



Factors Affecting Completion of a Matched Savings Program: Time Preference, Discount Rate, and Financial Hardship

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Disclaimer

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Agenda

- ⤴ Overview of \$aveNYC
- ⤴ Theories of behavioral economics
- ⤴ Analysis and findings
- ⤴ Discussion and implications



\$aveNYC

- ⤴ Offered through VITA sites
- ⤴ Capitalize on tax refund windfall
- ⤴ Part of refund in savings account
- ⤴ 50% match after 1 year
- ⤴ Maximum match \$250 (program year 2009)

Financial Profile of \$aveNYC Participants

66% Income < \$20K
Average \$20K refund
93% \$9,345
Average total savings \$2,063
72% have a bank account

Socio-demographic Profile of \$aveNYC Participants

50% living with children under 18

61% employed

77% female
45% in public housing

19% married

43% black

\$aveNYC Program Statistics

\$aveNYC Accounts	151	952	1,360	2,165
	\$58,539	\$362,741	\$961,518	\$1,382,798
Average Savings	\$388	\$381	\$707	\$561
	6%	9%	10%	9%
Full Year Savers	76%	80%	NA	79%

Source: The \$aveNYC Account: Innovation in Asset Building. Research Update. December 2010.
[http://www.nyc.gov/html/ofe/downloads/pdf/\\$aveNYC_research_update_dec2010.pdf](http://www.nyc.gov/html/ofe/downloads/pdf/$aveNYC_research_update_dec2010.pdf)



Program Design Informed by Behavioral Economics

– Eighth
Outline
Level

Ninth Outline Level
Click to edit Master text styles
Program Features

Behavioral Econ.

Click to edit the outline

Limit choices

50% match (one option)

Mental accounting

Second Outline Level

Split refund

– Third Outline
Level

– Third Outline

Hassle factors

Third Outline
Level

On-Site opening
Direct deposit
Automatic rollover
Limited account access

– Fifth
Outline

Time preference

Financial payoff later

Outline



Individual and Structural Factors

- ⤴ Information failure = inefficient decisions
- ⤴ Financial hardship - you can't save what you don't have

Note: early withdraw does not equal “failure”

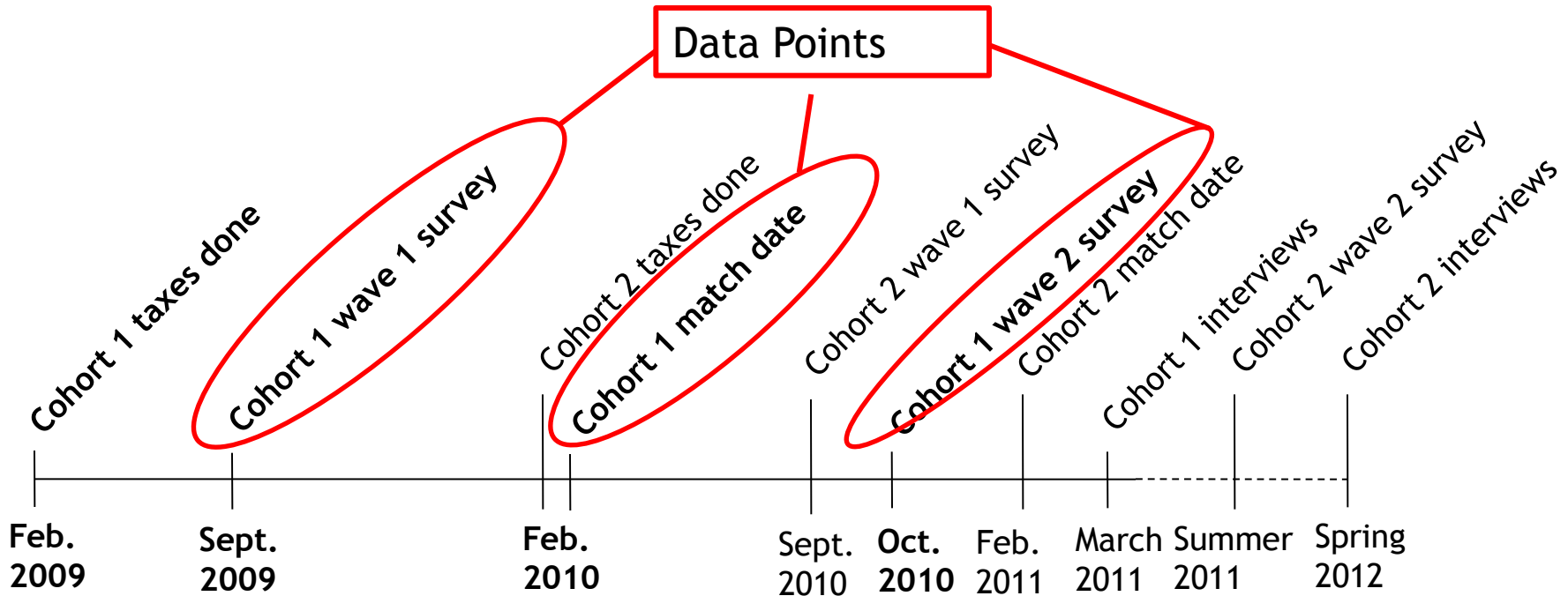


Hypotheses

- ⤴ Reduce risk of account closure:
 - Time to match date
 - Accurate information about match amount

- ⤴ Increase risk of account closure:
 - Higher discount rate
 - Financial hardship

\$aveNYC Study Timeline





Descriptive Statistics

Variable	%	Freq	Mean	SD	Min	Max
Prefer to wait for full refund later than get 70% now (wait)	79%	166			0	1
Knew correct match amount	49%	106			0	1
Scale of financial hardship			0.94	1.23	0	4
Added to account since opening	12%	26			0	1
Household income			2.5	1.2	1	5
Amount non-retirement savings			1,631	3,362	0	25,000
Age			41.23	12.34	19	73
Has retirement savings	27%	59			0	1
Black	46%	99			0	1
Other race	16%	34			0	1
Hispanic	38%	83			0	1
Single	50%	108			0	1
Married	24%	51			0	1



Number of accounts closed by program month



Baseline Survival Function of \$aveNYC Accounts



Estimated Hazard Risk Ratios for Closing Account Prior to Match, Cox Proportional Hazards Regression Model (n=192)

	Haz. Ratio	Std. Err.
Time preference - willing to wait	0.904	0.30
Knew match amount	0.408**	0.13
Financial hardship	1.238*	0.13
Added	0.781	0.35
Income	1.038	0.12
Amount non-retirement savings	1.000	0.00
Age	0.986	0.01
Has retirement	0.739	0.26
Black1	1.908	0.97
Hispanic1	1.684	0.88
Single2	1.056	0.40
Married2	1.222	0.51

* p< 0.05, ** p<0.01, *** p<0.001

1Reference is Other race, 2reference is divorced/separated/widowed



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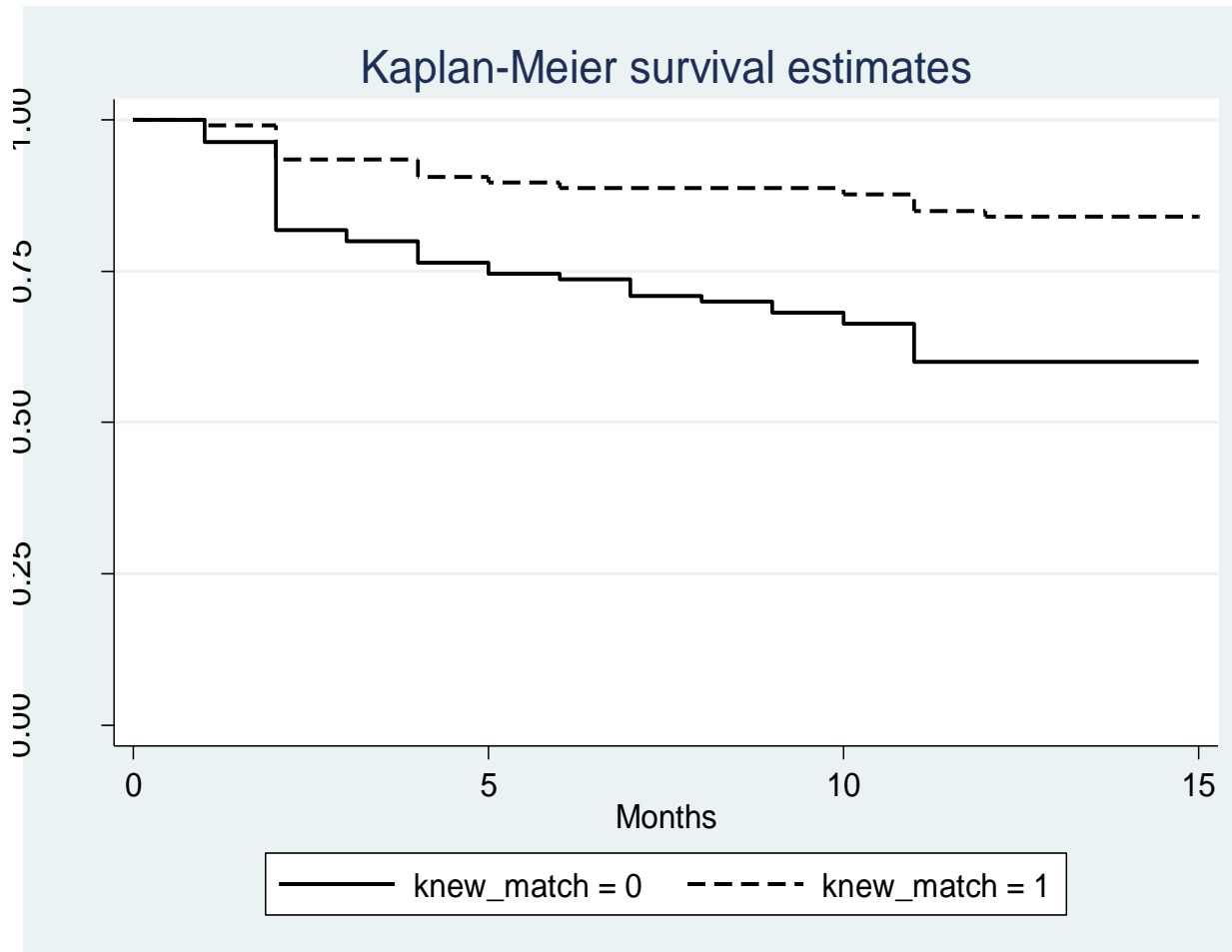
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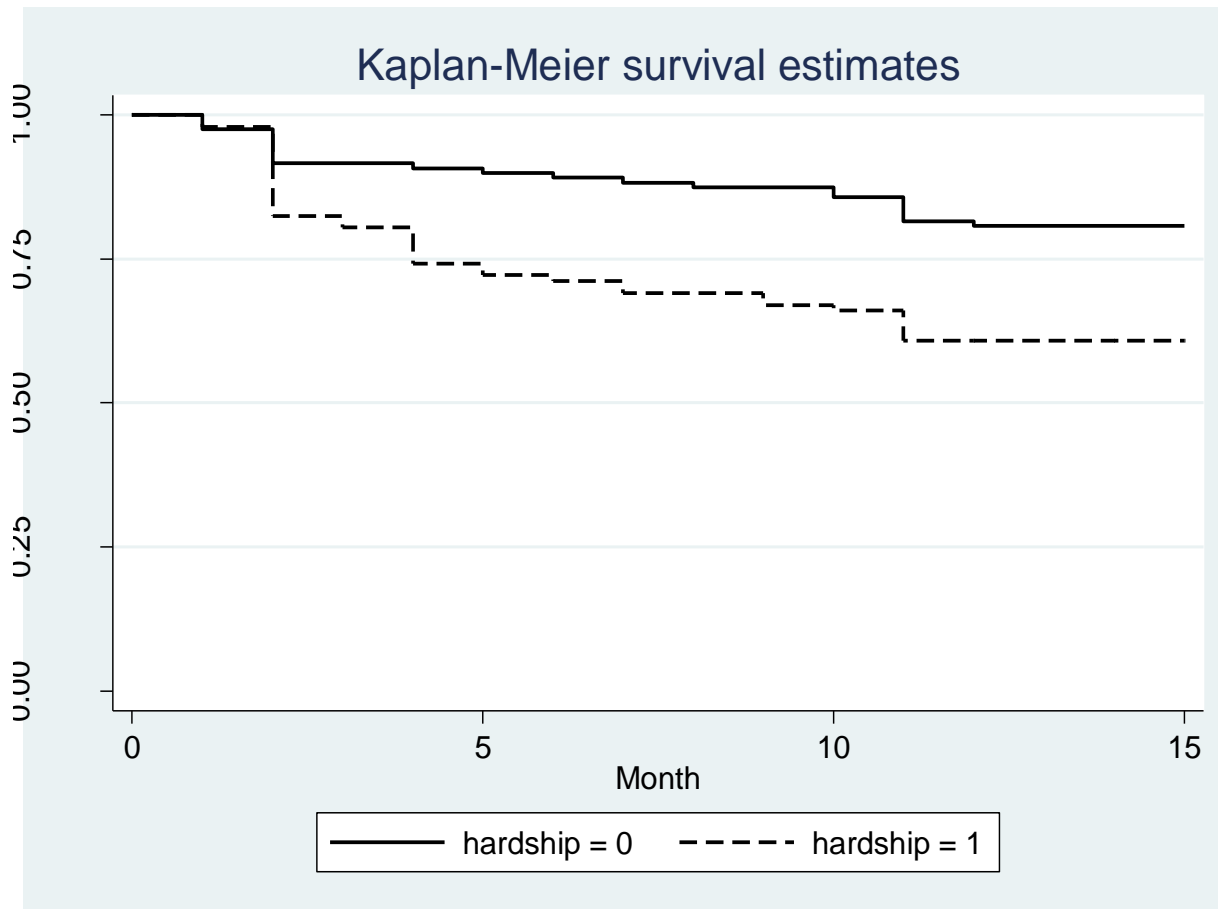


Kaplan-Meier Survival Estimates by Information Failure





Kaplan-Meier Survival Estimates by Financial Hardship





Discussion

- ⤴ Accurate information matters
 - Information failure inhibits effective decision-making
- ⤴ Financial hardship affects ability to save long-term
- ⤴ Does discounting/future orientation matter?
 - Early account closings decline over time
 - Willingness to wait is not significant



Policy Implications

- ⤴ Incremental match dates - reduce time to wait
- ⤴ Up-front match with penalty for early withdraw creates loss aversion
- ⤴ Tax-time savings programs meet different needs for different participants
 - Emergency savings
 - Goal-oriented savings
 - General savings