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To Save

The article begins by introducing Vijaya, who resides in Chennai, India. Her job was selling garlands at the Koyambedu Market, and she did not make a plentiful rupee. Vijaya had some loan payments, and also paid extra for most of her family's expenses then the story led to the element "why saving is good".

Taking out small short-term loans on a regular basis is rarely the greatest way to function, but that is exactly how many people operate. Wherever it occurs, the borrowers engaged in it are making the statement that they need to buy something ,but they don't have enough money to buy. Therefore, they take it today on credit then they have to pay extra for the privilege of getting it today. In this article, there is an example of the way to save for Vijaya. If she borrows 1 dollar less every period, she will be completely debt-free in twenty week. However, the example is a fable because it contains a moral.

There are several reasons why people all around the world find it difficult to save. Firstly, saving is not appealing when compared to purchasing items; it is simply boring. Second, some people believe that today's needs and opportunities are more pressing than future needs and opportunities. Saving will alway be there tomorrow, so it can wait.

There is a pervasive phenomenon documented in psychology and behavioral economics. It happens to all of us, even though we replace saving with quitting smoking, eating healthier, or exercising regularly. Even for the one who is endowed with discipline and foresight, the way of saving is still strewn with barriers and hazards. For the most part, the obstacles are a sneaky, poorly behaved bunch and the needy people around us.

Many people are driven to find alternative saving solutions because they face a difficult uphill battle at home and have limited access to formal banking. There are varieties, but most informal saving plans have one thing in common: they all carry a cost to the saver. Half of the world's population does not use formal financial services to save or borrow. The informal solution continues because, although being expensive, it fills gaps that need to be filled.

According to Dupas and Robinson's survey, if the venerable under-the-mattress strategy offers the same (zero) interest rate and no withdrawal costs, the majority of participants will apply. This response suggests that a costly, no-frills account was a desirable thing for many people.

There are several ways to avoid saving. Many people always come up with the reason for their spending. At the end, as they realize the amount in their savings account, buyer's remorses sets in; they would wonder which purchases were unnecessary.

Taking Sunny as an example, she did not have enough budget to fulfill her goal. So she set out depositing money into her account at the Green Bank and her account balance kept rising. Unfortunately, there was a withdrawal along the way and her account went back to zero. And later, the Green Bank offered her a new product called SEED.

SEED, or Save Earn Enjoy Deposit, is a commitment savings product in the Philippines which had a commitment feature that locked away money until people reached a goal amount. This commitment saving scheme helped people to save little by little toward a big goal. What defines this trick is that deposits are locked up until a specific account balance is reached or until a given date. From the perspective of economic theory, people tend to sign up for these things as it can control their impulse and resist temptation spending when money is locked away. However, it leaves us with the question: "Can a commitment savings scheme help improve the lives of the poor?".

Most poor people do not have savings accounts; they are not saving since they spend every last cent on the bare essentials. Then even if we find ways to help them control their impulse, we won't fix the root problem as they won't have anything left in their pocket.

To see how we can improve people's lives and design a product to overcome the temptation issues, the Green Bank and partners created SEED to find and test new ways to mobilize savings. They designed an RCT test to find out whether a self-control product could really work by surveying both current and former clients of the bank to see if they were interested in SEED. The survey also included the questions that measured "time-preferences" to see their preference and patience. It results that preferences change over time. Overall, more than a quarter of those invited signed up, especially people who have goals and ways to achieve them, but always find an excuse to start, they were more likely to join up. Moreover, about 50 percent of women with impatient-now-patient-later preferences also join SEED.

Would SEED help people to save? It would be yes! By offering a SEED account, it led to increased savings and more decision making power in the household for women. The impact of SEED only on those who did open accounts.

According to the findings from SEED study, it can be concluded that SEED accounts really helped clients increase their savings. It also undermined conventional wisdom; if given the right tool, the poor can also save more. People can do better with their existing resources and can do even better with behavioral push.

By looking through the developed world, they found that to both rich and poor their behavioral solutions are adaptable. Procrastination and inertia are two behavioral barriers to saving.

Save More Tomorrow (SMarT) is a plan of future savings increases coincident with the pay raises. The savings will not rise until the pay raises which is good for the procrastinators.

Thaler and Benartzi looked through employees' saving progress in a company that agreed with SMarT. At first, all the employees are offered a meeting with the consultant to recommend the step to get to saving rates they wanted. Only 28 percent of employees who met with consultants took the recommendation. About 80 percent of employees who did not take the recommendation signed up for SMarT plan. As a result, employees who signed up for the plan had saved 55 percent more than employees who chose to follow the consultant's recommendation. The plan is acceptable by millions of employees as two America's largest retirement savings plan operators recommended the plan to their customers. The Save More Tomorrow becomes powerful as it helps people to bind themselves to do the right thing.

stickK.com is a website platform where people can create their own commitment contract to achieve the goals of their choices. This is an option for people who want to change their behaviors. In this platform, users are able to price their good and bad behaviors by using real money(dollars and cents). By the stickK.com, users will be able to choose whether they want to send the money to a specific person, family members or for charities if users fail the commitment. In this case, users will rather follow a commitment to avoid sending a check to someone. Through this platform and condition, this could be used to prevent procrastination and to prevent bad behaviors.

Money seems to have a huge impact on our choices according to SEED and StickK.com. The author and team set up the RCTs in three different countries which are Bolivia, Peru and the Philippines to see whether the different environments have any impact on the savings. They tried to remind chosen clients to save once a month to see whether they are any different. In the Philippines and Bolivia, they used text messages to be a reminder tool. While in Peru where the cell phone was not widespread, they sent their messages through physical mail. Also in Peru, the team tried to use another idea, a jigsaw puzzle in which they would get the reward such as a vehicle or a house if they are able to collect all the pieces. However, the jigsaw puzzle did not work well. It did not increase the savings. As an overall result, the tiny reminder did work.The messages that were sent as a nudge cost the bank a lot of money.

Economist Esther Duflo and his team cooperated with H&R Block to see what if they offer a one-time matching IRA contribution how the retirement savings would change. There was a program called Federal saver's credit in the tax code already. The federal saver's credit was framed as a rebate while the IRA contribution is a match. The Federal saver's credit was equivalent to what IRA contribution studying. However the result was not the same for both. In 2006, Emmanuel Saez did a RCT on retirement savings to see what happened. The study was concerned about the response to a range of economic incentives and also focused on the single one. His study was more effective than equivalent credits or rebates at increasing contributions. It gives the opportunity to manage better products and policies.