Increasing Savings and Reducing Credit Card Reliance among Low-Income U.S. Households

Researchers:

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Sector(s): Education, Finance

Location: New York, United States of America

Sample: 1,167 credit union clients

Target group: Urban population

Outcome of interest: Credit balance/repayment Savings/deposits

Intervention type: Training

Partner organization(s): Neighborhood Trust Financial Partners, United States Social Security Administration

Researchers conducted a randomized evaluation to investigate the demand for commitment savings products or financial counseling, and the impacts these products and services have on savings, among a sample of low- and moderate-income credit union members in New York City. Analysis of the effect of these financial products on savings, borrowing, and credit scores is ongoing.

Policy issue

In the United States, 43 percent of households do not have enough savings to cover their basic expenses for three months if unemployment, a medical emergency, or other crisis left them without a stable income. Low levels of savings can make it difficult for people to find the resources to weather unforeseen financial adversity or to rebound from bad financial decisions, particularly for low-income households.

Many factors, including social and behavioral factors, may contribute to low savings rates. Individuals may face pressure from family and friends to share resources, and they are often tempted to spend money today instead of saving for tomorrow. Commitment savings products, which are binding arrangements individuals voluntarily make to help themselves save more, are designed to help people overcome these social and behavioral barriers to savings. By committing to such an arrangement, individuals essentially "force" themselves to save by agreeing to make regular deposits and limit when and how they can make withdrawals. Another potential reason for low savings rates is that individuals may have limited financial literacy. For these individuals, financial counseling services, which teach individuals how to create a personal budget or manage excessive debt, may help them save more.

In this ongoing evaluation, researchers seek to address two questions: what is the demand for commitment savings products or financial counseling? What are the impacts of these products and services on savings rates and other financial outcomes?

Context of the evaluation

The Washington Heights neighborhood of Upper Manhattan in New York City is home to the largest concentration of immigrants from the Dominican Republic in the United States. The median income in Washington Heights is $31,000 and the poverty rate is 31 percent, 10 percentage points higher than the average in New York City. The complicated pricing and terms, large minimum balance requirements, and underwriting provisions of many financial products and services place them out of reach for many low-income households with little credit history.



Person opens an empty wallet at a table.

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Details of the intervention

Researchers partnered with the Neighborhood Trust Federal Credit Union to conduct a randomized evaluation to measure the demand for commitment savings and financial counseling in the United States, and the impacts of these products and services on a variety of financial outcomes. Researchers offered visitors to the local credit union a metro-card loaded with two subway (or bus) rides in exchange for filling out a survey. Upon completing the survey, participants were randomly assigned to one of three groups:

1. *Comparison group:* Researchers offered individuals the metro-card, but no any additional services or products.
2. *Financial counseling group:* A certified financial counselor offered to provide an hour-long one-on-one financial counseling session. Depending on the needs of individual clients, the session focused on topics like building and improving credit, creating a personal budget, starting a business, or managing excessive debt. Clients also received a comprehensive financial diagnostic, a copy of their credit report, and an individualized budget that included regular savings behaviors.

Counseling sessions were free of charge and clients could return for free follow-up sessions if necessary.

3. *Commitment savings group:* Researchers offered this group an interest-generating commitment savings account. The credit union members who took the offer had to make an initial minimum deposit of US$15 and had to commit to reaching a savings goal over a period of their choice i.e., three, six, twelve, or eighteen months. The low minimum deposit requirement made the product accessible to low-income savers. The customer was responsible for determining the saving goal and deciding to meet the goal by either making manual deposits or by signing up for automatic deposits (typically from their checking account). By the end of the maturity period, those who reached their goal could withdraw all their savings plus the accumulated interest. Those who did not reach the goal had to forfeit the US$15 deposit and the interest.

Researchers collected data on account balances, individuals' credit reports, self-reported well-being, and measures of behavioral characteristics.

Results and policy lessons

Study ongoing; results forthcoming.