Way to pay: Exploring age-related differences in the choice of payment instruments

Jinkook Lee
Cäzilia Loibl

**Jinkook Lee, Department of Consumer Sciences,
The Ohio State University**[1]

**Cäzilia Loibl, Department of Consumer Sciences,
The Ohio State University**[2]

Acknowledgement: The authors gratefully acknowledge the access to the Consumer Finance Monthly survey at the Center for Center for Human Resource Research at The Ohio State University.

Introduction

This study examines age-related differences with respect to consumers' choice of payment instruments. While the consumer behavior literature has long suggested that this choice is primarily influenced by demographic and socioeconomic factors, a rigorous analysis of the interaction of different consumer segments with respect to their payment preferences is lacking (Lee and Kwon 2002; Lee, Abdul-Rahman, and Kim 2007; Hogarth, Anguelov, and Lee 2004; Lee and Marlowe 2003). Because the use of payment instruments is closely linked to mental accounting and record keeping (Soman 2001), a better understanding of payment preferences of different consumer segments will aid both informational and psychological approaches to financial literacy education.

The literature on age-related differences in consumer behavior yields a number of explanations as to why younger consumers' choice of payment instruments may vary from those of older consumers. These explanations can be attributed to three lines of research. First, the literature on social roles and socio-cultural change finds younger consumers to rely less on developed behavior and to be more able to adapt to new market instruments, including financial instruments, compared to older consumers (Laroche, Cleveland, and Browne 2004). Whether to swipe a credit card or to write a check may also be related to habit. The willingness to change these habits may depend on how long they have been practiced (Verplanken and Orbell 2003). In general, younger consumers are currently the better-educated group and are more skilled in exploring alternatives payment means. As people get older, the meaning of new information, as inherent in electronic payment choices, is not as easily processed and enacted.

Second, as the elderly exhibit declines in learning abilities, they may develop a stronger emphasis on trust issues related to seller-buyer and financial institution-client relationships. The choice of payment instrument may reflect a more cautious attitude toward unknown partners in the marketplace, paralleling similar findings for low-income consumer groups (Hogarth and O'Donnell 1999; Stegman 1999).

A third aspect that may differentiate payment choices of younger consumers from older consumers is their position in the life cycle (Modigliani and Ando 1957). Younger consumers may have easier access to newer, innovative payment instruments because of their future earnings potential. This potential may also affect consumers' attitudes toward financial management and budgeting practices (Soman 2001; Heath and Soll 1996; Thaler 1999).

Procedures

The study is based on data collected in the 2007 Consumer Finance Monthly (CFM) survey, a nationally representative telephone survey of U.S. households. The data used for the present study were collected from December 19, 2006 to December 31, 2007. The sample size was 3,711, including 405 respondents aged 18–34 ("young adults").