Faculty testing two new solutions to help people save money, exit poverty

Posted by **Michelle Rogers** • April 19, 2011 • **Printer-friendly**

By Susan White

Historically, foreign aid and government welfare programs have focused on offering financial assistance to those in need. But at UNC's School of Social Work, faculty members **Gina Chowa** and **Michal Grinstein-Weiss** are challenging traditional ideas for addressing poverty in developing countries and economic inequality issues across the United States. Although the researchers target different audiences, employ separate strategies and have distinct long-term goals, each is exploring innovative solutions that are designed to help low-income individuals and families build assets of their own.

An international approach to alleviating poverty

Chowa has been pursuing a progressive way of addressing poverty for nearly 20 years. Today, her primary research focuses on building youth capital in developing countries. She is co-principal investigator of "YouthSave," a landmark global research study funded by a $12.5 million grant from The MasterCard Foundation. The five-year project focuses on how and why youth in the countries of Ghana, Colombia, Kenya, and Nepal save money and potential ways to increase their access to financial services. The assistant professor is particularly interested in learning how accumulating savings impact a youth's educational, economic, psychosocial, physical and mental well-being.

"So in the international arena, we're not looking at savings as a panacea," Chowa explained. "We're looking at whether building assets improves the youths' overall livelihoods." (See related story on **Chowa's partnership and project with Carolina for Kibera**.)

Four organizations are collaborating on the YouthSave project: Save the Children, New America Foundation, Consultative Group to Assist the Poor (CGap), and the Center for Social Development (CSD) at Washington University at St. Louis. Chowa, who earned her MSW and Ph.D. from George Warren Brown School of Social Work at Washington University, has worked closely over the years with YouthSave's principal investigator, Michael Sherraden, CSD's founder and director.

Chowa

Chowa's part of the study began last year in Ghana, where she is working to enroll 6,000 seventh, eighth and ninth grade students in YouthSave. One goal is to determine whether low-income youth are more likely to open and contribute to a financial savings account if they have easier access to banking services, such as through cell phone applications and schools.

Chowa also hopes to learn if youth who save are more likely to go on to secondary school and college. Although the government pays tuition for students attending primary and junior high school, these subsidies are eliminated once a child reaches high school age. As a result, many low-income families cannot afford to pay for their child's education—a reality that can further stigmatize the poor, she said.

"Someone recently told me that being in a boarding school automatically tells people around you how rich you are," Chowa said. "So if you can't go to a boarding school, people automatically know that you're low income."

Through YouthSave, Chowa and her research partners hope to persuade banks to consider low-income people as potential clients, ensuring that those with little income have the same access to opportunities that those with higher incomes have.

Youth in Ghana

"Financial institutions need to understand that if they start with low-income people, they will not make an immediate profit, but they will see results later," Chowa said. "If they bank the unbanked and these new clients get into the culture of saving with a formal financial institution, and if these kids are able to go higher with their education and get employment and contribute to the nation, they will have kept them as clients and they will be profitable down the road."

Encouraging Americans to save

Every year, millions of American taxpayers receive income tax refunds that for some, can amount to a financial windfall. Many will spend these dollars on vacations, clothing, electronics and everyday expenses. But a new research project co-led by associate professor Grinstein-Weiss, aims to encourage taxpayers—especially low and moderate-income households—to save part or all of their tax refunds.

Duke University and Intuit, the makers of TurboTax software, **are collaborating with UNC on the intervention project, "Refund to Savings,"** which would offer taxpayers easy one-click access to financial savings products when they file their taxes electronically.

Typically, electronic tax filers are asked whether they prefer to have their refund dollars returned as a cashable check or automatically deposited into a checking account. With Refund to Savings, taxpayers would be prompted to direct all or a portion of their money into a savings or retirement account. If necessary, the financial tool would also guide filers through the steps of creating such an account first.

Grinstein-Weiss

Developing the prompts for the intervention are vital to the project's success, explained **Andréa Taylor**, a School research instructor and asset building program manager. Following the principles of behavior economics, researchers are first investigating the factors that are most effective in compelling individuals to save.

"We're really trying to figure out what people are looking for in a savings tool and how they might save their money," said research assistant **Krista Holub**. "Is it talking about kids going to college or saving for retirement or a number of different other scenarios?"

Once those motivations are better understood, a product will be designed and embedded within TurboTax that encourages asset building and simplifies the savings process, Taylor added. Researchers plan to launch the savings tool by 2013.

"We're really hoping to reduce all the barriers that make it complicated or that prevent us from saving," Taylor said. "We're trying to make saving so easy and so streamlined that you don't even have to think about it. You just click a button and it happens."

The financial intervention is being developed at a time when fewer and fewer workers are setting aside any savings or investments. According to the Washington, D.C.-based Employee Benefit Research Institute, 27 percent of workers last year said that they had less than $1,000 in savings, up from 20 percent in 2009. Overall, more than half of workers reported that, excluding their home and any benefit plan, they had less than $25,000 in savings and investments.

Perhaps more troubling are the percentage of Americans who are unprepared for a financial emergency, Taylor said. For example, in a recent paper co-authored by researchers from George Washington University School of Business, Princeton University and Harvard Business School, nearly half of Americans reported that they would not be able to come up with $2,000 in 30 days if needed.

"This is really concerning because on average, across all income groups, people noted that they had about $2,000 in unexpected expenses every year," Taylor said. "And the top two causes were car repair and health care."

Long-term, the researchers see their savings tool potentially as an affordable option that could influence other low-cost savings products aimed at helping all American households build assets. Unlike current Individual Development Accounts (IDAs), the Refund to Savings tool would also offer participants more flexibility with their savings.

IDAs, which are a matched savings account program, enable low-income residents to save for a down payment on a house, college tuition or a start-up business. IDAs can be expensive because the programs are funded by federal and state grants and encourage savings by matching—often at a rate of triple or more—every dollar a participant sets aside. Participants must also receive credit counseling, enroll in financial literacy classes and work with a homeownership counselor, also costly efforts.

The Refund to Savings product is very inexpensive to administer because tax filers control if they want to save, how much they do save and how they spend their money, Taylor said. Long -term, the goal is to persuade individuals to take advantage of every opportunity they have to invest in their financial future.

"What we're ultimately trying to determine is, 'Can we actually alter people's savings habits?'" Taylor added.

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