

Partner Type:
Credit Union

Partner Cohort:
2016

Project Type:
Field Pilot

Project Status:
Completed



Helping Credit Union Members Meet Their Short- and Long-Term Financial Goals

BACKGROUND

Like approximately [25% of non-retired Americans](#), many Self-Help Credit Union (SHCU) members are not currently saving for retirement. Saving for retirement can be made difficult by the myriad options available, and even more difficult when you can't keep up with irregular, unexpected expenses. In fact, even among those who do save for retirement, at least [25% of workers surveyed](#) have taken some form of early withdrawal or loan from their 401(k) plan, tapping into it to meet their short-term needs or emergencies and often incurring additional taxes and early withdrawal fees.

We recognize that both emergency savings and long-term retirement savings are critical to financial health, but many people find it difficult to feel successful at either one, let alone both. The current state of short- and long-term savings in the United States means that many American families are under-preparing for retirement while also struggling to save for commonplace unexpected expenses.

To assist SHCU members in both accruing short-term savings and building retirement funds for their future, we partnered with the credit union to develop a hybrid savings account that allows members to achieve both types of financial goals. Nicknamed a "Now & Later Savings Plan" (and also known as a [sidecar account](#)), this savings mechanism smartly and automatically allocates each savings deposit into either short-term or long-term savings, depending on the current balance of the short-term savings account. This savings product is being developed to enable members to accrue short-term savings to use when needed, and long-term savings for their future—rather than having to make a decision about which to prioritize.

HYPOTHESIS AND KEY INSIGHTS

There are many reasons why people may not be saving for both short- and long-term financial goals. These reasons may have to do with insufficient income, but may also be due to a lack of properly structured, well-timed offers. Research has shown just how difficult these barriers can be to overcome and build savings.

1. **Competing savings goals:** Through prior [research](#), we've seen how having a single savings goal can lead to greater savings intentions and actual savings compared to having multiple savings goals. This psychological barrier, combined with the practical constraints of having to save for multiple goals (splitting income between spending, emergency savings, and long-term savings) can make retirement savings particularly difficult to start and build. Anecdotally, the Common Cents Lab heard [feedback from Self-Help members](#) who had previously turned down an offer to automatically save for retirement that they weren't ready to save for retirement at the time because they still didn't have enough in emergency savings.
2. **Choice overload:** We can get overwhelmed by too many choices—choosing what to save for, how much, and when. All of these choices can prevent us from getting started. We wanted to address this primary concern of having to choose between emergency and long-term savings, and gauge interest in a hybrid savings account by offering this savings plan at SHCU branches. We have structured the savings plan to meet both financial goals, while also offering members some limited and specific options in setting it up by choosing how much money is transferred into their savings account(s).

We will be testing the take-up and savings rates of this savings plan at branches in the upcoming year. We hypothesize that the combined savings account will be attractive to members who both want to save for emergencies and for the more distant future. While we will be rolling it out as a pilot, rather than a randomized controlled trial, we will be measuring interest through uptake and savings rates.

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PILOT


With SHCU, we designed the hybrid savings account so that members who open a retirement savings account first select how much money they would like automatically transferred into their savings account each month. Money is initially transferred into a short-term savings account until the balance hits \$500, after which the funds are deposited into their long-term savings account. \$500 was chosen as a “switch point” given [research](#) suggesting that nearly half of US households could not easily handle an emergency expense of \$400.

The money in the short-term savings account is always available for emergency expenses, whereas the long-term savings account has typical retirement penalties enforced. Importantly, when members dip into their short-term savings, their transfers get redirected to replenish that account until it hits the \$500 balance again. This allows members a liquid, accessible fund that they should feel free to use when an emergency expense arises, while also providing them a means to save for retirement.


NOW & LATER SAVINGS PLAN FLYER

Self-Help Now & Later Savings Plan

Now & Later plan: Two savings accounts in one
This savings plan combines **rainy day savings** and **retirement savings** in one account.




Rainy Day



Retirement


After you pick your automatic deposit settings for the account, **each deposit will go towards building your rainy day savings**. As soon as your rainy day savings balance hits your target amount of \$500, all the money you contribute to the account will begin to go towards **retirement savings**.

Up to \$500, your deposits go to Rainy Day Savings




\$0 - \$500


Once you have \$500 in Rainy Day Savings, your deposits go to Retirement Savings



\$500

You can take money out of your rainy day savings anytime. Your retirement savings will stay safely locked away.

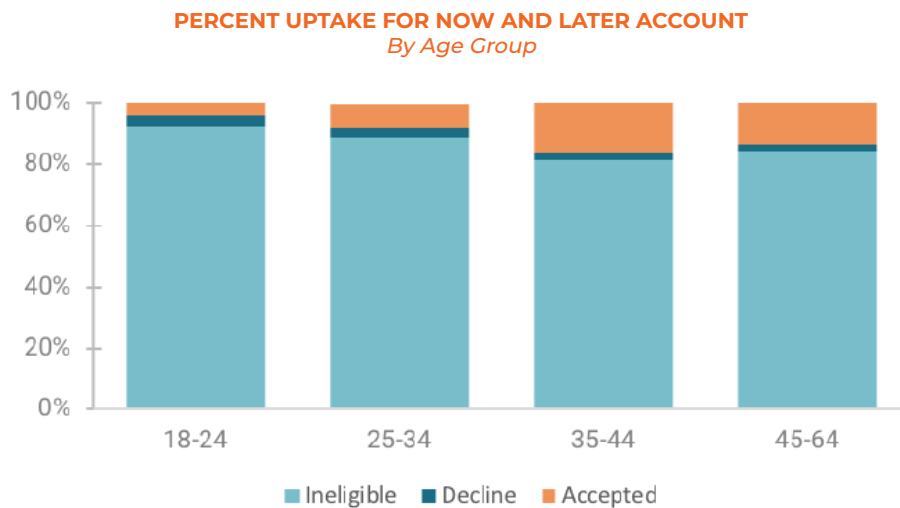




When you use some of your rainy day savings, your automatic contributions will start refilling those savings up to \$500 again, so you'll always have money for an emergency. You can also deposit extra money to either balance or make changes to your settings whenever you like.

RESULTS

The Now & Later account was piloted at select SHCU branches from May through September of 2022. All data analyses were connected by SHCU. Of the total sample, 10% were eligible for the Now & Later account, meaning 10% of all new checking account openers did not have access to a workplace retirement savings program. Of this subset, 78% of eligible members chose to open a Now & Later account. The pilot data is a very small sample and therefore should be interpreted cautiously, but early results suggests that older members are both more likely to be eligible for the account and more likely to keep the account.



Note: Sample is small and differences are not statistically significant

At the end of the 4-month pilot period, there had been no account closures and 20% of members had already saved \$500 in their Now account. A little over half of members chose to make manual deposits into their Now accounts within the first 3 months, displaying a desire to fill the Now account and begin saving into the Later account.

While these results reflect a small sample, they suggest the Now & Later account is appealing to eligible members. The majority of eligible members keep the account, and many members chose to make manual deposits to begin saving for retirement quickly. Based on these results, Self-Help plans to extend the pilot to more branches within their credit union while continuing to collect data on the long-term success of the Now & Later account.