

# Americans need to save paycheck-to-paycheck

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Americans are better at saving money when they set goals in the near future -- such as next month -- rather than the more distant future, according to a new study by researchers at Rice University and Old Dominion University. The study was presented this month at the annual convention of the American Psychological Association.

"While many Americans are living paycheck-to-paycheck, to effectively protect ourselves for the future we need to start saving paycheck-to-paycheck," said Paul Dholakia, associate professor at Rice's Jones Graduate School of Management. He co-authored the study with Leona Tam, assistant professor of marketing at Old Dominion.

"Our study shows that Americans are better at saving money when they are thinking about it month-to-month, on an ongoing basis rather than a long-term goal." Dholakia said.

The study asked participants to make savings estimates for next month, for a specific month in the future or for next year. Participants who planned their savings month-to-month and those who planned for the coming year each estimated they would save about the same amount, but the month-to-month planners actually wound up saving much more. For example, in one study, those saving for next month estimated they would save \$287 but actually saved \$440. On the other hand, participants who were asked to estimate how much they would save in a specific month in the future indicated a much higher value -- \$946 -- but ended up saving far less -- only \$123.

"Americans always assume a windfall of some sort," Dholakia said. "We plan on pay raises, work bonuses and other monies to come forward, but we cannot be thinking this way. We need to start saving money every day."

Planning too far in advance also does not work, the study found. People who formed savings goals for specific months in the future not only saved much less when that time came, but they also made riskier financial decisions in the present. Examples included choosing risky investment ventures and preferring jobs with high pay and low job security to those that were more secure but lower-paying.

"Planning too far in advance not only makes consumers over-optimistic regarding how much they will save, but it also makes them behave in more aggressive and risk-seeking ways in other financial arenas," Dholakia said. "It's double jeopardy."

There are easy ways and painful ways to save money.

"The easiest thing to do is to be a smarter consumer and make spending and saving decisions thoughtfully on a daily basis -- that extra cup of coffee every morning, carpooling with a co-worker and cutting out the 'extras,'" Tam said. "The harder and more prudent thing to do is to mindfully take a portion of your earnings each pay period and save it in the bank."

Dholakia said, "Americans can't solely depend on their retirement plan. It will be painful, but like that mortgage or car-loan payment, we need to start thinking about a savings transfer every pay period."

Source: Rice University

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