Young People Doing Fine When It Comes To Saving Money

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(PhysOrg.com) -- Younger adults may be doing a better job saving for the future than many experts believe, according to a new study.

While those under age 30 do tend to save less than older adults in real dollars, it is important to take into account their stage in life and how much they can afford to save and how much they may earn in the future, according to Sherman Hanna, co-author of the study and professor of consumer sciences at Ohio State University.

When those kinds of factors are taken into account, about 61 percent of 25 year olds and 58 percent of 35 year olds would be spending less than their income, and thus saving, Hanna said.

That compares to about 56 percent of 45 and 55 year olds who would be spending less than they earn.

“All things being equal, young people are actually more likely to report spending less than their income than are older people,” he said.

“That’s surprising given the advice usually given to young people, and it suggests we don’t need to worry as much about their savings habits.”

Hanna conducted the study with Yoonkyung Yuh, a graduate of Ohio State who is now associate professor of business at Ewha Womans University in Seoul, Korea.

Their study will appear in a future issue of the Journal of Consumer Affairs.

Hanna said he and Yuh looked at savings in the context of a “life cycle” model of consumption and saving.

In general, a life cycle model would suggest the amount people save depends on people’s stage of life, and whether they are married and have or are planning children, whether they expect to earn more income in the future, and a variety of other factors.

In this model, savings does not depend only on current income, but on the current income relative to past income and income expected in the future. In this model, younger people may save less in the present because they expect to earn more in the future.

“There are a lot of factors like these that will determine whether someone would be saving a lot or a little at a particular time of life,” Hanna said.

The study used data from 17,565 American households who took part in the Surveys of Consumer Finances between 1995 and 2004.

The researchers examined the respondents’ answer to the question of whether the amount of money they spent in the past year was more or less than their income. If they said they spent less than their income, they were listed as having savings for that year.

They then took into account a variety of other factors that related to savings, including working status, income, race and ethnicity, education, marital status, health status and number of children, among others.

The results showed that households with a respondent less than 30 years

of age had the highest probability of saving, and this probability generally decreased with age.

Single females were significantly less likely to save than otherwise comparable married households.

Black households were less likely to save than white households.

Those people who reported their health as poor saved more than those who rated their health as excellent, which makes sense if those in poor health expect more costly medical bills, Hanna said.

One of the advantages of looking at savings in a life cycle model is that researchers can pinpoint which types of households are saving enough, and which are not.

“The results from this study should help better focus social marketing programs for saving, by identifying which households are making savings mistakes,” he said.

For example, the results suggest we can spend less effort getting young people to save, because they already are saving more than middle-age households.

Marketing programs pushing people to save should target middle-income black households, single women, and those who are less educated, the results suggest.

“We have a little better idea now who we should be persuading to save more of their income,” Hanna said.

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