

# “The Complex Nature of Savings: Psychological and Economic Factors” Multistate Research Project

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## Key Words

savings, savings behavior, complexities of savings behavior

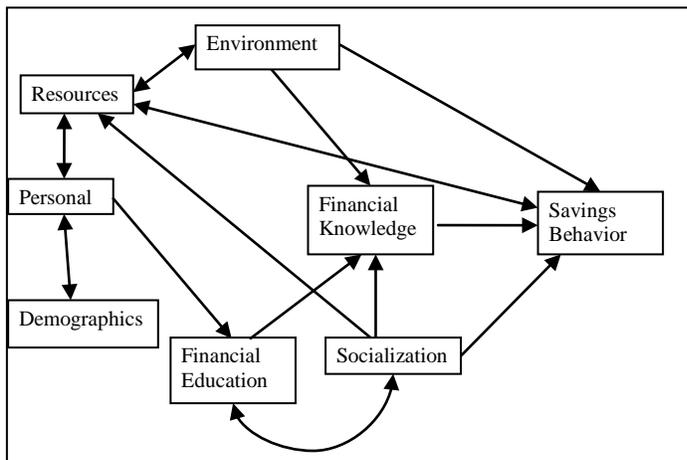
## Abstract

During the last year, Agricultural Experiment Station (AES) multistate research project NC 1172 “The Complex Nature of Savings: Psychological and Economic Factors” committee members and colleagues began testing a model of savings behavior and a questionnaire developed and piloted by an AES multistate research project “NC1013: The Economic and Psychological Determinants of Household Savings Behavior.” This symposium includes three presentations and shares the results of three separate data collection efforts by two members of the committee and their colleagues. The first presentation is based on data collected from college students and discusses how the model was revised by the NC 1172 research team. The other two presentations are based on the findings from data collections using the revised model and the NC 1013 questionnaire, which includes questions about financial knowledge, socialization factors, psychological factors, environment, resources, and demographics. One paper is based on data collection across three generations, and another one is based on data collected from low-income households. Presenters discussed implications for future research, financial products and services for consumers, and educational initiatives, both at the college level and through outreach programs.

## Conceptual Model

The overall model seen in Figure 1 for the study draws on several different perspectives including economic, psychological, and sociological. For example, the basic concepts of the Life Cycle Hypothesis (Ando and Modigliani, 1963) are considered in this study, and factors such as the life cycle stage and income of the individual are considered important determinants of dispositions and behaviors. Further, the importance of social learning as a determinant of dispositions and behaviors is considered in the model. Social Learning is a process by which individuals learn norms and behaviors by observing the behavior of others, a process called modeling (Bandura, 1977). These dispositions are seen as important determinants of economic behavior and include concepts such as materialism, impulsivity, and self-control.

Figure 1. Multistate North Central 1013 Research Project Model of Savings Behavior (Adapted from Gutter, Wang, & Way, 2007).



### *Study 1: Savings in Social Learning Context*

The purpose of this study was to explore the relationship social learning may have with savings behavior. This study explored the previous social learning opportunities of current college students, including the discussions and observations students may have been exposed to from their peers and parents. In this study, savings is viewed as a learned behavior influenced by both formal education and social learning processes. Social Learning Theory (Bandura, 1977) proposes that attitudes, values, and norms are learned through modeling of these behaviors by agents of socialization. Fox, Bartholomae, and Gutter (2000) described the process of financial socialization as one in which people learned about behaviors such as savings, budgeting, etc. from observing the behaviors of their parents and peers. In addition, formal education also increases fundamental knowledge about financial concepts. This knowledge is also likely to influence behaviors; thus, financial education indirectly influences behaviors by increasing financial knowledge.

The data come from a recent study of college students across 15 college campuses resulting in a sample size of over 16,000 responses. The data had measures of financial socialization, financial dispositions, financial knowledge, financial education, demographics, and financial resources. The study used logistic regression and structural equation modeling to test the relationships among these terms. The results of the study showed that social learning opportunities were an important predictor of financial dispositions and financial behaviors. This study also showed that financial education did not directly impact behavior but did impact knowledge and that knowledge was a determinant of behavior including savings. Thus the results suggest that there are multiple influences on savings behavior including education and social learning.

### *Study 2: Economic and Psychological Determinants of Savings Behavior among College Students: Implications for College Financial Management Courses*

Do on-campus financial management courses promote a higher level of savings participation and motivations among students? The purpose of this paper is to explore savings attitudes and behaviors among college students, using a model of savings behavior which accounts for economic, psychological, and socio-cultural influences. First, this study compares savings behaviors and attitudes of students who had learned about saving and investing from a college course and these behaviors and attitudes of those who had not, controlling for individual characteristics. Then, the same comparison is made by controlling for the savings behaviors and attitudes of the parents. The latter analysis allows us to assess the significance of college courses among students with varying family background in terms of savings.

Data were drawn from a convenience sample of undergraduate students at a large university in the South who filled out a survey on the Internet (n=181). Most of the participants' (n=143) parents and grandparents also filled out the survey. The student respondents ranged in age from 18 to 29. A majority indicated that a member of their family had taught them about saving and investing and also stated that both of their parents were "savers" while growing up. Of those who indicated that they too were savers, the majority saved through passbook savings, Certificates of Deposit or through interest bearing checking accounts. While any one of these is a sound practice with regards to saving, clearly more aggressive choices that could potentially yield a higher rate of return do exist; thus, additional information regarding these options, one could assume, would be welcomed by this particular population. Results indicate that approximately 66% of the student respondents spend little to no time personally gathering information regarding saving and spending. Of those who do search for information, many indicated that they had learned about saving and investing from a course for credit on a college campus.

When asked, 85% of the student respondents indicated that they did not feel comfortable with the extent of their financial knowledge. In addition, almost 60% indicated that the next one to four years were crucial to them in regards to spending and saving. One can assume that a financial education course that helps address the void that many feel they have with regards to their financial education would be valuable during their college years, as most students appear to be concerned about the first few years following graduation.

### *Study 3: Financial Savings Behavior among Low-Income Families: Economic and Psychological Determinants*

The purpose of this study is to examine the behaviors and attitudes toward saving among low-income families living in public housing communities in a mid-size metropolitan city in the South. Specifically, we wanted to know economic and psychological determinants of savings behaviors measured by the current status of saving money from

paychecks, using a model of savings behavior which accounts for economic, psychological, social, cultural, and institutional influences.

Data were collected from a convenience sample of study participants who filled out pencil-and-paper surveys with over 80 questions in summer 2009. The final data have approximately 200 completed surveys. The respondents ranged in age, and a majority of them were African American women. Annual household income of about two thirds of the respondents was less than \$15,000; about 28% had household income of \$5,000 or less. Over one third of the respondents stated they saved some of their income, and a majority of them saved for a rainy day rather than for a specific financial goal. Implications for outreach and educational programs for low-income households will be made.

## References

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