month
  - SaveNYC associated with a higher amount of savings held relative to the comparison group

Source: Program Administrative Data and Survey Data

# Next Steps

- Replication through the Social Innovation Fund

- Building a national constituency and fostering further replications to demonstrate the potential of tax time savings to strengthen ongoing savings habits in communities across the country.
  - Working with new communities on locally-funded replications
  - Developing tool kit to ensure model fidelity for replications
  - Disseminating implementation lessons and policy briefs

- Savings incentives in tax reform
  - Refundable tax credit match for filers w/ low incomes who save

# Findings from OFE's Immigrant Financial Services Study

- Recent study on the financial needs and behaviors of three NYC immigrant communities: Mexican, Ecuadorian, and Chinese
- Findings indicate that between 69-81% of <u>unbanked</u> respondents were saving
- 81% of respondents were saving for a long term goal (child's education, home purchase), 67% for a short term goal (emergency, loss of income, health expenses)
- High levels of savings discipline could be channeled into savings and investments opportunities aimed at improving financial inclusion

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