

NUDGING SAVINGS:
STRENGTHENING FINANCIAL RESILIENCE THROUGH DEFAULT MICRO-SAVINGS FOR
GOVERNMENT TRANSFERS

Emily Hamann

Bachelor of Business Administration; Minor in Economics

Goodman School of Business, Brock University

Copyright © 2025 Emily Hamann. All rights reserved.

EXECUTIVE SUMMARY

This proposal recommends the integration of an automatic enrollment micro-savings mechanism into Canada's existing financial support framework, specifically involving government transfer programs such as the GST/HST Credit, Canada Workers Benefit (CWB), and Child Benefits. Automatically diverting a percentage of the recurring payments into a no-fee, interest-bearing savings account addresses some of the irregular and low savings rates among low-income Canadians. Research in behavioural economics demonstrates that tailored intervention, such as persuasive messaging and default savings options, can increase savings behaviour even among lower-income households. This strategy supports the *Managing Savings* consumer building block by helping vulnerable Canadians build emergency savings buffers and strengthen long-term financial resilience. To uphold autonomy, there would be an option to opt out. Using insights from behavioural economics, this "set it and forget it" approach removes friction from saving and transforms it into a passive habit, alleviating some of the stress of making frequent financial savings decisions and nudging Canadians to make savings a default.

INTRODUCTION

Despite Canada's reputation for strong financial literacy, millions of Canadians struggle to build and maintain personal savings. Only about half of Canadians, according to the Financial Consumer Agency of Canada (FCAC), report they would have sufficient funds to cover 3 months' worth of expenses in an emergency, leaving 48% unable to do so (FCAC, 2025). This issue is reinforced by Statistics Canada, in which an archived statistic found that approximately one in four Canadians reported being unable to cover an unexpected expense of \$500, a figure that rises to over one-third among individuals ages 35 to 44 (2023).

This lack of savings resilience is due to several reasons, including but not limited to unpredictable income (e.g., seasonal, part-time, or freelance work), decision fatigue, and even barriers to accessing and understanding financial resources and institutions. Nevertheless, while voluntary savings programs exist to help Canadians manage their savings, such as TFSAs and RESPs, these remain underutilized among low-income populations. Choice-based programs like these often fail in low-income demographics because the decision-making burden is heightened—“enrollment and participation procedures are often demanding, unpleasant, or opaque—all of which have been shown to dramatically decrease the uptake of programs” (Tantia et al., 2015). Further, low-income individuals often face savings disincentives as higher savings levels can impact eligibility for income-based benefits, and common savings programs like RRSPs may restrict quick access to funds where withdrawal may impose penalties.

Moreover, behavioural challenges are prevalent in preventing individuals from consistently setting money aside, even when they intend to. Without sufficient emergency savings, Canadians are more likely to rely on high-cost credit options and loans, fall behind on payments, and/or accumulate compounding debt. Over half of Canadians hold some form of non-mortgage debt (FCAC 2019, Appendix 1), and a notable portion report difficulty managing bill payments and cash flow within the year (FCAC 2019, Appendix 2).

Robson and Poschmann (2004) argue that the structural design of existing savings programs discourages asset-building efforts and can unintentionally expose low-income savers to the loss of critical benefits. Similar structural issues persist today, highlighting the urgent need for a new savings mechanism

that aims to protect rather than punish financial progress. Furthermore, behavioural insights show that nearly two-thirds of tax refunds are spent on immediate consumption or paying down debt. Mental accounting and immediate needs overpower long-term financial goals (Roll et al., 2019). In Canada's current financial ecosystem that focuses on voluntary, opt-in savings programs, the absence of automatic and simple savings tools leaves a critical gap for financially vulnerable Canadians.

To address this, this paper proposes an actionable, evidence informed solution that aligns with the FCAC's *Managing Savings* building block through the creation of a default micro-savings model embedded into existing government benefit and tax return frameworks. By combining this idea with behavioural economics principles such as choice architecture, mental accounting, and behavioural "nudging", this model aims to help low-income Canadians passively build emergency savings and improve long-term financial resilience.

This proposal addresses two ecosystem focuses outlined by the FCAC:

- Reducing Cognitive Friction: the behavioural design follows a default choice architecture pattern, reducing the complexity of decision making and increasing the likelihood of positive financial behaviours.
- Enhancing Access: using existing government infrastructure and benefits programs like the CRA's direct deposit and My Account reduces barriers and improves scalability and inclusion.

By restructuring the default behaviour from immediate spending to automatic saving, this micro-savings proposal promotes positive financial outcomes with minimal effort required by individuals. The use of behavioural nudges exhibited here helps individuals better manage their finances by overcoming the biases that typically hinder savings behaviour, ultimately improving economic resilience (Roll et al., 2019). The result over time should not only be improved savings behaviour among Canadians but improved financial confidence and reduced financial stress over time, lessening the burden placed on the government and financial institutions to support struggling individuals. The following sections outline the details of this proposal, methods for empirical testing, and further opportunities and limitations that come with the proposal.

PROPOSED SOLUTION: Default Micro-Savings Framework for Government Transfers

To address the current financial challenges of financially vulnerable Canadians, this solution introduces an automatic enrollment micro-savings framework that is embedded into federal and provincial governments, income support programs and tax systems. By automatically diverting a small portion of recurring government transfers into no-fee, interest-bearing savings accounts, this solution—inspired by evidence from the SaveUSA study indicating that “small increases in amounts of unrestricted-use savings can improve the financial well-being of low-and-moderate individuals”—targets creating passive behaviours, ultimately removing decision stress around finances and helps build emergency funds over time (MDRC, *SaveUSA*).

- I. Automatic Enrollment Through Existing Government Programs: Eligible individuals who receive benefits such as CWB, GST/HST Credit, or Child benefits will have 2-5% of each payment automatically deposited into a micro-savings account which extends to a proportion of any tax returns as well. This runs parallel to auto-enrollment systems in New Zealand like *KiwiSaver* that have majorly increased savings rates via passive design rather than active choice or purely voluntary systems. However, this system differs from the proposed solution in that it offers government contributions of \$0.25 for every dollar contributed(*ird.govt.nz*).
- II. Savings Account Design: The savings accounts should be no-fee, interest-earning accounts, provided either through partnered banking institutions or a government-backed system. The former Canada Savings Bond program, where employees contributed to bonds via automatic paycheck withdrawals, is a model demonstrating how simple mechanisms can encourage widespread participation (National Bank of Canada), which can be referenced in the design of this savings account. Drawing from the article by Robson and Poschmann (2004) helps create a more positive policy approach toward low-income savings, specifically focusing on flexible models of savings and a default, auto-enrollment plan would help ensure low-income Canadians can build assets without risking eligibility for assistance programs.

- III. Behavioural Economics Application: Nudging Better Financial Habits: Though the allocated funds would come from several sources, employing mental accounting principles and encouraging tax filers to allocate refunds into separate savings can reduce the likelihood of funds being used for immediate consumption (Roll et al., 2019). Default savings mechanisms also harness the power of inertia and drive higher savings rates without requiring individuals to actively choose saving (Thaler & Benartzi, 2004). In addition to setting savings as the default, persuasive prompts—like those used in the Refund to Savings experiment (Roll et al., 2019)—could be presented during tax filing or CRA account updates, encouraging savers to consider future security, family needs, or emergencies before applying these funds elsewhere.
- IV. Opt-Out Feature for Autonomy: To respect individual autonomy and ensure flexibility a clear, simple, opt-out feature would be offered using a CRA My Account, phone/email, or via physical mail in a process comparable to changing direct deposit and other banking details. Individuals would also be allowed to re-enter the program using a similar process. Reminders would be sent out regarding the benefits of the program and how it works, including clear messaging on the opt-in/out process. There would be no penalty, financial or otherwise, for opting out.
- V. Accessibility: Communications would use plain language and offer multilingual materials and support.
- VI. Incentives: For individuals below a predetermined threshold, the government may offer savings matches akin to the current RESP structure.

EMPIRICAL TESTING: PILOT STRUCTURE AND OUTCOME MEASUREMENT

As a pilot test for this proposal, a randomized control trial (RCT) could be implemented over a span of a year (12 months) in a single province—Ontario for example—with participants from the Canada Workers Benefit (CWB) pool. This would provide both quantitative and qualitative evidence on whether behavioural nudges can shift long-term financial habits among vulnerable populations.

Study Design: around 5000-10000 low-income Canadians randomly selected and divided into either a treatment, where default micro-savings enrollment is enacted with 5% of CWB deposited, or control group, where they maintain the standard lump-sum CWB payment.

Data Collection: Metrics collected would include opt-out rates, average account balances (tracked quarterly or semi-annually), and percentage of the sample who have access to at least \$500 for emergencies after the test period is over. Further, a pre- and post-test survey would be given to assess self-reported confidence, savings habits, and stress levels. CRA data on benefit payments could be evaluated, and a final optional qualitative interview could be conducted to test for perceived attitudes towards the intervention.

Benchmarking via Comparative Studies: This data can be compared to the SaveUSA act where low-income tax filers in the U.S. who were automatically enrolled into matched savings plans saved more and reported lower financial distress (MDRC, *SaveUSA*). More closely, it should be contrasted to the Financial Consumer Agency of Canada's *Refund to Savings Canada Pilot Study Evaluation*, which focuses on tax refunds. Here, the tax preparation software asked participants where they deposited their refund (e.g., savings or chequing) and recorded the amount saved. The deposit location data were collected through a voluntary question added to the tax preparation process, and the refund amounts were collected through administrative data (FCAC & Social Policy Institute, 2024). Notably, the intervention was most effective at increasing the savings rate of those with lower incomes, and the number of participants who saved their refunds.

POLICY ALIGNMENT AND SCALABILITY

This program is designed to scale across provincial and federal benefits programs. By leveraging the CRA's existing direct deposit and MY CRA platforms, the framework required to implement the program mostly pre-exists, requiring only a few adjustments for implementation.

Opportunities for Scalability: Though the testing and pilot programs could originate in one province and expand to national implementation, more benefits programs can be added or tested such as for Old Age Security and Employment Insurance recipients. Moreover, provincial assistance (e.g. Alberta Income Support (Alberta.ca)) could opt-into the model, especially in areas where digital delivery and scheduled payments already exist. Collaboration with the proposed Canada Post banking pilot could support these accessible savings accounts (The Canadian Press, 2022).

Adaptation for Diverse Populations: Communication would be offered in at least both English and French, and there is strong opportunity for collaboration with Canadian immigrant and Indigenous-serving organizations. Also, offering information forms, including opt-out options, by mail and Service Canada offices reaches a larger population by allowing offline access.

The primary target for this proposal is low-income Canadians and hesitant savers, making it meaningful to compare to New Zealand's *KiwiSaver* program which has displayed that automatic enrollment with government matching largely increased savings participation among chronic under-savers (*ird.govt.nz*). Behavioural interventions such as default savings settings have been shown to be scalable in diverse settings, from employer-sponsored retirement programs to tax-time savings initiatives (Thaler & Benartzi, 2004). This can be replicated and scaled effectively in other financial contexts, and the flexibility makes it highly adaptable to varying demographics and financial circumstances (Roll et al., 2019).

LIMITATIONS AND CONSIDERATIONS

Policy & Legal Challenges: The integration of savings mechanisms into federal benefits would require regulatory alterations across departments (CRA, Finance Canada...). Additionally, provincial cooperation would be necessary to extend coverage beyond just federal transfers and refunds.

Public Trust: Individuals may be skeptical of the automatic withholding of benefits even if it is small amounts. To mitigate this, it is crucial to exhibit transparent and simple communication throughout the process, ensuring individuals understand the program and its aim to “nudge” positive savings habits in a non-mandatory setting. There should be explicit communication on the ability to take funds out at any point in time or opt-out of the program entirely. The automatic approach is similar to CPP payroll deductions, which, although mandatory, is a trusted system that helps build long-term financial security. This precedent shows how automatic savings systems can operate transparently in a way that upholds individual autonomy. Paired with a penalty-free opt-out option, it also upholds the autonomy to choose what happens with one’s savings.

Liquidity: Though the primary goal is to build savings, restrictive savings tools have the ability to harm those needing quick access to these funds in circumstances when the goal is to grow an emergency fund. The program, then, would need to be formatted in a way that offers immediate, penalty-free withdrawals and clear information on how to access the funds when needed. Since the micro-savings diversion would be set at 2-5% of payments, balances remain small and accumulate gradually over time. This makes the risk of exceeding asset thresholds for individuals enrolled in a social assistance program low. Larger concerns on this matter could be addressed through the coordination of the government and other assistance providers to ensure these micro-savings have asset-protection. This could parallel the *Registered Disability Savings Plan (RDSP)* in British Columbia, where “payments can be used for any purpose and do not impact eligibility for hardship assistance, income assistance or disability assistance” (Ministry of Social Development and Poverty Reduction, 2025).

Data Privacy: Coinciding with public trust, the program must maintain robust data protection standards especially if account data is shared between the CRA and third-party banks. Likewise, high privacy and data-security must be maintained and laid out for participants.

Overall, these risks can be mitigated through strong communication design, pilot testing, opt-out safeguards, and regulatory transparency. Robust empirical testing over time is necessary to validate the effectiveness of default micro-savings, generate proper communication strategies, and help gain public trust. Designing communications with target users in mind—such as newcomers or income support recipients—can further improve trust and engagement with the program. All in all, the greatest challenge of implementing the program is the successful coordination of both federal and provincial systems.

CONCLUSION

If implemented correctly, a savings mechanism modeled on these principles could achieve what Robson and Poschmann (2004) envisioned: flexible, inclusive, and supportive savings models for Canadians. By applying behavioural insights and leveraging existing government infrastructure, this solution would remove barriers to savings, build financial resilience, and improve economic well-being for millions of Canadians. In doing so, it would not only strengthen individual financial security but also reduce the systemic burden on provincial and federal governments, banks, and credit unions to alleviate the financial struggles of Canadians and create a more financially inclusive future for all.

REFERENCES

- The Canadian Press. (2022). *Canada Post moves toward postal banking services in New Loan Program with TD Bank* | CBC News. CBCnews. <https://www.cbc.ca/news/business/canada-post-td-bank-1.6614159>
- Financial Consumer Agency of Canada. (2025). Canadians' financial well-being: Explore key indicators of Canadians' financial health. Research and Data Exchange (RDX). Government of Canada. <https://fcac-research-recherche-acfc.canada.ca/en/>
- Financial Consumer Agency of Canada, & Social Policy Institute. (2024). *Refund to Savings Canada Pilot Study Evaluation*. Canada.ca. <https://www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-studies-reports/refund-savings.pdf>
- Financial Consumer Agency of Canada. (2023). *Government of Canada*. Canadians and their Money: Key Findings from the 2019 Canadian Financial Capability Survey - Canada.ca. https://www.canada.ca/en/financial-consumer-agency/programs/research/canadian-financial-capability-survey-2019.html?utm_source
- Income support*. Alberta.ca. (n.d.). <https://www.alberta.ca/income-support> Inland Revenue. (n.d.). *KiwiSaver*. <https://www.ird.govt.nz/kiwisaver>
- MDRC. (n.d.). *SaveUSA*. MDRC: Building Knowledge to Improve Social Policy. <https://www.mdrc.org/work/projects/saveusa#overview>
- Ministry of Social Development and Poverty Reduction. (2025, June 30). *Assets and Exemptions* - Province of British Columbia. https://www2.gov.bc.ca/gov/content/governments/policies-for-government/bcea-policy-and-procedure-manual/eligibility/assets-and-exemptions?utm_source
- Robson, W. B., & Poschmann, F. (2004). Saving's Grace: A Framework to Promote Financial Independence for Low-Income Canadians. *Background - C.D. Howe Institute*, 86.

- Roll, S. P., Russell, B. D., Perantie, D. C., & Grinstein-Weiss, M. (2019). Encouraging Tax-Time Savings with a Low-Touch, Large-Scale Intervention: Evidence from the Refund to Savings Experiment. *Journal of Consumer Affairs*, 53(1), 87+ <https://link-gale-com.proxy.library.brocku.ca/apps/doc/A581312161/AONE?u=st46245&sid=bookmark-AONE&xid=048083b2>
- Statistics Canada. (2023). *Research to Insights: A look at Canada's economy and society three years after the start of the COVID-19 pandemic*. <https://www150.statcan.gc.ca/n1/en/pub/11-631-x/11-631-x2023004-eng.pdf?st=flq6hsB6>
- Tantia, P., White, S., & Wright, J. (2015). *A Behavioral Economics Perspective on Innovations in Savings Programs*. ideas42. <https://www.ideas42.org/wp-content/uploads/2015/05/A-Behavioral-Economics-Perspective-on-Innovations-in-Savings-Programs-1.pdf>
- Thaler, R. H., & Benartzi, S. (2004). Save More Tomorrow[TM]: Using Behavioral Economics to Increase Employee Saving. *Journal of Political Economy*, 112(S1), S164–S187.

APPENDIX

Figure A1: Percentage of Canadians holding debt, by type of debt (FCAC, 2019)

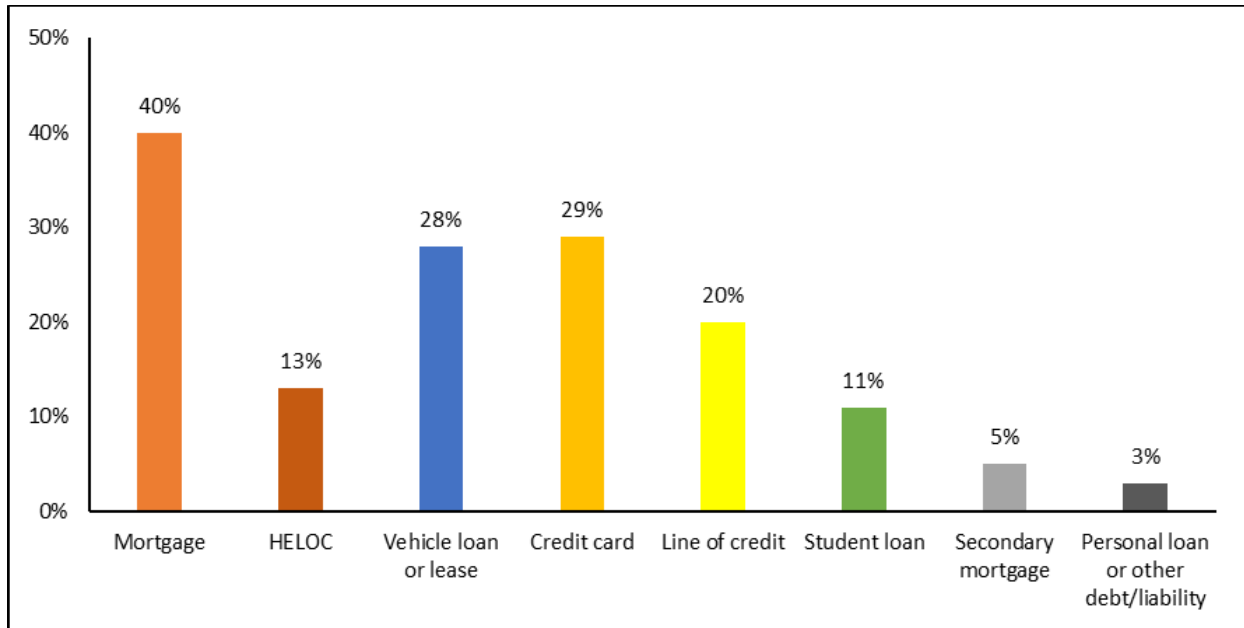


Figure A2: Percentage of Canadians struggling to make bill payments or manage cash flow over the past 12 months (FCAC, 2019)

