Automated savings tools boost bank accounts for some, but the benefits are limited, study shows

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Banking apps that automate saving money are effective—especially for low-income earners—but are not a solve-all to achieve financial wellness, according to new research from the Weatherhead School of Management. Credit: CC0 Public Domain

Banking tools that automate saving money work as intended for many people—but are ineffective for others, according to new Case Western Reserve University research.

The study found that these popular tools are most beneficial to those with the lowest incomes and tightest budgets. Yet, the programs become less effective the higher the income, until becoming insignificant and even detrimental at top income levels, researchers found.

The success of the programs hinge, in large part, on the savings "mindset" of each user, the research shows. For example, those without an inclination to budget long-term reduce any benefits enjoyed by relying on a banking app to save money.

"If you're unable to save on your own, these tools can at best act as a bandage," said Casey Newmeyer, an assistant professor of marketing in the Weatherhead School of Management at Case Western Reserve.

Savings tools—which automatically move money into savings accounts at regular time or spending intervals—have been touted as ways to boost savings with little effort; the ubiquity of banking online and smartphone apps has made the tools—such as Chime, Digit, and Acorns or those offered by financial institutions, like Chase—widely available (though specific figures on how many consumers are using the apps is not available).

"Savings automation aside, the key underlying issue remains for many Americans: They're not skilled at saving money and need to significantly adjust their financial behaviors to do so effectively," said Newmeyer, lead author of the study published by the Journal of Public Policy & Marketing.

Many households in the United States cannot absorb even small financial shocks—four in 10 can't come up with $400 for an unexpected expense without borrowing money or selling something—according to the Federal Reserve Board.

Using automated tools as a substitute for addressing low levels of financial literacy may not be beneficial long-term. Training to enact behavioral change would be more effective in their overall intention of helping people save, the study's findings suggest.

"What helps almost everyone save more, regardless of income level, is a personal savings orientation—that putting money aside is part of who you are," said Newmeyer. "This mindset can come from learning the basics about money and budgeting and developing positive financial habits over time."

Among the study's other findings:

- Those who did not use automation programs—but had a strong savings mindset—had the best savings rates overall;
- Even high-income users of automation tools who lacked a savings mindset possessed relatively scant savings;
- Failing to update or monitor the settings of automation tools risks limiting a person's potential savings.

"It's counterintuitive, but these tools can be detrimental if they make users miss opportunities and pay less attention to finances than they otherwise might," said Newmeyer.

Researchers used public and restricted data from the Consumer Financial Protection Bureau's National Financial Well-Being Survey, collected in late 2016.

More information: Casey Newmeyer et al. Is Savings Automation Helpful to Liquid Savings? It Depends on Whether You Have a Savings

Habit, *Journal of Public Policy & Marketing* (2020). DOI: 10.1177/0743915620950216

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