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CONSUMER SAVING: METHODS AND SATISFACTION

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The low rate of consumer saving in the U. S. is a source of concern to policy makers [5] as well as to consumers [6]. Financial educators have traditionally advised consumers not only to save more, but also to save systematically (see, for example, [3, p. 57] and [4, p. 148]). The ideal method of saving is assumed to be to treat saving as a fixed expense that must be met each pay period. Other methods include "residual saving," or saving whatever income has not been spent at the end of a pay period, and "windfall saving," which allocates most or all unexpected income to saving.

What savings methods are consumers using? Does the savings method chosen affect the way consumers feel about their financial situation? This paper reports a study designed to answer these questions.

Procedures

A mail questionnaire was used to collect data. The questionnaire was based on a modification [1] of the management framework proposed by Deacon and Firebaugh. A two-stage cluster sample of Kansas households was drawn. The first stage of the sampling procedure involved drawing seven counties at random from those Kansas counties which did not include a Standard Metropolitan Statistical Area (SMSA) within their borders. The second stage involved selecting households at random from within the seven counties. Telephone listings comprised the sampling frame. Following the initial letter, three attempts were made to contact non-respondents, in accordance with the procedures recommended by Dillman [2]. Of the 1,200 households contacted, 672 usable responses were received.

The "typical" respondent was a married person in his or her late 40's. Almost one-half of the respondents had received some formal education beyond high school. The average household income before taxes fell between $20,000 and $25,000. The average household size was 2.7 persons.

The independent variable, consumer savings methods, was identified from responses to the following survey item:

Some people try to save or invest part of their income, and others don't. Which of these statements describes your household?

1. *Save or invest fixed amount or percentage of income regularly (**fixed sum savers**)*
2. *Save or invest income left after bills and expenses are paid (**residual savers**)*
3. *Save or invest any "windfalls" like bonuses, refunds, or gifts (**windfall savers**)*
4. *Try to save or invest but can't*
5. *Don't try to save or invest income*
6. *Other*

The dependent variable was financial satisfaction. Respondents were asked three questions:

1. *How do you feel about your household's standard of living, that is, the goods and services you use, like your food, clothing, housing, car, and so on?*
2. *How do you feel about how well prepared you are to meet large emergency expenses?*
3. *How do you feel about the amount of money your household has been able to save and invest so far?*

Responses to the three questions were coded on a five-point Likert scale. Adding the three items together resulted in a 12-point scale measuring financial satisfaction. The scores could range from 3 to 15 (mean = 9.17, std. dev. = 2.53, Cronbach's *alpha* = .79). A one-way analysis of variance, with the Tukey test for significant differences among mean scores, was used to determine the impact of the method of savings on the financial satisfaction scale.

Findings

The savings methods used by consumers are shown in Table 1. Only a small minority (3 percent) made no attempt to save; however, almost one-fifth of the sample reported that they tried to save but could not. Among those who were successful in saving, the majority fell into one of three categories: they saved whatever

Table 1. Percentage Distribution of Respondents by Method of Saving

Method	n	Percent
"Residual savers": save income left after bills and expenses are paid		
Save residual income only	202	30%
Save residual and windfall income	38	6
"Fixed sum savers": save fixed amount or percentage of income regularly		
Fixed amount/percentage only	125	19
Fixed amount/percentage and residual income	9	1
Fixed amount/percentage and windfall income	27	4
Fixed amount/percentage, windfall and residual income	12	2
Save windfalls only	52	8
Other methods	56	8
Non-savers		
Try to save but can't	128	19
Don't try to save	23	3

Note: Percentages may not sum to 100 due to rounding.

income was left after bills and expenses were paid (30 percent); they saved a fixed sum or percentage on a regular basis (19 percent); or they saved their "windfall" income (8 percent). Another 13 percent of the sample used a combination of methods. Only one pattern emerged from the "other methods" category; ten respondents in that group said they saved by investing in their own business.

Respondents who used the "fixed amount" method of saving, either alone or in combination with one or more other methods, accounted for 26 percent of the total sample. Thus, a little over

Table 2. Mean Financial Satisfaction Levels of Respondents by Most Common Methods of Saving

Method	Mean Satisfaction Score
Save only windfalls	8.67*
Save residual income only	9.91
Save fixed amount/percentage only	10.10
F= 8.94, df = 2, 372, p <.001	

* p < .05

one-fourth of the sample followed the oft-repeated advice to treat saving as a fixed expense.

To alleviate the problem of small cell sizes, only those methods of saving used by at least 50 respondents were included in the analysis of variance. Results of the analysis indicated that the method of saving was significantly related to respondents' satisfaction with their financial situation ($F = 8.94$, $df = 2, 372$, $p < .001$). Results of the Tukey test for significant differences among pairs of satisfaction scores are shown in Table 2. Those respondents who saved only windfall income were significantly less satisfied with their financial situation than were either the "residual only" or the "fixed sum only" savers.

Conclusions and Implications

Over three-fourths of the respondents in the study reported that they were saving. Saving residual or "leftover" income was the most common savings method, followed by saving a fixed amount or percentage of income. However, the latter group accounted for just over one-fourth of the total sample.

From the findings it appears that financial educators have not been successful in persuading consumers to save on a systematic basis, that is, to treat savings as a fixed expense. One is forced to ask why a financial management practice that is so frequently recommended is so little used by consumers. Are there factors that discourage consumers from saving on a systematic basis and, if so, are these obstacles that could be addressed by consumer education? This is an area where consumer educators need more

information, but some possibilities come to mind. For example, if consumers think they can substitute credit for savings in an emergency, they may need information that helps them to understand how creditors evaluate applicants for loans. If consumers feel that saving $25 or $30 a month won't make any difference in their financial situation, they may need information on the long-term effects of compound interest. If consumers feel that any interest earned on savings is "just eaten up by taxes," perhaps they need information on tax-sheltered or tax-deferred savings vehicles. The respondents who reported that they "try to save but can't" may need information on ways to bring spending levels down so that there is indeed some income "left over" to save. One of the keys to encouraging consumers to save more, and to save regularly, may lie in identifying the factors that *discourage* them from doing so.

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