Applying behavioral economic theory to asset building practice: the $aveNYC Account

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Mission of DCA

To ensure that consumers and businesses benefit from a fair and vibrant marketplace

Strategic Priorities

- Empowering and protecting consumers

- Facilitating fair business practices

- Conducting efficient, accountable, and customer-friendly operations

Overview of OFE

Founded by Mayor Bloomberg in December 2006 as the first local government initiative in the nation aimed expressly at **educating, empowering,** and **protecting** those with low incomes, so they can build assets and make the most of their financial resources.

OFE's Strategic Priorities

Educate

- Increase access and strengthen quality of financial education services
- Coordinate large-scale public awareness campaigns, including the annual Tax Credit Campaign

Empower

- Research and develop safe and affordable banking and asset-building products, in partnership with financial institutions
- Share best practices and influence national policy with Cities for Financial Empowerment and other partners

Protect

- Protect workers with low incomes from unfair and predatory practices through targeted advocacy and enforcement

Program Highlight

OFE Financial Products Research Agenda

- *Neighborhood Financial Services Study, 2008. Identified high-impact financial empowerment initiatives in two low-income neighborhoods.*

- *Suite of transactional and savings products to safely and affordably connect low income New Yorkers to mainstream financial institutions.*

OFE Research: Saving Challenges

→ Thousands of low income residents do not bank
- Over 400,000 unbanked households (825,000 adults) live in NYC.
- NFS analysis of 2 unbanked communities found that 50% had less than $200 saved.

→ NFS found fundamental mismatch between financial products and needs of low income households.
- Most free checking accounts require direct deposit and have overdraft fees of $30 or more. But…..
  - 61% of checking account holders are not paid by direct deposit
  - 53% of residents can't pay rent by check
  - 38% of residents say they avoid banking because of fees; 34% because they don't trust the institutions

- 67% of savings accounts available in NFS communities earn less than 1% in interest, and 79% have monthly maintenance fees of $3 or more
  - Average low-balance saver <u>loses</u> money in a savings account.

NFS Findings: What helps people save?

- **Bank accounts:** 80% of respondents who exclusively use banks reported having savings; 32% of those who exclusively rely on check cashers had savings.

- **Tax refunds**: Controlling for income, education, work and other demographic factors, EITC-filers are *twice as likely* as non-filers to have savings

- **Financial education:** People who have taken financial education are twice as likely to have savings compared to those who have not.

- **Restricted Access:** "I can't touch it." Holiday clubs and retirement accounts were given as examples of effective savings discipline.

- Non-specific Savings Goals: Most common reason for saving was emergencies (28%); more popular than concrete goals like homeownership (16%) or children (12%)

$aveNYC Account Pilot Program

THE $AVENYC ACCOUNT

Purpose:

Test a scalable, national model to increase savings among low- income individuals.

Program Structure:

• Open account at tax site by direct depositing $100+ from tax refund

• Account: Certificate of Deposit (CD) or Club Account held at partner bank/ credit union

•50% match *if* participants save for 1 year, up to $250

• Can add to the account throughout the year, but account closes depleted if below initial contribution

$aveNYC Research Methodology

Research Partnership: OFE partnered with the Center for Community Capital at the University of North Carolina at Chapel Hill to conduct a quasi-experimental evaluation of the second and third cohorts.

Data Sources:

• **Account Activity:** Account balances, quarterly performance of $aveNYC and other accounts at institution

• **Demographics**: Adjusted Gross Income, Race, Household composition

• **Tax Data**: EITC returns, Refund amount, Tax filing status, Previous tax history

• **Telephone Surveys**: Baseline and follow up surveys with participants and non-participants on financial accounts, behaviors and perceptions for each cohort.

• **Focus Groups:** Qualitative analysis of each cohort

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Behaviorally-informed Program Design

BE Principles

Limit Choices

Hassle Factors

Mental Accounting

Loss Aversion

Program Features

50% match (one option)
Set Financial Institution

On-Site (Remote) Opening
Direct Deposit
Automatic Rollover
Limited Account Access

Split Refund
Program Name - **$ave**

Threat of losing match

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Program Participation

$aveNYC Highlights	Year 1	Year 2
Accounts Opened	177	1058
Accounts funded by IRS	151	946

• Average income: $16,920

• 70% are single mothers
  • 78% are women
  • 9% are married
  • 82% have dependant children

• 73% working full or part time
• 38% had no savings at program start
• 23% unbanked at program start

Program Outcomes

- 80% of accountholders (870 people) saved for a full year to receive the match
  - 57% of Cohort One continued to save after receiving the match
  - 17% participated again

- Post-match balance: $544,725
  - Average savings of $627
  - 64% of successful savers had $500 or more, compared to 31% of comparison group

- Predictors of success:
  - Participants who were banked at the start of the program are twice as likely to receive the match, even after controlling for demographics

Why save?

"Just to have something on the side for emergencies."

"Because I have a family to take care of."

"When you get your taxes it seems to go quickly, so I need to save something before I spend it all."

Behaviorally-informed design

Limit Choices

"I wasn't familiar with the financial institution."

"It was only available at that one bank"

- 94% of filers understood the account

- Drawback: 31% of people who rejected the account reported that not wanting an account at that particular institution influenced decision not to participate "some" or "a lot".

Hassle/ Channel Factors

"At the time I was in a little rush and did not want to fill out the paperwork."

- 67% reported that ease of opening $aveNYC account influenced decision to open "A LOT" – only 64% said the same about the match!

- Filers with checking accounts 1.3 times more likely to open a $aveNYC account than those without.

Behaviorally-informed Design

Mental Accounting

"($aveNYC) is money I know I have and cannot touch."

➡
- 59% participated because funds would be hard to access

- Drawback: 39% did NOT participate for this same reason

- All participants intend to save for the full year; think of this money as <u>savings</u>.

Loss Aversion

"I could never have been able to do it by myself"

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- 79% would withdraw from general savings for emergency spending; only 47% would withdraw from their $aveNYC

- 40% of people with $50 match closed early compared to 13% of people with $250 match

Lessons for replication

- <u>Opportunity for sound customer base</u>
  - Over 350 checking and savings accounts
  - Secured or partially secured credit builder loans

- <u>Implementation matters:</u>
  - Participation rates ranged from 2% to 20% across sites; 33% increase from Year 1 to Year 2
  - Remote account opening critical
  - Asset specialist training
  - Marketing: What will you save for?

"Its very nice to be able to save in a place where you can also do things like cash your check."
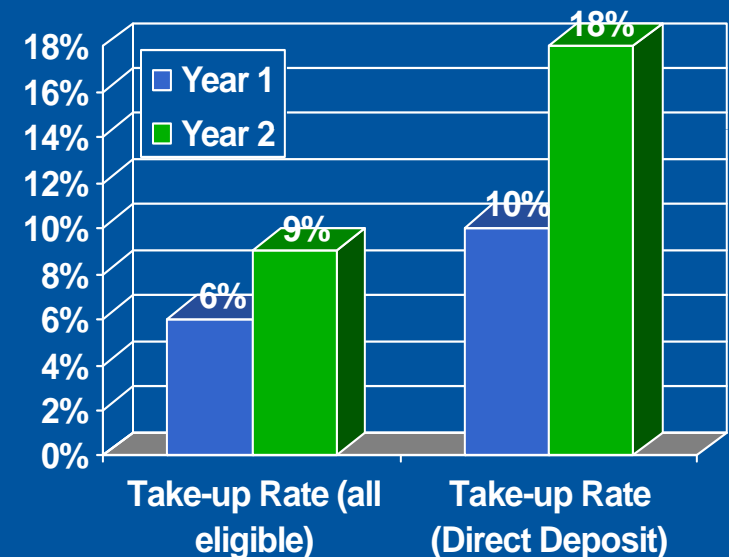
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