

Overcoming Barriers to Saving

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Behavioral Insights in Practice: Lessons for the Financial Sector

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Overview

- Benefits of saving
 - Allocating resources to moments of need across time
 - Overcoming mismatch between payments and spending needs
 - Investments and durable purchases with above average payoffs
- Potential sources of undersaving
 - Transaction costs
 - Regulatory barriers
 - Social demands/Household bargaining
 - Behavioral biases
 - Trust in institutions
 - Information

Transaction Costs

- Take-up and usage has been shown to be sensitive to opening and maintenance costs
- Monetary: opening fees, minimum balance requirements, subsidized yields
 - Savings Matches: IRA savings match in US [Duflo et al., 2006]
 - Waiving opening fees: Formal savings in Kenya [Dupas & Robinson, 2013] and in Nepal [Prina, 2013]
- Non-monetary: distance to banking, ATM network
 - Distance to Bank Branches: Expansion of banks in India [Burgess and Pande, 2005] and in US [Nguyen, 2016]
 - Convenience: Deposit collection services in Philippines [Ashraf et al., 2006]

Transaction Costs

■ **Example Product:** Refund-to-Savings (R2S) Initiative

- Washington University St. Louis, Duke University, & Intuit Inc., [Grinstein-Weiss et al., 2016]
- Target low- and moderate-income tax filers
- Option to split refund into savings account
- Behavioral prompts and savings defaults
- Moderate increases in savings rate and savings amount

■ **Key Features:**

- Tax-time savings, leverages income tax filing
- Scalable design, using online tax preparations
- Income tax refund facilitates on-ramping
- Improvement: couple with ability to open savings account

Behavioral Barriers to Saving

- Psychological biases may lead to undersaving
- Present-bias and self-control challenges
 - Correlated with retirement savings in national US sample [Goda et al., 2016]
 - Demand for commitment savings in Philippines [Ashraf et al., 2006]
 - Commitment imbedded in 401(k) savings accounts [Shlomo and Thaler, 2004]
- Hard vs. Soft Commitment
 - Accounts with more flexibility were preferred in Kenya [Dupas & Robinson, 2013]

Behavioral Barriers to Saving

- **Example Product:** Super Saver CD (SSCD)
 - IPA and Neighborhood Trust Financial Credit Union [Karlan et al., In Progress]
 - Low- and medium-income households in Washington Heights, NYC
 - CD savings account
 - Choice of savings goal and time horizon
 - Forfeiture of accumulated interest and \$15 opening balance if goal is not met
- **Key Features:**
 - Illiquid savings account
 - Flexibility takes into account value of emergency funds
 - Improvement: need more research to assess impact in US