# Service Levels—Smart Card for Tax Professionals

## Service Level Metrics

For company Tax Professionals, Service Levels are based on two factors:

Actual-to-baseline client retention: 70% (35% = prior client, 35% = new client)
Certification level: 30%

Service Levels are determined as follows:

1. Actual-to-baseline retention is calculated for Prior Client and New Client using a 2-year average.
2. Points are assigned to each component of the Service Level metric (prior client, new client, and certification) according to the Tax Professional's level of achievement.
3. The points are totaled into a final score (e.g., 30+35+26 = 91).
4. Tax Professionals are ranked within their district according to this score and the list is then divided into thirds. A Service Level 3 is assigned to the top third of Tax Professionals in the district, the next third receive a Service Level 2, and the bottom third receives a Service Level 1.
5. Tax Professionals must have completed 50 or more non-Friends & Family returns in the prior year to be eligible for a Service Level 2 or Service Level 3 designation. Anyone not meeting that threshold will be assigned a Service Level 1. If this occurs, other Tax Professionals are moved accordingly to ensure there is approximately 1/3 in each Service Level.

Please note the following:

- Baseline retention is determined for each Tax Professional based on their unique mix of clients and market factors. Therefore, baseline retention will vary by Tax Professional.
- If a Tax Professional has less than 5 new clients, prior client retention-to-baseline will account for the entire 70% of the Service Level metric; if less than 5 prior clients, new client retention-to-baseline will account for the entire 70%.
- Prior Tax Professionals who did not work the previous year but are returning this year will be given their prior Service Level. However, if they were a Service Level 2 or Service Level 3 but did not have 50 returns in their last year, they will be assigned a Service Level 1.
- Non-TPS returns are not included in baseline retention or in actual retention.
- Retention is based on returns prepared between January 1 and April 30.
- Adjustments were made to baseline retention to account for Free 1040EZ and the loss of RAL clients.

## Service Level Example

The following example illustrates how points are assigned.

| | Tax Professional A | | Tax Professional B | |
|---|---|---|---|---|
| **Component** | **Results** | **Points** | **Results** | **Points** |
| Certification | Senior Tax Advisor 4 | 25 | Tax Specialist 3 | 10 |
| Prior Client Actual-to-Baseline Retention | 107% | 27 | 111% | 31 |
| New Client Actual-to-Baseline Retention | 118% | 26 | 131% | 30 |
| **Total Points:** | | **78** | | **71** |

Once all Tax Professionals in the district are ranked and grouped into thirds, each Service Level corresponds to the following number of points (note: this will differ by district):

Service Level 3: 65-100 points
Service Level 2: 52-64 points
Service Level 1: 15-51 points

As a result, the Service Level for each Tax Professional is as follows:

| Tax Professional | Total Points | Service Level |
|---|---|---|
| Tax Professional A | 78 | 3 |
| Tax Professional B | 71 | 3 |

## Retention Definitions

- **Baseline Retention** is the probability that a group of clients will return to H&R Block in the next tax season. Baseline (predicted) retention will be different for every Tax Professional because it is based on their unique mix of clients. Prior clients and new/win-back clients are looked at separately, so each Tax Professional will have a baseline retention target for prior clients and one for new clients.
- **Actual Client Retention** is the percentage of clients served in the previous year that returned to the H&R Block brand (the same Tax Professional, a different Tax Professional, a different office, etc.).
- **Personal Client Retention** is the percentage of clients served in the previous year that returned to the Tax Professional.

In the Service Level model, we use the Tax Professional's **Actual-to-Baseline Retention** which is:

$$\frac{\text{\% of clients that returned to H\&R Block}}{\text{\% of clients that were predicted would return to H\&R Block}}$$

## How is Baseline Retention Determined?

Baseline retention is calculated using statistical models that generate the probability of a client's return in the next tax season. These statistical models look at over 150 different client-level variables and 50+ area/market variables to determine the most influential factors in predicting whether a client will return or not.

Baseline retention models are dominated by client **tenure**—the longer the tenure of the client, the higher the retention. Tax Pros or offices with large percentages of new clients will have lower average baseline predicted probabilities if all other factors are held constant. Other common client-level factors that drive baseline retention are:

- Refund (Higher refunds >> higher retention)
- Income (Higher incomes >> higher retention)
- Age (Older clients >> higher retention)
- Price (Higher price >> lower retention)
- Unemployment (Higher unemployment >> lower retention)