Accelerating Low-Income Savings, Executive Summary

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Our take on low-income savings is heavily influenced by a resource-oriented approach which finds its roots in the asset building theory. But a resource-oriented approach to saving may not be compatible with saving for emergencies. Differences in models geared toward emergency savings as compared to those for the purpose of building assets are more profound than whether or not savings are treated as restricted or unrestricted in a specific program.

The Institutional Theory of Saving is the backbone of the resource-oriented savings models. Common concepts such as savings match, savings goals, time restrictions, etc. are aspects of a resource-oriented approach that find their justification in the Institutional theory.

Attention to the underlying theory in a specific model of savings is as important as the logistical aspects of it. Therefore, in order to build effective models of emergency savings, compatibility of various design elements such as time restrictions, savings goals, and incentives need to be taken into consideration. The paper recommends the adoption of a behavioral approach to saving by introducing the Savings Accelerator Account platform.

The central hypothesis of Savings Accelerator Account is that it is possible to cope with behavioral biases that impede the process of long term accumulation of savings if focus on the long term is essentially disguised by structuring saving as a sequence of short-term decisions consisting of a series of independent actions and rewards.

Based on findings from behavioral economics, incentives are structured as a combination of independent mechanisms that can be embedded in the program in order to influence behavior, both in the short as well as the long term. Combining independent incentive mechanisms is a salient aspect of the accelerator model which makes it possible to offer rewards not only based on how much is saved, but also based on how regularly deposits are made. Therefore, while savers typically earn a higher incentive reward based on the amounts they have saved, it is possible for a frequent saver to earn a higher incentive reward compared to another saver (who has saved less regularly), even if s/he has a smaller savings balance at a given point in time. Based on this idea, Savings Accelerator Accounts abandon the use of a savings match in stimulating savings while embrace a broader concept of incentives in stimulating emergency savings.

In addition to presenting the Savings Accelerator Account platform, the paper also provides a detail narrative regarding the importance of offering incentives to low-income savers and discusses the concept of scale in reference to savings programs in general.