

### Saving Habits of American Households and the Economy

Sophia T. Anong, Virginia Polytechnic Institute and State University<sup>1</sup>

Sharon A. DeVaney, Purdue University<sup>2</sup>

Nicole Gerike, Virginia Polytechnic Institute and State University<sup>3</sup>

Our approach was to test an interdisciplinary ecological model with secondary data as part of the new approach to studying and understanding savings behavior (Douthitt, 2008; Gutter, Hayhoe, & DeVaney, 2008). The purpose of this study was to determine which factors influence saving habits of American households in different economic environments. Saving habits are not only influenced by personal, psychological, and sociological attributes but also economic conditions with regular saving more likely when individuals experience or expect an economic downturn. Who was not saving, saving whatever is left over at the end of the month or saving other income either from another family member or other source, or saving regularly by putting money aside each month? We examined the influence on these savings habits of perceived economic climate, as well as actual economic conditions using 1995, 1998, 2001, 2004, and 2007 cross sections of the Survey of Consumer Finances as proxies. Also included in the model were life cycle variables (Xiao, 1997), credit card balances, occupation, attitudinal variables, belief systems, and planned behavior and intentions. Multinomial logistic regressions were estimated on a pooled sample and separate samples for the years that we detected significant differences in the economy proxy from the base year 2007. Three savings habits were derived for the dependent variable—non-savers, irregular savers who saved whatever was left over at the end of the month and don't have a regular savings plan, and regular savers who were those who put money aside each month or saved the income of one family member or those who spent regular income, and saved other income.

While there was no significant difference in the proportions of regular savers, irregular savers, and non-savers across the years, the weighted data revealed increased dependence on credit cards as the average balance almost doubled from \$1,910 in 1995 to \$3,380 in 2007. It was also observed that the amounts that respondents felt they needed in emergency funds were significantly higher in 2001 and in 2007—years which coincided with rise in unemployment rates. As expected, regression results show significant differences in the likelihood of being a non-saver or irregular saver versus regular saver across the years. Compared to 2007, American households were 16% more likely to save irregularly than regularly and 13% less likely to be non-savers than saving irregularly in 1995 but 16% more likely to be non-saving than saving regularly in 2004. While the influence of different economic conditions on the saving habits of American households is implied in this study, we also see that speculation about the economy influences saving habits. Compared to those who speculated that the economy would be better in six months from the time they were interviewed, those who speculated the economy to be the same or worse, were more likely to be non-savers. This is not rational and contradicts our expectation.

Those who were more likely to be non-savers and irregular savers were younger, white, singles and single parents, less educated, blue collar workers, credit card revolvers, had higher credit card balances and thought it was a good idea to use credit when income is cut. Those who thought they needed more in emergency funds were only marginally more likely to be either regular or irregular savers. Those with higher risk tolerance and longer planning horizons for saving and investing were more likely to be regular savers. Savings motives were a strong predictor of regular saving as those with an important reason to save were between 11% and 60% less likely to be non-savers or irregular savers depending on the reason.

Beyond demographic, psychological and sociological attributes, households are sensitive to economic cycles. But do they adjust their saving habits accordingly after or while experiencing economic downturns? The results for perceived economic climate and amount needed in emergency funds were counterintuitive and imply irrationality on the part of the respondents. Could it be that rather than putting money aside to prepare for possible economic catastrophes, American households actually spend their money because they may believe prices will be higher when the economy is weak, and they can rely on credit if their income is cut? Counseling and education should also focus on educating consumers about macroeconomic indicators and historical data to reinforce the need for a regular savings plan (pay yourself first) so they are not too dependent on revolving credit and social support. Consumers may be waiting till it is too late before they begin to save regularly. As we have seen in the most recent

<sup>1</sup> Assistant Professor, Department of Apparel, Housing, Resource Management, Virginia Polytechnic Institute and State University, [sanong@vt.edu](mailto:sanong@vt.edu).

<sup>2</sup> Professor Emeritus, Department of Consumer Sciences and Retailing, Purdue University, [sdevaney@purdue.edu](mailto:sdevaney@purdue.edu).

<sup>3</sup> M.S. Consumer Studies, Department of Apparel, Housing, and Resource Management, Virginia Polytechnic Institute and State University, [ngerike@vt.edu](mailto:ngerike@vt.edu).

recession, cutting back during an economic contraction and trough does not provide enough of a cushion to prevent financial ruin in a recession but a regular saving habit is necessary in different economic conditions.

**References**

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