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How to get Americans to save more at tax time

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Reminding people of the risks of unexpected financial shocks, such as unemployment and hospitalization, may not be as big of a motivator as automatically enrolling people in a savings plan.

By Michal Grinstein-Weiss

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Save for a rainy day.

FORTUNE -- The worst of the recent economic crisis seems to be behind us, and although slow, the recovery is underway and Americans are feeling more optimistic about the future. For most, the lesson learned during the crisis was that they didn't have enough savings to weather a financial storm without sacrifice, worry, and sleepless nights. Saving money is a difficult challenge for people at all income levels, and especially for those with the least. With little disposable income, even the small amounts these households try to put into savings are often diverted by unexpected needs and routine price increases in goods and services.

For many households, the biggest lump sum of money they receive all year comes in the form of their income tax refund check. While savvy economists and accountants caution any refund indicates a person's withholding rate should be adjusted, for many households getting a refund is preferable to getting hit with a big bill at tax time. More importantly, these tax refunds can provide a unique opportunity for tax filers to save money and build financial security.

That is why tax time is so fascinating. My colleague Dan Ariely, the James B. Duke Professor of Behavioral Economics at Duke University, and I have been asking what would happen if -- at the moment of filing -- taxpayers were encouraged to direct all or part of their refund to a dedicated savings product. How many would choose the option to save money? What would motivate the typical taxpayer to delay spending and to save a portion of their refund for future use? In essence, what messages could we present in that moment to help people change their savings behavior?

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We tested this by launching the Refund to Savings (R2S) tax-time savings experiment, a collaboration between the Center for Social Development at Washington University in St. Louis, Ariely at Duke University, and Intuit Inc., the company that makes the TurboTax software. Our experiment incorporated motivational messages and suggestions for dividing the refund amount in different savings-to-spending ratios into Intuit Inc.'s Turbo Tax Freedom Edition software offered through the IRS's Free File Program. We've designed the R2S to get tax filers to stop and think about the importance of saving for emergencies, their families, or their future, and we also facilitated the saving process by making a deposit of a suggested amount into a savings vehicle the default option.

We know the intervention is working because many of the **almost 900,000 tax filers we reached in 2013 chose to save some portion of their tax refund**. In fact, this group of tax filers deposited almost $6 million *more* into savings accounts than they would have without the intervention. If that $6 million had been spent, its effect on the overall economy would likely to have been negligible, but savings -- even small amounts -- can have a large impact on the financial security of a family and open up a variety of other opportunities. Using data from a voluntary survey of 20,000 taxpayers immediately after filing, of whom 8,000 completed a follow-up survey six months later, we also know that roughly one-quarter of low-income households were also able to save part of their refunds for at least six months.

So what was the most effective method to get people to save more?

As it turns out, tax-filers exposed to any R2S intervention were more likely to deposit into savings compared to the control group that received no intervention. However, the results show that motivational messages themselves (e.g. save for an emergency) didn't have as much influence as placing tax filers into an experience where depositing into a savings vehicle was the default option. In other words, prompting tax filers to think about what they are saving for was less effective that making the act of saving easier. Further, we find that suggesting higher savings levels led to an increased likelihood of having at least part of the refund saved after six months. Specifically, those who were presented to suggestion to put half of their refund into savings were more likely to have saved the refund for six months than those who were suggested to save one-quarter of the refund.

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For the 2014 tax season, we've expanded the R2S intervention by incorporating a new saving-promotion experiment into the Turbo Tax Freedom Edition. Rather than receiving a single motivational message related to savings, tax filers will see multiple messages about savings at various times during the tax filing process. We think receiving messages earlier and more frequently in the preparation and filing process will better prepare tax filers to take advantage of the saving opportunity when it is presented to them. Our research team will follow up with the R2S Household surveys to learn what elements of the revised intervention worked or didn't work for the tax filers. Evidence from this research will generate discussions with policymakers and financial leaders to ensure convenient, low-touch mechanisms for encouraging saving at tax time.

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