Overcoming Barriers to Saving

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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]

- 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