

Who is Short-Term Focused in Saving for Major Expenses?

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Following Cottle's (1969) experiential inventory for time orientation typology, 2,309 respondents from the 2007 U.S. Survey of Consumer Finances were classified as "future orienters". The remaining 2,109 respondents, who were excluded from this study, were assumed to be "past-present orienters" because they did not have any expectations of major purchases in five to 10 years. Based on time perception theory (Graham, 1981; Owen, 1991) and previous studies, the study examined factors that influenced intentional saving behavior for major purchases in five to 10 years among the future-oriented group. The dependent variable was based on the question, "Are you saving for those expenses now?" The 58% who responded 'yes' or 'already saved' were coded '0' for not being short-term focused and the other 42% who said 'no' they had not started saving were coded '1' for short-term focus in saving for identified future major expenses. The assumption is that the longer they waited to start saving, the shorter the time horizon between when they eventually started, if they started at all, and the time when the expected major expenditures would need to be made. Independent variables included life cycle stage, race, gender, type of occupation, the knowledge of future income, economic outlook, saving habit, and spending relative to income. Controls for expected variation from income, education, employment status, the different kinds of expected major purchases, and the number of purchases were included. The broad categories of expenses included education, health, family needs, home purchase, and general non-retirement expenses like taxes.

Short-term focus in saving for major purchases among "future orienters" was found to be more likely among those who were younger and married with children, in white collar occupations, did not know their future income and had a dismal economic outlook, were not regular savers, and those who spent more or equal to income. Time preference to save for major purchases among "future orienters" did not seem to vary by race, gender, income, employment status which supports time perception theory. Once future-oriented individuals had been identified on the basis of having expectations, expected differences in present or short-term focus versus future orientation due to socio-cultural differences such as these factors no longer mattered in predicting planned saving behavior among future directed individuals.

Financial educators and advisors need to understand the time orientation of their clients even those who may appear to be future directed in general. They must also understand that future time orientation does not necessarily mean that consumers adjust their behaviors accordingly just because they have expectations. There may be need for policy and program intervention to limit dependence on predatory alternative financing services that offer short-term expensive solutions that dissuade personal saving for major purchases. For example, rent-to-own stores offer consumers with low income and low or no savings to make major purchases with an expensive lease-purchase option for household goods. Often, vulnerable consumers fail to ultimately make the purchase after months or even years of expensive renting. Knowing there are these types of alternatives as well as easy access to unsecured credit for education and other needs, consumers may not focus on saving for their expected major expenses.

References

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