

## Propensity to Plan for Financial Decisions in the Survey of Consumer Finances

Jae Min Lee, The Ohio State University<sup>1</sup>  
Kyoung Tae Kim, University of Alabama<sup>2</sup>

### Abstract

This study used the 2013 Survey of Consumer Finances (SCF) dataset to identify variables related to the propensity to plan for financial decisions. Based on the theory of propensity to plan and the model of patience formation, we initially selected 10 questions from the SCF. To capture the underlying latent concept of propensity to plan, a principal components analysis was performed. We reduced the number of variables to a single propensity to plan factor that included the following 4 variables: (1) efforts in borrowing, (2) efforts in saving/investment, (3) internet use as a source of information for borrowing, and (4) internet use as a source of information for saving/investment. Consistent with theories, preliminary descriptive results showed a positive association between the level of propensity to plan and financial outcomes.

### Introduction

Why do households with similar socio-demographic characteristics tend to accumulate different levels of assets? This study focused on possible cross household differences in managerial efforts related to financial decisions, such as attitudes and skills that lead to different financial circumstances. We expected that households with a greater propensity to plan would accumulate more wealth and participate more in saving than those with a lower propensity to plan. The objective of this study was to construct a proxy in the SCF for propensity to plan based on the theory of propensity to plan and the model of patience formation.

### Literature Review

In the context of the life-cycle hypothesis (LCH), differences in asset accumulation are thought to be due to diverse preferences, when economic and demographic characteristics of households are controlled. Although preference-based explanations of differences in wealth support the theoretical premise, studies have found that differences in preference parameters, including the discount factor, rate of risk aversion, and bequest motives, have little empirical value in explaining differential wealth (Barsky, Juster, Kimball, & Shapiro, 1997; Bernheim, Skinner, & Weinberg, 2001). Studies that have focused on different levels of managerial efforts in saving and investment have found differential levels of asset accumulation, such as the theory of propensity to plan (Ameriks, Caplin, & Leahy, 2003) and the model of patience formation (Becker & Mulligan, 1997). Efforts to reduce the discount on future utilities, such as planning, and a focus on long-range goals, can help improve decisions (Becker & Mulligan, 1997). For example, spending time and resources to develop financial plans or appreciating future utilities are important for financial decisions and their outcomes.

### Methods

This study used the Survey of Consumer Finances (SCF) 2013, a triennial, cross-sectional survey collected and distributed by the Federal Reserve Board. All households included in 2013 the SCF (N=6,015) and principal components analysis was conducted. A total of 10 questions was used initially: saving rules; managerial efforts in borrowing; saving/investment decisions; internet use for borrowing,

<sup>1</sup> Visiting Scholar, Department of Human Science, 1787 Neil Ave, The Ohio State University, Columbus, OH, 43210, USA. Phone: 614-558--018. Email: lee.4166@osu.edu.

<sup>2</sup> Assistant Professor, Department of Consumer Sciences, 312 Adams Hall, University of Alabama, Tuscaloosa, AL, 35487, USA. Phone: 205-348-9167. Email: ktkim@ches.ua.edu.

saving/investment; use of financial planner for borrowing, saving/investment, planning horizon. The following 4 variables were chosen as factors related to the propensity to plan: (1) Effort in borrowing decisions: "When making major decisions about borrowing money or obtaining credit, some people search for the very best terms while others do not. On a scale from one to five, where one is almost no searching, three is moderate searching, and five is a great deal of searching, where would (you/your family) be on the scale?"; (2) Effort in saving/investment decisions: "When making saving and investment decisions, some people shop search for the very best terms while others do not. On a scale from one to five, where one is almost no searching, three is moderate searching, and five is a great deal of searching, where would (you/your family) be on the scale?"; (3) Internet use as a source of information for borrowing decisions: "Please tell me source of information do you use to make decisions about borrowing and credit."; and (4) Internet use as a source of information for saving/investment decisions: "Please tell me source of information do you use to make decisions about saving and investment." Then, factor scores for propensity to plan were calculated for each household and used to generate quartiles of propensity to plan (Table 1).

Table 1. Results from the Factor Analysis

Variable	Factor Loading
Effort in Borrowing decision	0.66316
Effort in Saving/investment decision	0.62126
Internet use as a source of information for borrowing decisions	0.7536
Internet use as a source of information for saving/investment decisions	0.76587

### Results and Discussion

Overall, our descriptive results were consistent with the theory of propensity to plan (Table 2). Net worth and income increased monotonically as the level of propensity to plan increased. A greater number of households with higher levels of propensity to plan were homeowners, savers, and owned stock assets. Future studies will conduct multivariate analyses on the effect of propensity to plan on various financial outcomes, such as retirement preparedness, savings, credit behavior, and credit delinquency.

Table 2. Descriptive Statistics by Propensity to Plan Quartiles

Variables	4 <sup>th</sup> quartile	3 <sup>rd</sup> quartile	2 <sup>nd</sup> quartile	1 <sup>st</sup> quartile
Mean Net worth (\$)	722,742.2	550,296.3	505,703.9	357,443.5
Mean Income (\$)	117,704.9	87,319.03	86,832.73	58,378.92
Mean Retirement Asset (\$)	148,338.9	113,179.9	89,938.28	49,369.45
Home ownership (%)	69.2	66.6	65.1	60.1
Saver (%)	62.3	54.3	50.9	45.7
Hold stock assets (%)	62.5	51.1	50.2	33.2
Ever filed for bankruptcy (%)	14.8	12.7	14.8	12.3

Note: Weighted proportion

### References

- Ameriks, J. Caplin, A. & Leahy, J. (2003). Wealth accumulation and the propensity to plan. *The Quarterly Journal of Economics*, 118(3), 1007-1047.
- Becker, G. S., & Mulligan, C. B. (1997). The endogenous determination of time preference. *The Quarterly Journal of Economics*, 112(3), 729-758.