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

Emma Xianhua Zai, The Ohio State University
Cäzilia Loibl, The Ohio State University

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 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.

References


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1 Emma Xianhua Zai (Zai.2@osu.edu), PhD student, Human Sciences
2 Cäzilia Loibl (loibl.3@osu.edu), Associate Professor, Human Sciences

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