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Perceived Barriers to Savings Among Low- to Moderate-Income Households That Do Not Save Regularly

Abstract

The study reported here examined the differences in barriers to savings among low- to moderate-income households who do not save regularly. Characteristics associated with individuals who perceived they could and could not save included age, presence of child under 18years of age, and gender. Having no money left over, being late on bills and/or credit card payments, being under- or unemployed and having been affected by a natural disaster were associated with perception of whether one could save. Recommendations for Extension educators working with limited resource audiences are suggested.

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Introduction

Unrestricted savings for low- to moderate-income households are important in order to avoid or reduce the economic effects of income instability from job loss or reduced work hours, changes in health status or loss of health insurance, changes in marital status, or costs associated with major consumer expenses for auto or home repair and maintenance (Mills & Amick, 2010). In other words, unrestricted savings are needed to deal with the expected and unexpected events in everyday life. But, as research has shown, some individuals, even among the poor, are able to save for these eventualities, while others are not.

Since the mid-1990s, research and Extension education programs related to savings among low- and moderate-income individuals have primarily focused on Individual Development Accounts (IDAs) (Loibl, Grinstein-Weiss, Zhan, & Red Bird, 2010; Loibl & Red Bird, 2009; McKenna, Owen, & Blansett, 2001). While IDAs address some barriers to savings, they are typically restricted to goals such as homeownership, education, starting a small business, or acquiring assets. Other research has focused on encouraging low- to moderate-income households to save using their Earned Income Tax Credit returns (Bobbitt, Bowen, Kuleck, & Taverno, 2012; Linnenbrink, Koonce, Mauldin, Rupured, & Schlanger, 2008).

Purpose

The purpose of the study reported here was to describe differences in barriers to savings among low- to moderate-income households that perceive that they can or cannot save and are not regular savers. The primary interest is in the types of barriers that impede low- to moderate-income households and their perception of their ability to save. In other words, among individuals and households who do not save regularly, what types of barriers do they perceive that prevent them from saving on a regular basis? Extension educators who program in areas related to personal finance and financial security can incorporate information on perceived barriers to savings and ways to overcome these barriers in educational programs.

Background: Barriers to Savings

While numerous studies point out that low-income households can save (Hogarth & Anguelov, 2003; Schreiner & Sherraden, 2007), others have identified institutional and public policy factors that might impede low- to moderate-income households' ability to save (Beverly & Sherraden, 1999). Having access to checking, savings, or credit accounts has been found to be related to savings behavior (Hogarth & Anguelov, 2003).

Turnham (2010) found a number of factors that prevented or reduced the ability to save, including inadequate income, lack of access to savings programs, lack of financial knowledge, spending behaviors, feelings of discouragement when events disrupted savings, and lack of trust in institutions. Income instability also appears to be a barrier to savings (Mills & Amick, 2010; Turnham, 2010). Turnham (2012) also found that a barrier to savings was a lack of personal finance knowledge. Studies of the participants in the American Dream Demonstration have found some relationship between the financial education aspects of the IDA programs and savings performance (Clancy, Grintrin-Weiss & Schreiner, 2000; Grinstead, Mauldin, Sabia, Koonce, & Palmer, 2011). Financial knowledge has been found to be associated with "positive" financial behaviors (Hilgert, Hogarth, & Beverly, 2003; Osteen, Muske, & Jones, 2007).

Methodology

During December 2010, Survey Sampling International LLC administered a Survey Monkey questionnaire for NC-1172 multi-state research program, The Complex Nature of Savings: Psychological and Economic Factors, until 1,000 surveys were completed. In the study, the sample was restricted to households with respondents in their working years, 24 to 66 years of age, with household income less than $80,000, who indicated that they do not save on a regular basis. Thus, the sample for the study was reduced to 380.

Perception of ability to save was measured by responses to the statement "For me to deposit into a savings or investment account at least once per quarter in the coming year would be," with responses on a 10-point scale ranging from impossible to possible. Statements in two questions were used to capture barriers to savings. The first was "What are reasons that you or your family have not been able to save or invest or had to reduce the amount you save or invest in the last two years?" Respondents could indicate "yes" or "no" to statements of 11 possible events (Table 2). The second question, "If you do not save regularly with a bank, credit union, or other financial institution, why not?" captures issues related to institutional barriers, lack of financial knowledge, and spending behavior.

Chi-square and t-test analyses were conducted to determine differences in barriers to savings between those who indicated they thought it was impossible or unlikely and those who thought it likely or possible to deposit money into a savings or investment account at least once per quarter in the coming year.

Results

Out of the 380 respondents who did not save regularly, 63% perceived they could not save at least once per quarter during the coming year, while 37% perceived they could. Characteristics of the sample appear in Table 1. Respondents who did not perceive they could save at least once per quarter in the coming year were more likely to be older than those who perceived they could save. Those who perceived they could not save at least once per quarter in the coming year were less likely to have children under 18 years of age than those who perceived they could save. Those who perceived they could not save at least once per quarter during the coming year were almost equally split between males and females.

Table 1.

Characteristics of Respondents Who Did Not Save Regularly

Characteristic	Perceive Cannot Save at Least Once Per Quarter in the Coming Year	Perceive Can Save at Least Once Per Quarter in the Coming Year	N	χ^2
Age			**380**	**17.90*** **
24-34	19.67%	37.59%		
35-44	14.23%	16.31%		
45-54	38.08%	23.40%		
55-66	28.03%	22.870%		
Presence of a child less than 18 years of age			**380**	**5.91***
No	76.15%	64.54%		
Yes	23.85%	35.46%		
Gender			**380**	**5.17***
Male	51.05%	39.01%		

Female	48.95%	60.99%		
Marital Status			**380**	**.09**
Married/Cohabiting	43.10%	44.68%		
Single	56.90%	55.32%		
Race			**380**	**.58**
White	54.39%	50.35%		
Other	45.61%	49.65%		
Educational Attainment			**378**	**4.23**
Less than High School or High School Diploma	28.15%	20.00%		
Some College	47.06%	57.14%		
Bachelor Degree or More	24.7%	22.86%		
*p<.05 **p<.01 ***p<.001				

Reasons identified for not being able to save or invest or for having to reduce the amount saved or invested in the last 2 years are reported in Table 2. Among the respondents who indicated they had no money left (they spent everything) as a reason for not being able to save or invest or had to reduce the amount of savings or investments in the last two years, 66.14%, perceived they could not save at least once per quarter in the coming year. In contrast, despite claiming they had no money left to save, 33.86% of respondents felt they could save at least once per quarter in the coming year.

Table 2.

Frequency of Reasons for Not Being Able to Save or Invest or for Having to Reduce Amount Saved or Invest in the Last 2 Years by Perception of Whether or Not They Could Save at Least Once per Quarter

Barrier	**Perceive Cannot Save at Least Once Per Quarter in the Coming Year**	**Perceive Can Save at Least Once Per Quarter in the Coming Year**	**N**[a]	**χ2**
Had no money left over (spent everything)	66.14%	33.86%	319	7.48**
Been late on bills	68.79%	31.21%	173	4.39*

and/or credit card payments				
Had an emergency or unexpected expense (care repair, health issued, etc.)	65.04%	34.96%	246	1.11
Had costly out-of-pocket medical expenses	66.24%	33.76%	157	1.12
Had increases in day-to-day living expenses (including cost of housing)	65.46%	34.54%	249	1.80
Had large expenditures recently or am anticipating a large expense in the near future	63.08%	36.92%	130	0.0002
Paying for education related expenses	64.20%	35.80%	81	0.04
Was or am unemployed or underemployed	67.81%	32.19%	233	6.01**
Major life change (birth, death, marriage, divorce)	63.10%	36.90%	84	0.004
Affected by natural disaster	100.0%	0.00%	11	6.57*
Affected by vandalism or terrorism	81.82%	18.18%	11	1.69

[a]N reflects the number of respondents (out of 380 respondents) who selected a particular reason for not being able to save or having to reduce savings. Respondents could choose all reasons that applied (in other words they could select more than one reason). For example, 11 respondents selected "affected by natural disaster." Of those 11 respondents, all (100%) perceived that they could not save at least once per quarter in the coming year.

*p<.05. **p<.01. *** p<.001

The respondents who perceived they could not save at least once a quarter in the coming year were more likely than the respondents who perceived they could save at least once a quarter to have been: 1) late on bills or credit card payments (69% vs. 31%); 2) unemployed or underemployed (67.81% vs. 31.29%); and 3) affected by natural disaster (100% vs. 0%).

Reasons low- to moderate-income households gave for why they did not save regularly with a bank, credit union, or other financial institution are reported in Table 3.

Table 3.

Frequency of Reasons Why Did Not Save Regularly with a Bank, Credit Union, or Other Financial Institution by Perception of Whether or Not Could Save at Least Once per Quarter

Barrier	Perceive Cannot Save at Least Once Per Quarter in the Coming Year	Perceive Can Save at Least Once Per Quarter in the Coming Year	Na	$\chi 2$
Institutional Barriers				
I am not allowed to open an account (would lose benefits)	76.19	23.81	21	1.67
I do not have enough money to open an account	72.60	27.40	208	18.95***
I prefer cash checking service to banks	65.12	34.88	43	.09
I want to keep my financial records private	67.52	32.48	117	1.47
I do not write enough checks	67.90	32.10	81	1.08
Bank fees/costs too high	66.39	33.61	122	0.996
I do not trust banks or credit unions	70.91	20.09	55	1.76
I am not comfortable	69.39	30.61	49	.996

dealing with banks or credit unions				
The ones near me have inconvenient hours	73.08	26.92	26	1.20
I do not want government to know my income	75.51	24.49	49	3.8*
They have inconvenient locations	73.53	26.47	34	1.82
Lack of financial knowledge				
I am not sure how to open an account	50.00	50.00	10	.75
I still have time to do this later	59.17	40.83	120	.92
Poor Spending behaviors				
I have a poor credit history	63.70	36.80	146	0.04

[a]N reflects the number of respondents (out of 380 respondents) who indicated the item as a reason why they did not save regularly. Respondents could choose all reasons that applied (in other words they could select more than one reason).

* p<.05. ** p<.01. *** p<.001

Respondents who did not perceive they could save at least once per quarter during the coming year were more likely than the respondents who did perceive they could save at least once per quarter during the coming year to indicate that they: 1) did not have enough money to open an account as a reason for not saving in a bank, credit union, or other financial institution and 2) did not want government to know their income as a reason for not saving in a bank, credit union, or other financial institution.

Implications and Recommendations

The findings, from a sample of low- to moderate-income household adults who indicated they did not save on a regular basis, suggest that those who were likely to perceive that they were not able to save at least once per quarter in the coming months: 1) had no money left over (after expenses), 2) were unemployed or underemployed, 3) were affected by a natural disaster, 4) were late on bills and credit card payments, 5) did not have enough money to open an account, or 6) did not want the government to know their income. However, previous studies have also shown that when the elements of what increases the likelihood of savings behavior are in place (e.g., financial knowledge, or access to a savings program such as the availability of seed money to start IDAs), low-income individuals and families can and do save.

The results of the analysis in the study reported here suggest at least two groups of low- to moderate-income adults. First are those who perceive they are not able to save in the near future due to resource constraints. The other group, while resources are constrained, does perceive that they might be able to save at least one per quarter in the coming year. Although not explored extensively in the study, an important question to ask is "How does one's perception of ability to save influence ability to save despite low income? Nearly 34% of respondents felt they could save quarterly despite having no money left. Perhaps these respondents felt that they could have saved if they had designated some of their income to savings or if they had made different choices with available income.

The Transtheoretical Model of Change (TTM) (Prochaska, DiClemente, & Norcross, 1992) may provide guidance for approaches to financial educational programming for the two groups observed in the study. According to Prochaska, DiClemente, and Norcoss (1994), the stages of change include precontemplation (no plans, have tried and given up, uninterested or unmotivated), contemplation (aware but cons outweigh the pros, procrastinators), preparation (intent to change or take action soon, ready for small steps in changing behavior), action (make modifications to behavior), and maintenance (work to prevent relapse, behavior becomes habit). It is likely that of the two groups in the sample, those who do not perceive that they can save at least once per quarter are in the precontemplation or contemplation stages. However, those who do perceive that they can save at least once per quarter in the coming year are likely to be in the preparation stage of change where they intend to take some action.

Among those who do not perceive that they can save during the coming year are likely in the precontemplative or contemplative stages. Individuals in these stages are not very likely to be ready to think about savings. Based on the findings of the study reported here, we offer Extension educators the following recommendations:

1. For clients who state they had no money left to save after expenses, provide educational workshops on the fundamentals of their budget and getting their finances in order. This might be the first step in moving them toward shifting the balance from the negative aspect of saving (lack of resources) to positive aspects of saving.

2. For clients who are or under- or unemployed, provide job skills and job seeking training.

3. For clients who are affected by a natural disaster, assist in identifying community resources, and explain the logic of having a liquid emergency fund for a "rainy day." But stress that saving even small amounts is better than nothing.

4. For clients who are late on bills and credit card payments, provide workshops on the fundamentals of their budget and getting their finances in order.

5. For clients who do not have enough money to open an account, provide seed money to enable them to open a savings account like IDA programs has done in the past.

Adults who perceive that they can save during the coming year, despite significant resource constraints, are likely in the preparation stage of change and are ready for financial education and savings programs that support their decisions to start saving soon. Extension educators might find the following recommendations helpful when working with adults who have expressed interest in saving.

1. Target women and mothers because women and mothers are the primary decision-makers in many American households ("iVillage and PASS," 2010), and provide information and support about savings options so they can guide family decisions regarding savings.

2. Encourage young adults in their 20s and 30s to save as much as possible to maximize the benefit of compounding and the time value of money.

3. Explain the logic of having a liquid emergency fund and that the ideal amount is 3 to 6 months of expenses, but stress that $500 or $1,000 is better than nothing.

4. Explain the pay-yourself-first concept, setting aside some portion of income for later use, in all financial education programs.

5. Be energetic and encouraging when working with low-income audiences. A single comment you make can be the catalyst to jumpstart someone to save.

In summary, the data suggest that among those individuals in low- to moderate-income households there are various barriers that may be preventing savings. Perception of their ability to save in the next year suggests that identifying the stage of change an individual is currently in would help educators identify appropriate messages and programs for which those individuals are ready.

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