Human Capital, Financial Knowledge, and Social Capital: Differences among Savers and Non-Savers in Low to Moderate Income Households

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The purpose of this study was to explore the association between human capital, financial knowledge and attitudes, social capital, and savings behavior among low to moderate income households. It addresses the question of whether or not these factors help distinguish between regular savers and non-regular savers.

Financial knowledge or literacy has been found to be positively associated with improved financial behaviors, including higher rates of savings (Huston, Finke, & Smith, 2011; Lusardi & Mitchell, 2009; Lusardi, Mitchell, & Curto, 2009; Lyons, Chang, & Scherpf, 2006). While specific financial education is important, general human capital has been found to promote financial management knowledge and practices, including savings behavior (Han & Sherraden, 2009; Hogarth, Hazemuller, & Wilson, 2006; Mayer, Zick & Marsden, 2011). Financial education and human capital has also been found to have a positive association with achievement of savings goals among Individual Development Account (IDA) participants in the American Dream Demonstration (Grinstead, Mauldin, Sabia, Koonce, & Palmer, 2011). For many low to moderate income households, the importance of community and family networks as well as trust in financial institutions might affect precautionary savings. Just as investment in general human capital is seen as having returns in productivity, Coleman (1988) suggested that social capital—trust, social networks and organizations, or actions among persons—can facilitate the accomplishment of certain activities. Participants in Turnham's (2010) study of savings and financial education among a low-income population indicated a lack of trust in financial institutions and government as a reason for not saving. Han, Grinstein-Weiss, and Sherraden (2007) found that non-married participants had fewer assets beyond IDAs than married participants.

Data used for this study were collected in December 2010 by the multi-state research team NC-1172 "The Complex Nature of Savings: Psychological and Economic Factors." The sample for this study was restricted to those households in which the respondents were between ages of 24 and 66 and annual household income was less than $80,000. After imposing these restrictions and eliminating respondents with missing values on dependent and independent variables, the sample was reduced from 1,079 to 760.

General human capital was measured by educational attainment, age (as a reflection of experience), employment status, health status, and income. Financial knowledge and attitudes were measured by the respondents' score on three questions that captured their understanding of basic financial principles related to saving and investment, homeownership, spending behavior, and their planning horizon. Social capital variables included marital status, those from whom they might be able to turn to for $3000 (family, friends, and community, versus loan from a bank or use of a credit card), religion, presence of financially dependent children in the household, and trust in financial institutions and government. T-tests and chi-square tests were conducted to explore the differences between those who saved regularly and those who were not saving regularly.

Results indicate that several measures of general human capital, financial knowledge and attitudes, and social capital were associated with saving regularly. Among the measures of human capital, age, self-reported health status, employment status, and income were associated with saving regularly. Measures on social capital including ability to borrow from friends and family in emergency, being married or living with partner, and having religious affiliation were associated with saving regularly. Among the measures of financial knowledge and attitude, homeownership, saving attitude, and spending behavior were significantly associated with saving regularly.

These results suggest a number of factors that facilitate regular savings. Financial educators and counselors can use these results to identify ways in which to motivate non-regular savers to save.

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