Providing Financial Tips to Low- and Moderate-Income Tax Filers: Awareness, Usage, and Usefulness

Olga Kondratjeva, Washington University in St. Louis[1]
Stephen Roll, Washington University in St. Louis[2]
Sam Bufe, Washington University in St. Louis[3]
Michal Grinstein-Weiss, Washington University in St. Louis[4]

Introduction

Approximately 80 percent of U.S. individuals reported holding some debt in 2014, and most of respondents considered borrowing an important part of their financial lives (Pew Charitable Trusts, 2015). While the experience of debt is prevalent in the U.S. households, it also disproportionately affects lower-income households, who tend to have higher debt-to-income ratios and insufficiently high incomes to meet all their debt obligations (Urban, 2018).

For many low- and moderate-income (LMI) households, the tax refund is the household's largest single check of the year, and the most common usage of the tax refund is to pay down existing debt (Grinstein-Weiss et al., 2015). How they choose to pay down that debt may impact the amount they pay in interest and fees and other short- and long-term financial health outcomes. While financial education around debt repayment provides a potential avenue to help households optimize their debt behaviors and outcomes, recent evidence indicates that traditional financial education can have limited impacts on financial behaviors (Fernandes, Lynch, & Netemeyer, 2014). At the same time, this research also finds that financial education can be more effective when it is tailored to recipient needs and occurs at the point when important financial decisions are being made (e.g., purchasing a home).

A growing body of literature demonstrates that low-touch financial capability interventions can be effective in improving financial outcomes. For example, providing student loan borrowers with an access to FICO scores has been shown to positively affect some financial behaviors, as reflected in lower incidence of past due credit payments or increased credit scores (Homonoff, O'Brien, & Sussman, 2018). Similarly, providing extremely low-touch financial rules of thumb can contribute to the reduction of credit card debt among credit card users who tend to carry monthly debt (Theodos et al., 2016). These low-touch, targeted financial interventions that provide individuals with easy-to-understand and easy-to-follow information can be cost-effective in changing consumer financial behaviors (Drexler, Fischer, & Schoar, 2014).

Building on this evidence and work on the efficacy of providing low-touch debt-oriented financial interventions, we administered a randomized controlled trial that provided simple financial tips for LMI tax filers after they learned their tax refund amount. The purpose of the experiment was to test whether providing simple financial tips can impact household debt behaviors and outcomes.

Data and Experimental Design

The data and design for this study come from two waves of a Household Financial Survey (HFS), which was offered to a random sample of LMI households who filed their 2018 taxes using TurboTax Freedom Edition. Each household in the experiment is observed in both the period immediately following tax filing and six months after tax-filing. In total, 15,965 LMI households participated in the first survey wave, and

[1] Olga Kondratjeva (okondratjeva@wustl.edu), Postdoctoral Research Associate, Social Policy Institute
[2] Stephen Roll (stephen.roll@wustl.edu), Research Assistant Professor, Social Policy Institute, Brown School
[3] Sam Bufe (sambufe@wustl.edu), Statistical Data Analyst II, Social Policy Institute
[4] Michal Grinstein-Weiss (michalgw@wustl.edu), Shanti K. Khinduka Distinguished Professor, Brown School; Founding Director, Social Policy Institute

3,840 respondents completed both survey waves. Each survey wave collected detailed information about demographics, employment, education, ownership of financial and non-financial assets, debts, and the experience of material hardships and financial shocks.

The first survey wave of the 2018 HFS conducted immediately after tax-filing also randomized respondents into three experimental groups, as summarized in Table 1. The control group received no financial tips. The "Pre-determined" treatment group randomly saw one of four possible debt management tips, and in the "Pick-your-own" treatment group respondents were asked to select one of the four financial tips they felt was most useful to their financial situations. The framing of financial tips differed by tax refund status: those who received tax refunds saw financial tips that targeted the use of tax refunds, and those who did not receive tax refund saw more generic messages. One month after tax-filing, individuals in the treatment conditions received a reminder about an assigned or selected financial tip.

While the primary purpose of the experiment was to test effectiveness of delivering financial tips on household debt behaviors and outcomes measured six months post-filing, this analysis describes how study participants engaged with the assigned or selected financial tips.

Table 1. *Experimental groups, HFS 2018*

Intervention condition	Treatment description	
	Received tax refund	Did not receive tax refund
1. Control group	Did not receive any financial tip	
2. Pre-determined group		
Extra payment	"Get ahead on your debt! When you get your tax refund, use it to make at least one extra payment on one of your debts."	"Get ahead on your debt! When you have extra money, use it to make at least one extra payment on one of your debts."
Largest credit card debt	"Higher debts can lead to lower credit! When you get your tax refund, use it to pay down your largest credit card debts first."	"Higher debts can lead to lower credit! When you have extra money, use it to pay down your largest credit card debts first."
Smallest balance debt	"Build momentum toward being debt free! When you get your tax refund, use it to pay off your smallest debts first."	"Build momentum toward being debt free! When you have extra money, use it to pay off your smallest debts first."
Highest cost debt	"Dig yourself out from expensive debts! When you get your tax refund, use it to pay off your highest cost debt first."	"Dig yourself out from expensive debts! When you have extra money, use it to pay off your highest cost debt first."
3. Pick-your-own group	Selected a financial tip from the list above	

Results: Awareness, Usage, and Usefulness of Financial Tips

For the purposes of this analysis, the analytical sample was limited to tax filers from "Pre-determined" and "Pick-your-own" groups who completed both survey waves and responded to five survey questions about their engagement with financial tips immediately after tax filing. In total, 3,275 LMI survey takers are included in the sample.

Table 2 summarizes the sample. Of 3,275 LMI study participants, 48.6 percent (N=1,593) was randomly assigned into the “Pre-determined” treatment condition, and 51.4 percent (N=1,682) into the “Pick-your-own” treatment group. Of those who were randomly assigned to the “Pick-your-own” group, 35.3 percent of tax filers (N=594) selected the “Extra payment” tip as the most useful to their financial situations. The “Highest cost debt” and “Smallest balance debt” messages were selected by 29.4 (N=495) and 20.8 (N=350) percent of respondents, respectively, and the “Largest credit card debt” was chosen by 14.5 percent of tax filers (N=243).

Table 2. *Engagement with Financial Tips*

	Pre-determined group (N=1,593)				Pick-your-own group (N=1,682)			
	Extra payment	Largest credit card debt	Smallest balance debt	Highest cost debt	Extra payment	Largest credit card debt	Smallest balance debt	Highest cost debt
N	312	317	346	618	594	243	350	495

We examined three outputs measured in the first wave of the survey: (i) prior awareness of the financial tip; (ii) prior tip usage, and (iii) perceived usefulness of the tip when making debt payments. Notably, while respondents were randomly assigned into one of four “Pre-determined” treatment conditions and the “Pick-your-own” group, those in the “Pick-your-own” group were also asked to select the financial tip that would be most useful to them. Our results summarize the incidence of awareness, usage, and usefulness of financial tips that study participants were randomly assigned (as in the case of the “Pre-determined” group) or they selected (as in the case of the “Pick-your-own” group). The incidence of first-wave outputs in the “Pre-determined” group is compared against that in the “Pick-your-own” group.

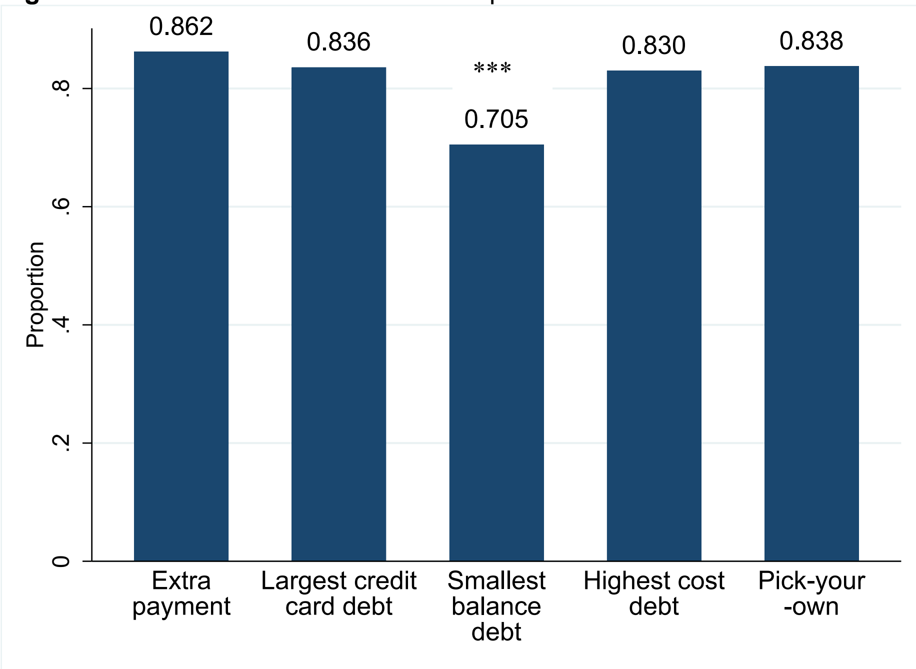
The level of prior familiarity with financial tips was generally high (Figure 1). Overall, 83.8 percent of tax filers randomly assigned to the “Pick-your-own” condition were familiar with their selected financial tip. Compared to this group, individuals in the “Smallest balance debt” group reported significantly lower levels of familiarity with their financial tip (70.5 percent, $p<0.01$), and the levels of awareness were similar for other treatment conditions in the “Pre-determined” group.

Prior reported usage of financial tips was substantially lower than reported tip awareness (Figure 2). Slightly over two-thirds of tax filers randomized into the “Pick-your-own” group said that they have previously used the tip they selected. The level of prior tip usage in all four interventions in the “Pre-determined” group was significantly lower than in the “Pick-your-own” group, though the degree of familiarity varied across intervention conditions. The lowest level of tip usage was observed in the “Largest credit card debt” condition, as only 53.9 percent of tax filers said they applied this tip in the past.

Similar trends were observed when considering the perceived usefulness of financial tips (Figure 3). Of those in the “Pick-your-own” group, 81.5 percent considered their selected tip as somewhat or very useful, a significantly higher proportion relative to the “Pre-determined” group. Similar to the prior usage of financial tips, the level of perceived tip usefulness in the “Pre-determined” group was lowest in the “Largest credit card debt” condition (65.9 percent) and highest in the “Highest cost debt” condition (75.9 percent).

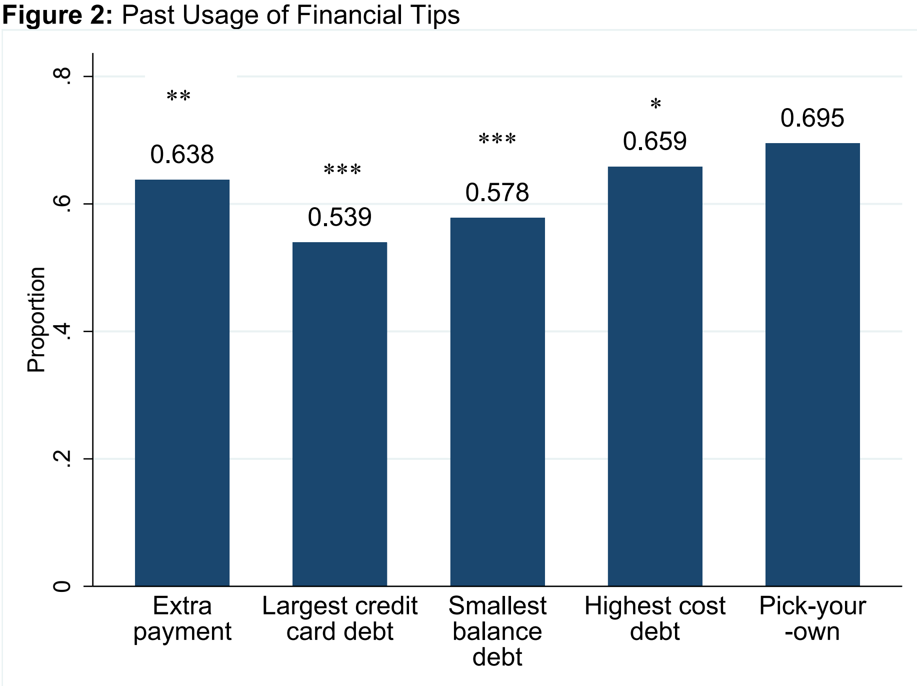
Finally, while not reported here, the levels of prior tip awareness, past tip usage, and perceived usefulness were generally slightly higher for the sample of households that reported having any outstanding debt.

Figure 1: Prior Awareness of Financial Tips



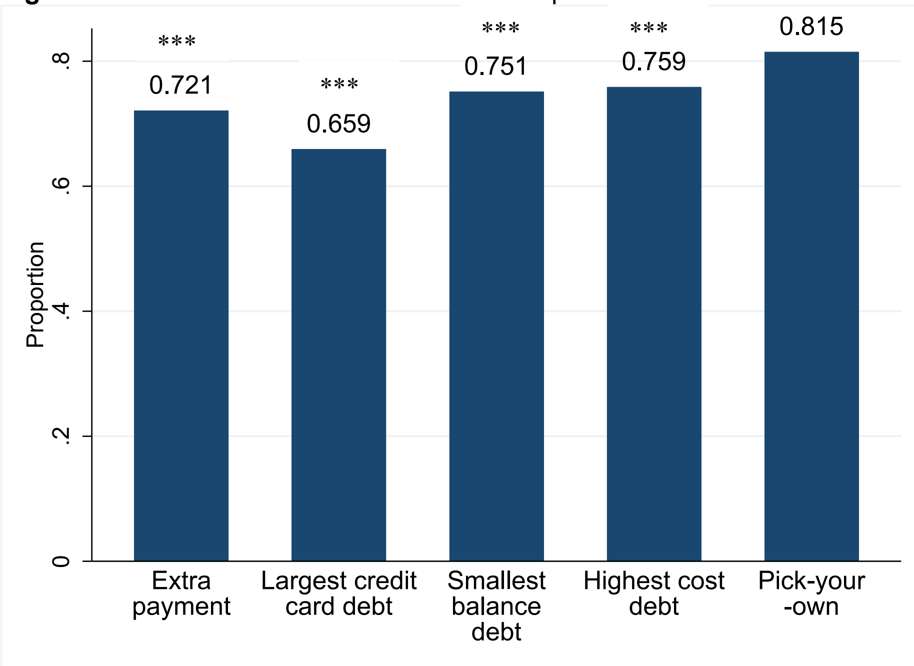
Notes: N=3,275. Statistical significance: * *p*<0.1, ** *p*<0.05, *** *p*<0.01. "Pick-your-own" is the reference group.

Figure 2: Past Usage of Financial Tips



Notes: N=3,275. Statistical significance: * *p*<0.1, ** *p*<0.05, *** *p*<0.01. "Pick-your-own" is the reference group.

Figure 3: Perceived Usefulness of Financial Tips



Notes: N=3,275. Statistical significance: * $p<0.1$, ** $p<0.05$, *** $p<0.01$. “Pick-your-own” is the reference group.

Conclusion and Discussion

In general, the rates of tip awareness, past tip usage, and usefulness were higher in the “Pick-your-own” group compared to treatment conditions in the “Pre-determined” group, which is unsurprising considering that individuals who were randomly assigned to the “Pick-your-own” group had a chance to select a financial tip that was most useful to their situations. The levels of these indicators varied within the “Pre-determined” group.

While this part of research explored how households interacted with their assigned or selected financial tips, future research will examine the impacts of delivering these financial tips immediately after tax filing on debt behaviors and outcomes. The study contributes to the emerging research on the use of financial management tips and rules of thumb as tools to impact financial behaviors. As financial education moves away from traditional classes and towards well-timed, low-touch interventions, it is important to understand what interventions are most effective. Most directly, this intervention allows us to assess the relative benefits of providing different types of financial tips in terms of changes of tax filer behaviors.

References

Drexler, A., Fischer, G., & Schoar, A. (2014). Keeping it simple: Financial literacy and rules of thumb. *American Economic Journal: Applied Economics, 6*(2), 1–31.

Grinstein-Weiss, M., Perantie, D. C., Russell, B. D., Comer, K., Taylor, S. H., Luo, L., Key, C., & Ariely, D. (2015). *Refund to Savings 2013: Comprehensive report on a large-scale tax-time saving program* (CSD Research Report 15-06). St. Louis, MO: Washington University, Center for Social Development.

Fernandes, D., Lynch Jr J. G., Netemeyer, R. G. (2014) Financial Literacy, Financial Education, and Downstream Financial Behaviors. *Management Science, 60*(8), 1861-1883.

Homonoff, T., O’Brien, R. L., & Sussman, A. B. (2019). Does Knowing Your FICO Score Change Financial Behavior? Evidence from a Field Experiment with Student Loan Borrowers. *NYU Wagner Research Paper.*

Pew Charitable Trusts. (2015). *The Complex Story of American Debt: Liabilities in Family Balance Sheets.*

Theodos, B., Plerhoples Stacy, C., Simms, M., Abazajian, K., Daniels, R., Hanson, D., Hahnel, A., & Smith-Ramani, J. (2016). *An evaluation of the impacts of two "rules of thumb" for credit card revolvers* (Research Report). Urban Institute.

Urban, E. (2018). *Five Charts that Illustrate the Size and Scope of Consumer Debt.* The Aspen Institute.

Acknowledgements

The authors would like to acknowledge the funders who made the Refund to Savings Initiative and this project possible: Intuit, Inc.; the Intuit Financial Freedom Foundation; and JPMorgan Chase Foundation. The Refund to Savings Initiative would not exist without the commitment of Intuit and its Tax and Financial Center. We thank the thousands of taxpayers who consented to participate in the research surveys and shared their personal financial information. The findings and conclusions expressed are solely those of the authors and does not represent the views or opinions of Intuit, Inc. and JPMorgan Chase Foundation. The authors accept all responsibilities for errors or omissions.