

## What Motivates Low Income Earners To Save Money?

### **Moderator**

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## Webinar Agenda

- **Welcome & introduction**
- **Presentation by Camille M. Busette** *(25 minutes)*
- **Q&A** *(20 minutes)*
- **Wrap up**



# What Motivates Low Income Earners to Save?

**June 2010**

**Camille M. Busette, PhD  
Vice President  
EARN**

## What is EARN?

EARN leads innovation in ending the cycle of low wealth and creates new cycles of prosperity by providing financial services that help low-wage families build assets

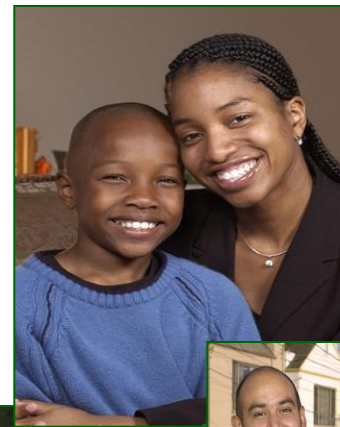
- Helping low-wage families save to invest in homes, education, small business through a variety of matched savings programs
- Offering successful IDA Alumni additional targeted products that help leverage and protect assets
- Providing financial management training to help families achieve financial goals
- Working to effect public policies that increase asset-building opportunities for low income working families
- Driving strategic research contributions to ending cycles of low wealth in the U.S.

## EARN Introduction

- Started in 2001; began servicing clients in 2002
- One of the largest and most experienced providers of Individual Development Accounts (IDAs) in the country
- \$4.3 million annual budget
- \$9 million IDA dollars managed since 2002
- \$2 million in IDA reserve fund
- Recipient of numerous awards:
  - 2008 James Irvine Foundation Leadership Award;
  - 2005 Social Capitalist of the year from Fast Company

## EARN's Offerings

- Individual Development Accounts
- SAFE Accounts
- Micro lending for Credit Card or Medical Debt
- Financial Coaching
- Alumni Support and Training
- Financial Education
- Bank on San Francisco



EARN's asset-building strategy gives families the knowledge and tools to accumulate, leverage, and preserve assets across generations

## Individual Development Accounts Structure

### Individual Development Accounts (IDAs)

- Matched Savings accounts matched by public and private sources that are restricted to investment in a high-return asset
- Financial education is a key component of many IDA programs

#### Eligible Population

Up to 200% of the federal poverty level, or EITC qualified families

#### Match Rate

\$2 for every \$1 saved

#### Match Maximum

\$6,000 (\$4000 match + \$2000 saved)

#### Savings Period

3 – 5 years

#### Asset Goals

- Post-secondary education or training
- First time home purchase
- Business start-up or capitalization

## EARN's Matched Savings Accounts

- Largest matched savings program in US
- Over 3100 matched account savers enrolled
  - Average household income < \$20K annually
  - 83% people of color; 65% women
  - 64% are from households with children
- EARN savers put aside 5% of their gross income
- \$4 million of their own money put aside by EARN Savers
- 1000+ have made investments in college education, small business and homeownership

## Research Study Background

- Existing body of research demonstrates that either owning a home, completing a post-secondary education, or owning a business is the most reliable way of building material wealth in the U.S. given our particular tax structures
- The “asset-building” field takes this research as a point of departure and asks, how can low income people, at whom the tax incentives are not aimed, have the opportunities to build wealth that higher net worth individuals enjoy via federal tax subsidies
- Asset-building therefore, has invested a lot of political and programmatic capital into programs that encourage savings and particularly savings toward one of the three assets demonstrated to be excellent sources of wealth accumulation in the U.S.

## Key Research Questions

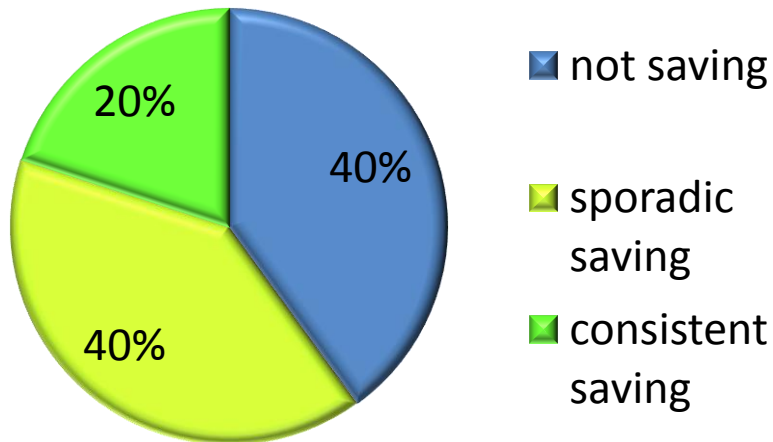
- After 20 years of experimentation in the field, there is now data which shows that access to programs that help build savings and utilize those saving for one of the key assets does lead to greater income potential and higher educational attainment for participants –thereby confirming the work done earlier
- The field has not focused very much attention on how the programs that promote asset building lead to improved outcomes –is it a behavioral change, psychological change, change in relevant social networks, or some other combination of factors that account for positive results?

## Research Study Overview

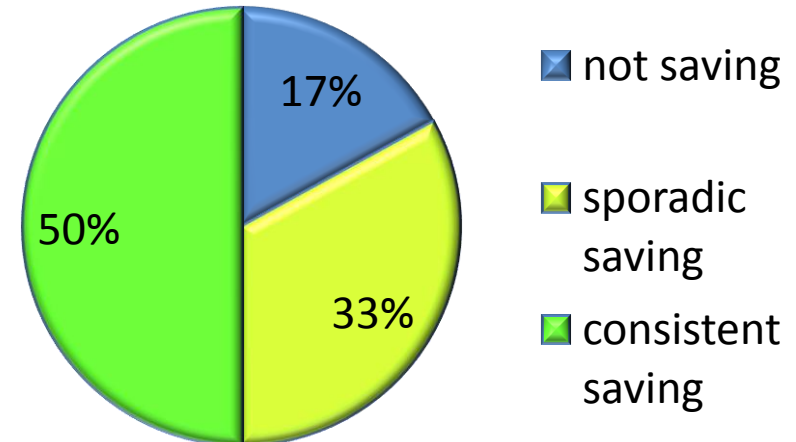
- Alumni Savings Study
  - Key question: do Alumni continue to save after graduating from the IDA program and if so, why?
  - 37 interviews with randomly selected Alumni in an ongoing series of interviews with Alumni 2-7 years out of the program
  - First research of its kind to follow Alumni of a large scale IDA program

# Were There Differences in Saving Behaviors Before and After Program Participation?

## Saving Behaviors Before Entering Program



## Saving Behaviors After Exiting the Program



## Why the Differences?

- Financial capacity training shifted perceptions of what was possible on limited incomes
- Participants learned and practiced the behaviors associated with saving toward a goal and in, some cases, shifted spending habits to enable savings
- Constraints on withdrawals forced discipline; discipline led to achievement of savings goals
- Integrity of EARN staff appears to have created a climate of trust, sense of professionalism and, increased participants' sense of success

## Some Other Findings

- Consistent savers exhibited the greatest behavioral shifts, often changing spending habits to enable saving
- Consistent savers were able to note specific elements of financial capacity workshops which had lasting impact on their lives and their financial choices
- Consistent savers also had higher self esteem and sense of personal efficacy in non-financial matters than non-savers
- Some participants actively changed their social networks when they sensed misalignment between those networks and their changed orientations
- Those who successfully finished the program were more actively engaged in their communities than they were prior to entry into the program
- Participants had more positive impressions of non-profits than prior to starting the program

## Conclusions

- Enrollment in an IDA program can lead to a sustained pattern of saving
- An important component of success here is the shift in perception about the ability to save on a limited income, suggesting that financial capacity training in the context of the IDA program can yield enduring behavioral change
- The integrity of the program and the program staff matters
- Successful participants may be willing to renegotiate social networks to support their new orientation to finances

## Why Are These Results Important?

- Demonstrates that impact of the EARN IDA program is positive and long term
- Demonstrates that the mechanisms that lead Savers to continue saving are largely behavioral
- Supports the idea that policies which are intended to increase savings rates and other types of beneficial financial behaviors should include behavioral guideposts and education rather than being entirely structural (i.e. a simple change in the tax code)

## Thank You!

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