Economic and Psychological Determinants of Savings Behavior: A Conceptual Model

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Continuing a decade long trend, the personal saving rate of Americans is declining. In June 2007, personal saving as a percentage of disposable personal income was 0.6 percent (Bureau of Economic Analysis, 2007). In response to these pressing concerns for the future well-being of American families, this project was developed with a goal to better understand the complexities of savings behavior. What are specific barriers and encouragements for saving? What motivates different people to save? How do socialization, personality characteristics, environmental factors, knowledge, and demographic realities impact savings behavior? This paper proposes an interdisciplinary ecological model that presents a new approach to understanding savings behavior.

Conceptual Model

Psychological and sociological theories of saving assume that saving may be affected by changes in tastes and preferences and by the effect of stimuli and conditions. These theories allow for the effect of family members, peers, motivation for saving, and past savings experience on savings behavior. Psychologists often use the terms self-control and self-regulation interchangeably; the terms refer to the individual's capacity to alter his own states and responses. Impulsivity, can affect spending habits. Perfectionism may be related to a failure to save since one may set unattainable goals, which frustrate the success of saving and motivation to do so. Materialism can affect savings behavior since it would place greater emphasis on current spending, Self-efficacy refers to the belief that one can accomplish goals and succeed at the behaviors they attempt (Bandura, 1977; Sherer, Maddus, Mercandente, Prentice-Dunn, Jacobs, & Rogers, 1982); thus self-efficacy is likely to also influence savings behaviors.

In general, previous theoretical approaches rooted in life cycle hypothesis (Ando & Modigliani, 1963) or similar approaches (Shefrin and Thaler, 1988) appear to better describe the behavior of upper income households than of low and moderate income households. The life cycle hypothesis and the permanent income theory assume that individuals are rational and have certainty about future financial resources. If individuals have low or moderate earnings or irregular employment, it is more difficult for them to manage financially. This may also influence their time preference. Time preference is thought of as the opportunity cost of trading present for future utility. The time preference of low income households might differ from upper income households because low income households are unable to trust the promise of future rewards. However, that because of their limited resources, low income households may be more patient than upper income households (Beverly, 1997) Feelings of helplessness (perceived lack of control) might explain why low income households have lower saving rates.

Social Influences Related to Savings Behavior

Socialization, the process by which individuals learn about values and norms, related to savings behavior might be quite different for low income households if they did not observe saving behavior in their families of origin or by peers (Feld, 1981, 1982; Fischer, 1982; Marsden, 1990). Beverly (1997) indicated that the characteristics of a neighborhood such as access to financial institutions or concerns for safety might influence the savings behavior of low income households. Savings behavior could also be influenced by cultural norms. Savings could involve a different pattern of asset accumulation such as shared resources for extended families.

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In addition to psychological and sociological traits, an individual's knowledge and skills related to financial management, particularly for those with limited disposable income, may be an important factor in whether or not her/she saves.

In summary, the willingness to save of low and moderate households is likely to be influenced by several factors or the interaction of factors and these relationships may be more complicated than for upper income households. The model presented here is the centerpiece of multi-state research project partially funded through Agricultural Experiment Stations. Current negotiations are under way with a large financial institution to test our model. Our goal is to share our model and initial results of this study at the conference in July.

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