QUALITATIVE RESEARCH IN POLICY EXPERIMENTS: SAVINGS IN LOW INCOME HOUSEHOLDS

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Outline

- Why savings?
- Qualitative methods in experimental research
- Study 1: American Dream Demonstration (ADD)
- Study 2: Children’s savings in SEED: I Can Save
- Study 3: SEED for Oklahoma Kids: SEED OK
- Implications: Theory, policy, and research
Why savings?
Income and wealth disparity

Income inequality is high
- 1.7:1 White ($30,941) to African American ($18,135)
- 2:1 White ($30,941) to Hispanic ($15,063) (DeNavas-Walt, et al. 2010)

Wealth inequality is much higher (median net worth)
- 20:1 White ($113,149) to African American ($5,677)
- 18:1 White ($113,149) to Hispanic ($6,325) (Kochhar, Fry & Taylor 2011)

One-quarter of Americans report unlikely to access $2,000 within 30 days in the event of an emergency (Lusardi, Schneider, & Tufano, 2010)
Why saving and asset building? Key to household development

- Basic income and consumption are essential

- **But development occurs through asset accumulation and investment** -- in emergency savings, education, homes, land, enterprise, materials for production, or financial investments

- Asset holding creates material conditions, as well as outlooks and behaviors, that promote household development

- This applies to all families, rich and poor alike
When people cannot save, the future is dimmer

“Theresa”:

*Because when you have only what you’re earning and there’s none left over (which I saw a lot in my life) to not even take ten dollars out, you’re looking at a very grim world. Because it spells no hope. And when you have no hope, you cannot move to the next phase of things, even if you want it.*
How people save? Savings theory

**Neoclassical economics**
- Individual preferences, rationality, permanent income hypothesis
- Poor save for precautionary purposes (Ziliak, 1999)

**Financial socialization**
- People learn the importance of and how to save from their parents and other socialization agents (Webley & Nyhus, forthcoming)

**Behavioral economics**
- Intention does not mean action; choices can be overwhelming (Barr, Mullainathan, & Shafir, 2008)
- “Choice architecture” shapes financial decisions (Thaler & Sunstein 2008)

**Institutional theory**
- Institutions and their features constrain and influence people's actions
- Savings result from individual *and* institutional factors (e.g., Social Security, 401k) (Sherraden & Barr, 2005)
Two major research questions

- How do people with low incomes save?
- What is the effect of savings for people with low incomes?
Qualitative methods in mixed method experimental research

Mixed methods
- Savings monitoring, longitudinal surveys, depth interviews, and case studies
- Depth interviews are used alongside other methods (not before or after)

Aims of qualitative research
- Focus on contexts and meaning of human lives and experiences, including policy experience
- Understand processes, especially those that emerge over time
- Emphasize the voices of participants
Depth interview procedure

Draft interview guide, protocol
Train interviewers
Pilot test
Contact participants

Conduct interviews
Audio tape
Token of appreciation to participants

Transcribe interviews
Initial coding
Develop codebook
Extract concepts, themes, frequencies
Re-coding & analysis

Present results in reports, articles, books
Study 1: American Dream Demonstration (ADD)

- First large demonstration of Individual Development Accounts (IDAs)
- Funding by Ford Foundation and consortium; organized by CFED; research by Center for Social Development
- 14 IDA programs (1997-2001, experimental research through 2010)
- 2,364 working adults under 150% of poverty
IDAs are incentivized savings accounts for LMI families for development purposes

*Could include savings matches, “seed” deposits, “top-up” deposits, benchmark deposits or other incentives. Funding sources can be public or private.
Experimental site: Depth interviews

- Randomly-assigned experiment in Tulsa OK (1997-2010)
- Stratified random sample of 59 participants (P) of “low”, “medium”, and “high” savers
- 25 controls (C)
- 2-3 hour interviews on financial lives, saving strategies, savings sources, challenges, and perceived outcomes
Economic socialization and coming of age

Respondents learned (mostly from their mothers) how to “make ends meet”, although discussion about money matters generally were avoided.

Often abrupt transitions to adulthood—with a hard landing:

- Educational deficits
- Low wage jobs
- Family responsibilities
- Little knowledge and skills about saving
Prior to ADD, most treatments and controls had little or no accumulated savings

Overall, savings tended to be low and short term:

*Most I ever saved was $5!* – age 49 (P)

*I feel a little tired . . . I am 58 years old and I’ve worked 34 years—34 years without stopping. I don’t have a pension, I have nothing . . . I have nothing.* – age 58 (C)

*I’ll focus my mind . . . ‘I’m gonna save this money,’ but it seem like something always comes up to where I have to go and get it out. And there won’t be nothing in the savings.* – age 29 (P)
Quantitative results: Saving in IDAs by ADD Participants

- $16.60 average monthly net deposit (AMND)
- 52% were “savers” ($100 monthly net savings)
- $32.44 AMND among “savers”
- 2:1 savings match (typical)
- For each $1 that could be matched, $0.42 was saved
- Average savings (including match) was $1,609
- Home purchase/home repair most popular use of IDAs

(Schreiner & Sherraden, 2007)
Interviews illustrate how a savings structure interacts with individual behavior

“Kenneth” said trying to save on his own is a waste of time because the temptation or need to spend is always there – and nothing forces him to save:

*There’s always something you want – if not something you need. So that $500 – if you don’t save it, who’s gonna get you? Nobody. It’s your money. Who’s gonna do anything to you? Nobody. So, it’s hard, you know, it’s hard.*

A program, reinforcement, and restrictions may help:

*So it has to be a program like this that will teach you or train you that it’s important, but not only that, it’s got to be set up to where if you don’t do it—there’s some kind of a penalty.*
Incentives are important

- A savings match (*incentive*) is a big attraction

“Theresa”, age 48:

Nobody matches your money in a regular savings! . . . So, that was *incentive* enough. *That’s incentive enough for anybody!* I mean I have to put one dollar and you’re gonna put two dollars in? Oh, yeah, that’ll work for me. . . .

But in saving she also responded to the match cap (*expectations*):

You know, I mean, it’s amazing. That just makes you want to save it faster *so you can get to that point and say, ‘Look—I got to $1,500 and all this extra stuff I put in there just adds to it.’* So that’s what made me do it. The $50 and the $100—that’s what make me get way up there real quick.

(Sherraden & McBride, 2010)
Expectations are very important

- *My goal was to meet their goal.* . . . *I decided to shoot for the max.*
- *It would be stupid if we didn’t save $750, which is the maximum a year. It would be stupid. We would lose out on 150 free dollars if we save $600.* . . . *We are gonna make sure we the $750 in there at the end of the year.*
- *Right now all I’m doing is putting in enough just to meet the $750 a year.*
- *I don’t want to blow one dollar of that money.* . . . *it’s just an opportunity that is laid before me that is unbelievable that I would be a fool to screw it up.*
- *That’d be just like throwing $750 down the drain!*
Quantitative findings bear this out: Match rates (*incentives*)

Higher match rates (incentives) are associated with being a “saver” – but lower monthly net IDA savings

- “Savers” with 2:1 match rates saved 80 cents less than “savers” with 1:1 match rates

(Schreiner & Sherraden, 2007)
Quantitative findings: Match cap target (*expectations*)

Match caps are associated with higher net IDA savings rates among “savers”

- For “savers” a $1 increase in monthly match cap associated with a 57 cent increase in monthly net IDA savings

- A large increase given that monthly net IDA savings for “savers” averaged $29
Other program elements that help participants save

- Rules (*restrictions*) help participants focus on, plan for, make a priority of saving. *IDA makes it ingrained that you have to.*

- Staff support and remind (*facilitation*) *They take you through step-by-step.*

- Financial education (*information*) teaches how to manage and save. *The classes give you a little bit more confidence.*

  (Sherraden & McBride 2010)
Savings effects, according to participants

Own a savings account – and savings (often for the first time)

More likely to articulate a long-term perspective on saving than controls

[The] IDA has already set me on the road with an idea, with a goal and an achievement with a purpose in life.

More likely to be saving regularly for long-term purposes than controls

I’m saving more than I ever saved. I’m still not where I want to be or need to be but I am saving. So I feel good about that.

They teach their children

This summer we took the kids on a field trip to the [bank] downtown . . . . and [the teller] taught them how to write out checks.
Native American participant in the American Dream Demonstration, with house purchased with her IDA funds
Savings effects (cont’d)

Greater sense of security

*It gives me peace of mind to know that I will have some money whenever I’m too old to work.*

More confidence and feeling responsible

*[It’s] kind of like a trust fund . . . [The IDA] just makes you want to do something good with it.*

Greater future orientation and “focus”

*One thing that changed was thinking about our future more. Thinking that I could have control of something, you know . . . We just never thought like that.*

*I’m just beginning to build goals that I wouldn’t have thought about if I wasn’t in the IDA program.*
But saving in an IDA is still challenging ...

- Everyday financial demands and emergencies
- Debt obligations, especially medical debt
- Difficult to resist spending

Despite helpful features, saving in an IDA takes initiative, determination, motivation, and self-control. IDAs fall between discretionary and contractual savings.

(Sherraden & McBride 2010; Sherraden et al., 2010)
Study 2: Children’s savings in SEED: I Can Save
Why children’s savings?

Potential key factor in educational attainment

- Desire, ability, and effort are necessary – but not sufficient to explain college matriculation and completion (ACSFA 2001)

- Savings and expectations appear to matter a lot in educational persistence (Elliott & Beverly 2011a; Elliott & Beverly 2011b; Elliott, Monique-Constance & Song, 2011)

- While loans appear to have little effect on persistence (Perna 1998; Bresciani & Carson 2002)

... Savings in childhood may have lifelong effects
SEED: *I Can Save* program

*Saving for Education, Entrepreneurship, and Downpayment* (SEED)
- Demonstration of Children’s Savings Accounts (funded by Ford Foundation and others and operated by CFED)

- One of 12 sites nationwide
- Elementary public school and non-profit collaborative
- 64% of students qualify for free-and-reduced-lunches, 81% African American *(MO DESE, 2008)*
I Can Save program features

- $500 “SEED” deposit
- All students who entered kindergarten and first grade
- 1:1 savings match up to a total of $1,500 ($3,000 including match)
- Custodial savings accounts in the child’s name
- $1 “earnings” per week for after-school I Can Save Club (money deposited in savings account and matched)
- Financial education for children and parents
- At program end, savings deposited into a Missouri MO$T account- 529 College Savings Plan
I Can Save: Research methods

Quasi-experimental 4-year study (2003-2007)

- 2 waves parent surveys
- 2 waves depth interviews with children
- 4 waves focus groups with teachers
- Savings monitoring (MIS IDA) (participants only)
Modest saving in *I Can Save*

- 73 of 75 eligible children signed up for the program
- 100% of enrolled children deposited savings
- 71% had positive net contributions
- $336 average total savings
- $1,172 average total savings including incentives

(Sherraden & Stevens, 2010)
Savings match, saving and going to the bank

ICS children understand the savings match (incentive)

- Many children mentioned the dollar they earn for attending ICS Club

*In I Can Save, you get dollars...fake dollars...and then however many dollars you have, they double that. So like, if you have $4, then when you got the real money back, you’d have $8... I don’t get the money out of my bank - 4th grader*

(Sherraden, et al., 2006)
ICS children like saving!

What 2\textsuperscript{nd} graders liked the best:
- games (40%)
- saving (28%)
- snacks (26%)
- bank visits (11%)

What 4\textsuperscript{th} graders liked the best:
- saving (48%)
- games (28%)
- snacks (24%)
- bank visits (14%)

Frequency of savings deposits spikes during “bank visit” months

(Sherraden, Johnson, Elliott, Porterfield & Rainford, 2007; Sherraden, Johnson, Guo & Elliott 2010)
Children gain financial knowledge and skills

Across groups

- Quantitative results from nationally-normed financial literacy test show greater knowledge by 4\textsuperscript{th} grade (Ps compared to NPs)

Over time

2\textsuperscript{nd} grader: They pass out the money... we put in our little piggy banks. And there’s some kind of tube that goes from that library to the bank. So you put it in... it sucks it up... it goes right down to the bank.

4\textsuperscript{th} grader: I give my deposit to the worker [at the bank] and they type something in the computer and it kind of takes a long time. Then they give me my receipt back.

[Interviewer: When you get the receipt back, what’s on there?]
Savings and expectations for college

[Paying for college will be] easy, because I go to I Can Save. – Lower income, 4th grade

Well, I’m going to pay for [college], because I have my own bank account. – Lower income 4th grade

Since I’m saving up when I’m relatively young, I think I will be able to have enough money to be able to go to college. – Higher income, 4th grade
ICS children perceive of savings as a pathway to college

[Some kids won’t go to college because] Well, some kids don’t have bank accounts. And when they don’t have bank accounts, they can’t get money from [them]. So, when they don’t have any money from it, then they can’t go to college, ‘cause they don’t have any money from the bank. -- Higher income, 4th grade

Participants talked with greater ease about link between savings and college than non-participants

- In 2nd grade, 7 (23%) Ps linked savings to their ability to finance college compared to 20% of NPs
- In 4th grade, 23 (74%) Ps linked savings to their ability to finance college compared to 25% NPs

(Elliott, Sherraden, Johnson, Guo, 2010)
I Can Save students in the school library
Challenges

SEED deposit is an incentive to join the program but it took more than a year to enroll everyone

- Opt out

Children and families save, but savings are modest

- More types of resources for college

ICS children view savings as a means to help pay for college, and appears to have increased expectations for college, but some worried it might not be enough

- High disadvantage requires added intervention
Study 3: SEED for Oklahoma Kids (SEED OK)
In progress (2007-2014)

Testing the concept of Children’s Savings Accounts
Random assignment at birth

**Treatments** (n=1,358)
received a College 529 account with a $1,000 deposit at birth and encouragement to save with incentives (including a match among income-eligible)

**Controls** (n=1,346)

(Kim & Nam, 2009; Zager et al., 2010)
SEED OK: Depth interviews

- Sample (n=300) randomly selected from SEED OK baseline survey
- 40 treatment, 20 controls, across race/ethnicity
- Interviews:
  - The economy
  - Money and savings
  - Aspirations and expectations for child’s education,
  - SEED OK experience
  - Other savings accounts for children
  - Financial services
  - Savings goals and future

(Wagner & Sherraden, forthcoming)
Results forthcoming (Wagner, Sherraden, Miller-Cribbs, Gray, Clancy, et al.)
Implications: Theory, Policy and Research
Financial capability

- *Ability to act* (knowledge, skills, confidence, and motivation)
- *Opportunity to act* (access to beneficial financial services and products)

Financial knowledge & skills + Financial inclusion \[ \text{Financial Capability} \]

(Sen, 1999; Nussbaum, 2000, 2010; Johnson & Sherraden 2007, Sherraden forthcoming)
Building blocks: Ability and opportunity to act

Overall, program and account characteristics appear to be as important as individual effort in explaining savings outcomes.

- **Access.** Eligible, available, default enrollment (“opt out”)
- **Simplicity.** Simple products, limited choices
- **Information.** Financial education, feedback
- **Incentives.** Matching, benchmark rewards, other inducements
- **Facilitation.** Direct deposit, personal assistance
- **Expectations.** Pre-commitment, goals, restricted uses
- **Restrictions.** Limits on use money safe, dependable access
- **Security.** Money safe, dependable access

(Sherraden, Schreiner & Beverly 2003, Sherraden & Barr 2005)
The opportunity to act is not open to everyone

“Cynthia”, a successful saver, age 52 (control):

Nobody in an institution—government or whatever—has knocked on my door and said: You want to get into middle-class America?

It’s not fair that it’s so unbalanced. The world would be a better place if we all had the same opportunities.

We need more keys...more information. We need more tools put in our hands. . . Don’t just tell me ‘You need to save’ or ‘Are you saving?’ Help me. Show me the arena. Give me access to the arena. . .

(Sherraden & McBride, 2010)
Policy: A start
Begin as early in life as possible

• Endow children with savings at birth
• Long-term accumulation
• Create positive expectations and behaviors
• Increase educational achievement
• Build foundation for lifelong stability and development
Research

- Experiments that vary treatment to assess impact of features (e.g., financial education, direct deposit, benchmarks)
- Representative national samples
- Longer time frames
- Test relative importance of the process of saving, compared to amount of savings
- Test impacts across diverse groups and economic systems
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