The Impact of Individual Differences on Savings Behavior Among Low-Income Individuals

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Though saving is important to many families in poverty, it can appear to be an insurmountable task in the context of day-to-day efforts to make ends meet. To help low-income households gain self-sufficiency and build wealth, the U.S. Congress initiated the Assets for Independence Act and its Individual Development Account (IDA) program in 1998. This study examines survey data of 668 participants in the IDA program to investigate psychological factors that influence savings behavior (Loibl, Jones and Haisley 2018). In particular, we propose, based on findings in the behavioral economics literature, that liquidity constraints may not fully explain savings deposits of IDA program participants and hypothesize that psychological factors, especially time preference, may also influence savings behavior (Ashraf, Karlan, and Yin 2005; Frederick, Loewenstein and O'Donoghue 2002). Survey data show that that for our sample of IDA program participants, that a stronger orientation toward the future is associated with a higher ability to save. The findings can inform the design of community-based savings programs.

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Acknowledgements

The first author gratefully acknowledges a Graduate Assistantship of the Department of Human Sciences, The Ohio State University and the guidance from her major advisor Lauren Jones. The authors thank the research implementation sites for their interest and support of this research. The study was supported by funding from the U.S. National Poverty Center; FINRA Investor Education Foundation; William and Flora Hewlett Foundation; Annie E. Casey Foundation; and U. S. Department of Agriculture Hatch Grant program. This project was supported by the National Poverty Center using funds received from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, grant number 1 U01 AE000002-01. The opinions and conclusions expressed herein are solely those of the author(s) and should not be construed as representing the opinions or policy of any agency of the Federal government. This publication was made possible by a generous grant from the FINRA Investor Education Foundation. The FINRA Investor Education Foundation, established in 2003 by FINRA, supports innovative research and educational projects that give investors the tools and information they need to better understand the markets and the basic principles of saving and investing. For details about grant programs and other new initiatives of the Foundation, visit www.finrafoundation.org. This research was sponsored by The Annie E. Casey Foundation under Award Number 209.0468. Any opinions, findings, conclusions or recommendations expressed herein are those of the authors and do not necessarily reflect the views of The Annie E. Casey Foundation. This work was supported by a Hatch grant [project accession no. 217437] from the USDA National Institute of Food and Agriculture.

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The research has received IRB approval from The Ohio State University (2008B0232 and 2008B0374) and Carnegie Mellon University (HS11-017).