Skipping the Latte: Building Emergency Savings through "Impulse Saving"

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Abstract

All families need an emergency fund, yet saving for emergencies can be especially challenging for lower-income families who have limited resources. Traditional budgeting-based approaches to building savings generally don't work for these families; there is simply no room in their household budgets to add regular savings deposits. This paper presents an alternative approach to saving money – impulse savings – which gives people a way to save small amounts whenever they skip an impulse purchase. We focus on MAGIC Mojo, an impulse savings product attached to a prepaid card. MAGIC Mojo overcomes many of the key barriers that keep lower-income families from saving for emergencies and turns saving money in to a fun and social activity.

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Introduction

Into all good saving plans, a little impulse spending often falls. A meal out and some new shoes, and the intended savings are gone. But what if impulsivity could be leveraged to work as a way to save, not spend, money? This is the idea behind MAGIC Mojo, a product which allows people to transfer money to a savings bucket on-the-fly via text message. MAGIC Mojo is an emerging, innovative approach to helping underbanked consumers build emergency savings and reach their financial goals. This approach is highly scalable, has the potential to reach a broad base of consumers, and incorporates ideas from behavioral economics to increase the likelihood that people save successfully.

Generally speaking, the act of consuming is an enjoyable experience; people buy things on impulse because it feels good to get something new unexpectedly. Saving money is also enjoyable, but the “feeling good” aspect is delayed until people can apply their savings toward a goal. MAGIC Mojo seeks to transform the act of saving into an immediate reward by leveraging the enjoyment inherent in impulsive action. Through MAGIC Mojo, consumers experience both the short-term enjoyment of doing something impulsively and the long-term enjoyment of saving for future consumption.

While MAGIC Mojo is based on sophisticated principals from behavioral economics, it is a very simple tool to use. Because MAGIC Mojo is designed to help underbanked consumers build savings, it is attached to a prepaid card rather than a traditional bank account. The consumer purchases the card online, activates the MAGIC Mojo feature, and enters their mobile telephone number on the website. The consumer then receives a text message telling her that she can text any dollar amount, any time, to MAGIC Mojo and the amount will be moved from her prepaid card transaction account to a savings side of the card. For example, a participant might pass a Starbucks and think about buying a cup of coffee. If she refrains, she would instead send a text to MAGIC Mojo which would automatically move the money not spent to the savings side of her card. Participants select a savings goal - the majority of users select to save towards an emergency fund - when they sign up, and each “impulsive save” gets them one step closer to achieving it.

It is important to note that this approach to building savings is distinctly different than the now-famous “latte factor” (Bach 2007) approach. The idea behind the latte factor is that people can build savings rapidly if they eliminate small, regular luxury spending and invest the money saved in high-yield stocks. David Bach claims that this one change – investing the latte money – will generate nearly $2 million in savings over the course of a lifetime. However, several critics have pointed out the flaws in this approach to building savings. For example, in Helaine Olen’s recent book Pound Foolish (2012), she countered Bach’s claims by pointing out that people are not depleting their emergency funds by buying $5 lattes. The lack of living wage employment opportunities for many workers and the soaring cost of higher education are far greater problems than the amount people spend on coffee. Furthermore, the primary reason why lower-income families need emergency savings is so they have access to liquid funds to cover unexpected expenses or income loss; working towards a $2 million retirement fund is not their most immediate need. That being said, while skipping lattes probably won’t make very many people millionaires, skipping small impulse purchases can be an effective way to build a small emergency savings fund. The act of saving a few dollars here and there, and leveraging the impulsivity of that act, can transform small unexpected saves into a crucial financial cushion.

In this chapter, we will first present some background information on why it is important for lower-income families to have access to an emergency fund - assets that can be accessed quickly in the event of an unexpected expense or income loss. We will then highlight some of the hurdles and challenges that lower-income families face when it comes to starting or maintaining an emergency fund. Finally, we will discuss in detail how impulse savings programs can meet this unmet need for an easy-to-use tool for saving. We focus on MAGIC Mojo and describe how and why it may prove to be an answer to the emergency savings challenge. We conclude by looking at opportunities for this model to go to scale and discuss next steps for the future of impulse savings.

Background

Unforeseen events, such as unemployment or debilitating illness, can be difficult or impossible to manage financially without an emergency savings fund. These events can have a domino effect on individuals and their families; financial hardship has been shown to have a negative impact on marital stability (McLoyd 1990), health (Kahn and Pearlin 2006), child outcomes (Jackson et al. 2000), and emotional well-being (Price, Ryn, and Vinokur 1992). As a result of the Great Recession which began in 2007, fewer families have the resources needed to handle an emergency and buffer these effects (Taylor 2010). While public assistance is available, it is not possible to rely entirely on such assistance to handle a financial emergency. Public assistance generally requires a lengthy application process and wait time, and many public benefits program budgets have been scaled back over the last thirty years (Gais 2009). It is therefore crucial for families to maintain liquid emergency funds with sufficient amounts to cover a typical unexpected expense or spell of unemployment (Johnson and Widdows 1985).

McKernan, Ratcliffe, and Vinopal (2009) found that having liquid assets or emergency funds above the level of asset poverty – the ability to pay one's expenses without income for three months – significantly reduced the financial hardship that families experienced following divorce, job loss, and disability. According to a survey by the Consumer Federation of America, lower-income families report they need an average of $1,500 in emergency savings while moderate-income families need an average of $3,000. However, less than 30% of low-income families and less than 50% of moderate-income families have $500 in savings (Brobeck 2008). The same study found that people who identified a specific savings goal and created a saving plan were more likely to be successful in building savings. However, it is often difficult to stick with these types of plans; people who can save this way are successful but the approach does not work for everyone.

Emergency Savings Approaches

One approach to building savings that has shown promise is direct deposit automatic savings. With an automatic savings plan, workers set up direct deposit for their wages and specify an amount to move to a savings account at each payday. The Neighborhood Financial Services Study (2008) in New York City found that auto-save programs appealed to people because, once the savings transfers were set up, no further action was required. There is also evidence that automatic saving works. People who have money automatically deducted from their pay and transferred to savings have higher overall savings balances compared to those who do not (Brobeck 2008). Furthermore, researchers have found that employees tend to follow the “path of least resistance” when selecting whether to automatically save from their paychecks. When employers enroll people in retirement savings plans by default, for example, few employees opt-out and most accept the default amount to be saved monthly (Choi et al. 2005). However, automatic savings plans require a savings account. People outside of the financial mainstream who do not want, or cannot get, a bank account are not able to build a bank-based emergency fund.

Christen and Mas (2009) explored how unbanked households hold emergency savings. They found that lower-income families use a wide range of strategies, none of which fully met their needs. These strategies include: storing cash at home, asking a trusted family member to hold cash, participating in a savings circle, and investing in physical assets which could be sold later for funds. However, these more informal methods of saving do not offer as much security, liquidity, or reliability as more formal financial products such as those that banking institutions offer. Christen and Mas concluded that low-income households introduce themselves to “more risk of loss or theft, and their availability and liquidity are highly correlated with the saver’s own circumstances (pp. 277).” Thus we have a seemingly intractable situation – people who need to build emergency savings are not well-served by most products outside of the financial mainstream, yet they struggle to build savings using the traditional approach of planning and making regular deposits in to a bank account. While automatic savings deposits are a promising alternative, they are not available to many low-wage workers who may not have direct deposit or a bank account. We believe that MAGIC Mojo can provide a way for people to build emergency savings without relying on access to a bank account or direct deposit, the willpower to make regular set transfers to savings, or risky and unsecured assets.

Key Contributions of MAGIC Mojo

One of the key strengths of MAGIC Mojo is that it capitalizes on the fact that impulsive actions are fun. Research has found that, when faced with an opportunity to purchase something on impulse, people who buy the item experience an emotional response while non-buyers do not (Weinberg and Gottwald 1982). After an impulsive purchase, people report feeling joyful, excited, and enthusiastic about the purchase (Gardner and Rook 1988). However, research suggests that these positive feelings are directed at the act of impulse spending, not at the actual item that was purchased. Even if the buyer has no real attachment to the item purchased, the act of spontaneously spending money makes people happy.

There are cognitive reasons for this, and it explains why impulse savings programs such as MAGIC Mojo have great potential. Research has found that the external act of impulse buying is significantly connected to one's internal emotions and psychological state, particularly anxiety, stress, and guilt (Youn and Faber 2000). People who feel anxious or stressed are more likely to impulsively spend money as a way to reduce their negative emotional states. In fact, impulsive spending is driven more by one's psychological state than by factors such as advertising, product placements, or even price. This suggests that consumers may experience the same emotional rush and positive feelings from impulsively saving money, since the good feelings come from acting impulsively, not from acquiring an item.

The second strength of MAGIC Mojo is that it not only requires no willpower, it actually takes advantage of the fact that most people do not have the willpower to stick with an unpleasant task for a long period of time. As economist Richard Thaler (1994) wrote:

> Even if an individual were capable of calculating the optimal amount to save this year in order to maximize lifetime utility, he might well find it difficult to resist the temptation of current consumption. Saving requires willpower, which humans (or at least men) have sometimes had trouble summoning since the time of Adam and Eve. Many households undoubtedly think they should be saving more but find that saving is a luxury they cannot afford.

MAGIC Mojo does not require people to stick with a savings plan, or even save with any regularity. When people do skip an impulse purchase, the opportunity to directly transfer that money to savings is always available. And when people don't choose to skip a purchase, there is no feeling of failure. MAGIC Mojo users experience a win-win on the emotional front; they feel good when they make an impulse save and they don't have to feel bad when they make an impulse buy and skip saving.

Barriers to Building Emergency Savings

A recent report released by CFED shows that nearly half (44%) of American households are liquid asset poor (Brooks 2013). This means that they do not have enough easily accessible funds, such as money in a savings account, to live at the poverty level for three months in the absence of regular income. Embedded in this number, however, are households that do not have enough savings to sustain themselves for even one month or cover a single unexpected expense. Data from the 2010 Survey of Consumer Finances indicates that about 20% of people spend as much as they make; 6% report that they spend more than they make (Bricker 2012). These numbers are rising also; the asset poverty rate rose steadily between the early 80's and 2000 (Haveman and Wolff 2005; Caner and Wolff 2002).

Additionally, the personal savings rate, which stands at 2.6 % as of March, 2013 according to data from the US Department of Commerce, has been mostly on the decline since the mid-1980's. This dismally low savings rate doesn't capture differences in savings by income; low-income households are saving significantly less and people earning less than $9,000 a year are saving practically nothing (Davis and Schumm 2009). All of this paints a picture of families extremely vulnerable to even the smallest unexpected expense. Households that are unable to tap into savings to cover an emergency often find themselves relying on high cost, short-term financial fixes which often lead to a greater financial crisis.

There is no question that having access to savings is crucial for households as well as the economy overall. This is a lesson that has become painfully clear during the Great Recession and the slow recovery that has followed. The recent financial crisis has shined a spotlight on what had been a somewhat quiet, but growing trend – that too many households lack adequate savings to provide a cushion against unexpected expenses. The question is not whether people should save, but why people don't save more.

Leading up the crisis and continuing into the present, several factors have created barriers to saving, particularly for low- and moderate-income households. The most obvious and difficult to overcome is the lack of livable wages which keep many families living paycheck to paycheck. These families may already be unable to pay their basic living expenses; according to data from the 1996 Survey of Income and Program Participation, people who lived in poverty for any part of the year were more likely to be unable to buy enough food or meet their basic needs. For families experiencing material hardship as a result of insufficient income, finding a way to build savings is difficult or impossible. There simply isn't enough money left over to put anything aside, even for the rainy day you know is coming.

Another barrier to building savings is a lack of savings tools that best meet lower-income families where they are. Approximately 8% of the population – nearly 10 million US households – are unbanked, meaning they do not have any type of deposit account at an insured financial institution (Gross, Hogarth, and Schmeiser 2012). The majority of those are households earning less than $15,000 a year. Furthermore, there is some evidence to suggest that the number of unbanked people is rising. Data from the UNC Center for Community Capital's annual survey of lower-income homeowners and renters shows that, between 2005 and 2011, the percent of underbanked homeowners went from 2% to 17%. The percent of underbanked renters went from 14% to 29% (Freeman 2013). The unbanked population is diverse and the demand for banking products within this population is not entirely clear because people have a variety of reason for not interacting with mainstream financial institutions (Caskey 2005). What is clear, however, is the need for financial products and services which provide opportunities to safely manage money and save for people who do not have, do not want, or prefer not to use, a traditional bank account.

In addition to structural barriers to saving for emergencies, there are significant psychological and behavioral barriers as well. Research has documented that people tend to have difficulty accurately predicting their future financial needs and learning from past experiences (Bertrand, Mullainathan, and Shafir 2004). Thus lower-income families may not grasp how much they should aim to hold in savings, even when they have previously encountered emergency expenses or income loss. Another psychological barrier to saving is present bias, the tendency to favor consuming money today over saving it and consuming a greater amount later (Benhabib, Bisin, and Schotter 2010). When asked to decide between having $10 today or $15 in one month, a person with present bias will take the $10 today. For the same reason, people tend to find it more gratifying to consume money when it is available rather than save it for the future.

On the behavioral side, research has documented that small hassles can become large hurdles when it comes to saving money. These small situational barriers, collectively termed “hassle costs”, are often-cited reasons why people do not open bank accounts or save money regularly. In their discussion of hassle costs associated with opening a bank account, Bertrand, Mullainthan, and Shafir (2004) write:

> These barriers might be a testy bus ride, challenging hours, or the reluctance to face a contemptuous bank teller. Such barriers are not unlike the embarrassment and anxiety that impede many people, including medical doctors, from administering medical self-exams which they know to be highly valuable.

However, there are ways to overcome these psychological and behavioral hurdles. First, present bias can be countered by goal setting and goal visualization. People who identify a savings goal and see indicators of their progress towards the goal are more successful saving than those who do not have a goal (Beverly, McBride, and Schreiner 2003). Similarly, money which is unlabeled is more likely to be freely spent. By identifying a savings goal, people essentially label that money as already allocated so it is easier to save (Thaler 2004). When money is labeled as “emergency fund” or “rainy day savings”, it is mentally easier to save the money for true emergencies.

Second, programs can open channels to overcome the hassle costs associated with saving money. Instead of requiring people to travel to a bank to open a savings account, for example, potential savers could be given a prepaid card with a savings pocket on it. If they use direct deposit, setting up an automatic transfer to savings can reduce the hassle costs (Bertrand, Mullainathan, and Shafir 2004). Delivering information about saving and access to savings tools through a trusted community organization or reputable partner can also make people feel more comfortable saving money.

MAGIC Mojo seeks to overcome the psychological and behavioral hurdles which prevent lower-income workers from building emergency savings. MAGIC Mojo requires little planning, promotes goal-setting, doesn’t require a bank account, and allows people to access their emergency savings whenever they need it. MAGIC Mojo and other impulse savings tools have the potential to significantly change how lower-income people save and spend money.

MAGIC Mojo

MAGIC Mojo is a patented savings tool that allows users to save money instantly via text messages or, in the near future, via mobile application. At the moment they make a decision to forgo an impulse purchase or spend less on an item, they can text MAGIC Mojo and the money is moved immediately into savings.

This tool is currently offered as a feature available through the MAGIC card – a low fee, FDIC-insured prepaid MasterCard. When a MAGIC cardholder saves money using the MAGIC

Mojo feature, the money is moved from the ‘spending side’ of the card to the ‘savings side.’ The savings side allows uses to securely save money without a traditional bank account.

Goals

Using MAGIC Mojo starts with identifying a savings goal. While some people elect to save for a large purchase or an upcoming special event, the most commonly-given savings goal is an emergency fund. A user purchases a MAGIC card and activates the MAGIC Mojo feature online. The user then names the savings account, chooses an image to represent the goal, and identifies an amount of time to achieve the goal. MAGIC Mojo breaks down the goal into weekly target amounts and sends regular text message reminders to help savers stay on track and achieve their savings goal. Each time a cardholder impulsively saves money – by buying something on sale, for example – the saved amount can be texted to MAGIC Mojo and is securely moved and safely stored on the savings side of the card. To access the savings, a cardholder goes online and moves the money back to the spending side of the card.

MAGIC Mojo also offers social savings options. A saver can identify a savings partner who will receive a text message when a save is made.

Target Population

MAGIC Mojo targets underbanked consumers, particularly those without a savings account. While only 8% of Americans have no bank accounts at all, 29% of households lack a savings account (Gross, Hogarth, and Schmeiser 2012). Without a designated savings account, it is practically impossible for people to maintain an emergency fund. MAGIC Mojo brings a way to save to people who do not have, and may not want, a bank account. Another advantage of MAGIC Mojo is that it is highly accessible to a wide range of traditionally underserved groups.

The web-based and mobile technology can be adapted for people with auditory or visual impairments, and speakers of any language can use the service. In order to make an impulse save, MAGIC Mojo only needs to see a dollar amount in a text message, so "Did not buy shoes, mojo $20" looks the same to MAGIC Mojo as "No compre zapatos, mojo $20". Finally, because MAGIC Mojo does not require a bank account, it is accessible for the estimated ten million people who cannot open a bank account because their name appears in ChexSystems database. Furthermore, as of this writing, money loaded on to a prepaid card is not subject to garnishment.

While MAGIC Mojo can be used by almost all consumers, it is important to recognize that, as with all mobile financial tools, uptake and attrition will be challenges. Of the 605 users who had signed up for MAGIC Mojo Between Jan. 1 and April 4 of 2013, only 100 had successfully saved anything. This represents a 16.4% use rate among people who go through the signup process which is a very encouraging rate. However, only 17 people out of 605 had saved over $50. This should not be taken as an indication that MAGIC Mojo is not effective; rather it is an indication that emergency savings funds are created with the intention that the money will be spent in the short-term. Future analysis of patterns of spending among MAGIC Mojo customers will shed further light on this topic, but it appears that people readily move money out of the savings pockets to cover emergencies, just as hoped.

Mechanisms

One of the strengths of MAGIC Mojo is that it is easily and affordably scalable. Once the technological infrastructure is developed, the saving feature can be added to any prepaid card. MAGIC Mojo is currently being tested through a partnership with OneWest bank, and additional prepaid card providers will be brought online in 2013. Given the growing popularity of prepaid cards, especially by underbanked consumers, MAGIC Mojo has the potential to become available nationally and help hundreds of thousands of people start saving for emergencies. MAGIC Mojo is currently available through a limited pilot test on the Magic Card, distributed by OneWest Bank is pilot testing MAGIC Mojo for one year starting in January, 2013. We anticipate that consumers across the country could be saving impulsively using MAGIC Mojo within 1-2 years. MAGIC Mojo is already patented and available to consumers; the implementation of the product requires no regulatory changes.

The largest expense associated with MAGIC Mojo is the cost to develop the technology which automates the saving process. The initial costs associated with creating the technical infrastructure and functionality have already been outlaid. The relatively minimal costs to sustain MAGIC Mojo and bring it to scale will be covered by the fees paid by prepaid card issuers to add MAGIC Mojo to their cards. We anticipate that card issuers will accept these costs since MAGIC Mojo likely increases card “stickiness”.

Evidence of Effectiveness

MAGIC Mojo is not the first financial tool to try and capitalize on impulsivity to improve consumer’s bottom line. While none of the existing tools fill exactly the same niche as MAGIC Mojo, they do offer evidence that people can be nudged to save money on impulse. For example, RiteCheck Cashing, Inc. has partnered with Innovations in Poverty Action and Bethex Federal Credit Union to give people the opportunity to impulsively open a savings account or add to an existing account when they cash a check. When a customer comes in to cash a check, the teller asks if they would like to open a savings account. The savings account applications come pre-completed so all the customer has to do is sign his or her name and the account is opened. Customers are then asked if they would like to make a small deposit in the account. By targeting customers when they are holding cash in-hand, the program reaches people at the best possible moment for them to save. Innovation in Poverty Action has also partnered with Self-Help Micro Branch, a division of Self-Help Federal Credit Union, to pilot a similar impulse savings product, known as the 5 for Me Account which allows check cashing customers to pre-commit to saving $5 from each check they cash.

Another approach to linking impulsivity to savings is PriceCheck&Save, a mobile application which attempts to make impulse spending smarter. The application, created by Putnam Investments in an effort to increase contributions to retirement accounts, allows consumers to compare prices on an item they want to buy. The consumer scans the bar code of an item they want to buy, and the application scans for area stores where it can be found at a lower price. The amount saved by buying the cheaper item can then be transferred directly in to a 401(k) account. Finally, the application displays how much more monthly retirement income will be generated by each deposit, based on the user's age and expected retirement date.

The existing product which is most like MAGIC Mojo is ImpulseSave, a web and mobile application available on both Android and iOS. ImpulseSave allows people to move money to a savings account through the application or by text message. Users can set up multiple goals and can move money between goals, or between savings and checking, easily. The accounts are provided by FDIC-insured Leader Bank, and the savings accounts accrue a small amount of interest. One key difference between MAGIC Mojo and ImpulseSave is that ImpulseSave does require users to open checking and savings accounts. For people who do not want a bank account or who are ineligible for one, using this product is not an option. Also, ImpulseSave users are required to set up auto-transfers to savings of at least $5 weekly for each goal they establish. MAGIC Mojo users have the option to establish auto-transfers to savings, but it is not required. While MAGIC Mojo and ImpulseSave operate similarly, they serve slightly different groups. ImpulseSave is geared to people who are banked, or willing to become banked, while the typical MAGIC Mojo user is more comfortable using a prepaid card and may not be able to commit to weekly savings deposits.

Limitations

While MAGIC Mojo and similar impulse saving tools hold great promise as ways to help lower-income families build an emergency fund, there are some limitations worth noting. Looking specifically at MAGIC Mojo, the primary limitation is that prepaid cards tend to have a short lifespan. In addition, MAGIC Mojo does not reach people at key decision moments when they readily have money available to save. Finally, there is the question of whether people will successfully save when their savings is immediately available to be spent.

Prepaid cards are becoming an increasingly common tool for making financial transactions, particularly among the unbanked. A 2011 focus groups study by the Pew Health Group (2011) found that, for some lower-income consumers, using a prepaid card is less expensive than using a checking account. People in this study reported that they were attracted to the transparent fee structure, the anonymity of using a prepaid card, and the inability to overdraft or spend on credit. Contributing to the increase in prepaid card use is the fact that some government benefits are now disbursed via prepaid card. According to the

Federal Reserve Board, 67% of government-provided assistance was distributed on prepaid cards in 2011 including nearly $73 billion in SNAP (formerly known as the Food Stamp Program) benefits (Federal Reserve Board 2012).

However, prepaid cards are still a fairly new product and there is limited data available on how consumers use them. The data that is available shows a good deal of variation in frequency of usage, transaction amounts, and length of time consumers maintain active cards (Wilshusen et al. 2012). Prepaid cards generally have a short lifespan, which could potentially pose a barrier for using such cards as a tool to help build savings. The average lifespan of prepaid cards is six months or less, with General Purpose Reloadable (GPR) cards sold through a retail outlet having the shortest lifespan at an average of only 63 days. However, cards sold through a website, like the MAGIC card, remain active nearly twice as long at an average of 184 days (Wilshusen et al. 2012). Additionally cards purchased online are typically reloaded more often and with larger amounts. More than 70% of GPR cards sold via retail outlets are loaded three or fewer times, while 43% of GPR cards sold via the internet are loaded four or more times. It seems reasonable to think that having a savings feature built into the card will increase the lifespan of the card. Research currently being conducted by the UNC Center for Community Capital will test whether consumers use their prepaid card longer when they activate the MAGIC Mojo feature as compared to MAGIC Card customers who do not use the savings pocket.

A second potential limitation of impulse savings programs in general is that the money saved tends to be very accessible. While it is important for an emergency fund to be a liquid asset, when money is too accessible it becomes easy for people to spend it on routine expenses or luxury items. Because MAGIC Mojo brings impulse spending to users' minds and specifically emphasizes how to turn it in to an opportunity to save, we anticipate that people will be less likely to spend their savings on impulse buying. Also, asking people to set a goal and upload a goal image should discourage people from spending on items other than emergency expenses.

The final limitation we identify is that MAGIC Mojo does not necessarily reach people at key moments when they have access to money which can be moved to savings. Tax time has emerged as a critical opportunity to help low- and moderate-income households save because it capitalizes on the tax refund windfall (Duflo et al. 2006; Barr 2004; Schreiner and Sherraden 2007). This relatively large sum of money comes outside of the usual flow of funds and provides a unique opportunity for households to put a portion of that money aside into savings. Similarly, there is the impulse savings project discussed previously which reaches people when they are in the process of cashing a check. In that case, the customer is literally holding a large sum of cash in his hand at the moment he is asked to put a small amount in savings.

MAGIC Mojo, on the other hand, does not reach people at a moment when they have extra money to save but instead capitalizes on the moment when a spending decision is being made. Saving with MAGIC Mojo means spending less, which is a formidable task for low-income families that are already stretching every dollar to cover basic expenses. However, MAGIC Mojo is not asking people to change how they spend on necessities or asking people to divert money from household spending to savings. MAGIC Mojo reaches people when they are about to make a spending decision outside of paying their routine expenses. The money saved is not "extra money" like a tax refund, but MAGIC Mojo also does not ask people to get by paying their routine bills and household expenses with less money in order to save.

Implementation and Scale

Other than promoting the adoption of the MAGIC Mojo savings feature by prepaid card providers, there are few limitations when it comes to implementation and scale. The technology infrastructure is already developed and implementation does not require any new specific regulatory changes. As mentioned previously, MAGIC Mojo is patented; the developers are hoping to license the technology to a wide range of prepaid card providers. Because mobile wallets are typically based on an underlying prepaid card, MAGIC Mojo would operate on those platforms also. The cost to provide MAGIC Mojo will be covered by the fees paid by prepaid card issuers to include MAGIC Mojo as a card feature. Card issuers will find that MAGIC Mojo drives sufficient customer traffic to warrant the cost.

Turning to impulse savings programs more generally, there are several exciting opportunities to expand on the concept of building savings through impulsive actions. First, there are opportunities to integrate impulse savings at more key decision points. Currently, the Innovations in Poverty Action project discussed earlier catches people at the key moment when they are cashing a check. There are other key moments when people have cash, such as when they receive an in-store rebate, when they save money on a purchase by using a store loyalty card, or when they receive a point-of-purchase discount for some other reason. Each of these moments presents an opportunity for someone to move a small amount of money to savings, money which does not have to come out of their usual cash flow.

Second, as more employers use prepaid cards for wage distribution and more government agencies use them for public benefits, there are more opportunities to attach savings pockets to these types of cards. MAGIC Mojo users are asked if they would like to establish a small, recurring transfer to savings at the time they enroll. While most people do, many of the recurring saves fail due to insufficient funds. People who receive wages or public benefits on a card would not face this problem and could successfully save through recurring saves that happen out of sight.

Evaluation

There is a large body of research documenting the immediate gratification that people receive from impulse purchases. MAGIC Mojo gives people this same sense of gratification for impulsively saving money. The UNC Center for Community Capital (CCC) is conducting research on the effectiveness of MAGIC Mojo by collecting survey data from people at the time they purchase the prepaid card and six months later. CCC will also analyze data on how people use MAGIC Mojo – how often they save, how much they save, and what they report using their savings for when they make withdraws. Taken together, these data will provide a robust examination of how much and how often people save money using MAGIC Mojo, what they do with the money they save, and the extent to which MAGIC Mojo increases cumulative savings. Of particular interest is that the evaluation will compare MAGIC Mojo savers to people who use the same prepaid card but do not use the "impulse saving" feature. While this is not a randomized treatment/control evaluation, the before/after evaluation and the cross-platform comparisons will provide strong indications of the impact that MAGIC Mojo has on participants and will significantly inform a future randomized evaluation. Although the evaluation is not complete, we do have some preliminary findings which point to MAGIC Mojo's effectiveness.

In the first 2 months, over 500 people have signed up for MAGIC Mojo. Most (34%) say they are saving for an emergency fund, and there is evidence that people are personalizing their goals in ways that are meaningful to them. Some of the goal names people have assigned their emergency funds are: Save Me, What Happened!, I Will Never Be Broke, and Don't Touch. Over 80% of MAGIC Mojo users set up a weekly automatic savings transfer, and the median amount transferred is $9.00. Users who are actively making impulse saves had an average savings balance of $55 after the first 2 months of the MAGIC Mojo product launching.

To understand how people are interacting with MAGIC Mojo, we'll look at four weeks of transactions from a participant we will call John (not his real name, but the transaction data is real), a MAGIC Mojo user who bought his card shortly after the product launched. John's goal is named Treetops Trip and his goal amount is $500. John has set an automatic transfer to savings of $10/week and his goal is to save just over $21/week. Table 1 shows the amounts saved and the accompanying texts sent by John. Some of John's saves were the result of skipping fairly small purchases; John saved $2 on January 27 by not having a soft drink. Other saves were more substantial, such as skipping meals out or not buying cigarettes. Finally, John saved some money by using coupons and moving the amount he saved from the coupon in to his savings account. John saved a total of $69 over the four-week period just by skipping a handful of small expenses and using coupons.

Table 1: John's Saves	
$3 get started	Jan. 16
$6 didn't have to buy smokes	Jan. 18
$7 no eating out	Jan. 19
$5 no dinner out	Jan. 22
$6 no cigarettes needed	Jan. 25
$2 no mountain dew tonight	Jan. 27
$2 coupon for smokes	Jan. 28
$2 free redbox rental	Jan. 28
$8 no cigarettes or mountain dew	Jan. 29
$6 no drive thru	Jan. 29
$6 no smokes last night	Feb. 1
$10 coupon for oil change	Feb. 3
$6 no smokes needed	Feb. 5

Conclusion

MAGIC Mojo is an innovative and exciting new approach to helping underserved consumers build emergency savings by overcoming two key barriers to saving – economic constraints and behavioral biases. First, lower-income families often find it difficult to build an emergency fund because their incomes fluctuate from month to month. This makes it hard to save a specific amount regularly. MAGIC Mojo overcomes this by allowing people to quickly save small amounts of money when they have it, and not feel guilty when they don't. MAGIC Mojo is based on the premise that budgeting to save money doesn't work for many underserved consumers, but that lower-income people can still save successfully. Second, MAGIC Mojo replaces one source of immediate gratification – impulsively spending – with another – impulsively saving. People who save using MAGIC Mojo experience immediate gratification each time they make an impulse save, both through the actual act of moving money and by seeing their progress towards a set future goal. While MAGIC Mojo may not necessarily work for all consumers, savings is not a one-size-fits-all approach, after all, it can fill an important, unmet need by allowing people to quickly and easily transform small money-saving opportunities into longer-term savings habits while providing a little satisfaction along the way. MAGIC Mojo has the potential to help lower-income and financially-underserved families begin to build emergency savings so they are better equipped to manage shortfalls, handle unexpected expenses, and become more financially secure.

While MAGIC Mojo specifically has the potential to help people save money and build an emergency fund in a new and exciting way, impulse savings more broadly is potentially applicable across a wide range of savings tools and key decision points. Any time point at which a person is considering spending money – whether funds from their usual cash flow or "extra" money – is a time point at which they could impulsively decide to save it instead. The key challenge going forward will be to find ways to bring those opportunities to the consumers when and where they spend. MAGIC Mojo does this via text message, but there are many other possibilities which have yet to be explored. From check cashing to tax refunds, loan interest rate reductions to cash rewards for retail loyalty, consumers receive unexpected payments and face impulsive spending opportunities frequently. Each of these decision points represents an opportunity to transform fleeting instant gratification in to a safety net for the future, an opportunity ripe for innovative thought and experimentation.

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