The Chalmers Center
For Economic Development

Economics 101: People Respond to Incentives—Including Low-Income People!

Matched savings programs work because of a properly constructed incentive structure. Traditionally, the primary incentive to complete the program has been the match funding, received with the purchase of an asset. Historically, this has incentivized many participants to attend financial and asset specific education while setting and working toward their own personal long-term savings goals.

However, there is a danger in relying on the savings match as the sole incentive for program completion. In order for a person to save money, they must, at some point, view that money as more useful in the future than in the present. Usually, the further into the future that individual will have access to the saved money, the less they value it. It is logical to assume that this effect is particularly strong among low-income individuals. This is because the *cost* of saving a dollar is relatively larger to low-income people than the *cost* of saving a dollar is to the middle class.

The danger in allowing the end match money to be the only incentive for program completion is that the program will merely serve as a screening mechanism. In other words, the only people that are likely to succeed are those who already value savings, even if they only have access to that savings several years down the road. This issue can be addressed in two ways. The first is financial literacy training. These classes help people reorient their thinking about money. The church's role must be to address financial worldview, values, and behaviors—issues that are deeper than just economic incentive. The second is by adding short-run incentives with the goal of helping individuals achieve the long-run incentive (match funding).

Consider devising a short-run incentive structure for your program. This can be simple, and may or may not directly contribute to a participant's economic well-being. Perhaps you make a $20 deposit into a participant's account if he/she makes deposits for 6 months in a row. This provides an incentive and contributes to their savings goals. Or you may choose an incentive that does not contribute to savings goals, but is geared toward enjoyment. For example, if a participant saves for 6 months, the program pays for the participant's mentor to take them to dinner. Be creative. Ask potential participants what they want—this is another chance to be participatory.

Decisions To Be Made

- Will you have a short-term incentive structure?
- If so, what will it be?