

# Students need help to save money, but don't always know it: study

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Students could use help saving more money, but they don't always know it, says a University of Waterloo study.

Most people intend to save more money, and spend less, than they currently do. If they were offered a simple way to do so, would they take it? New research suggests the answer is no.

And the reason is that their very good intentions can give rise to a sense of optimism that leads them to undervalue opportunities that could make it easier to actually achieve a long-term savings goal.

"Our results highlight the costs of being too optimistic," said the study's senior author, psychology professor Derek Koehler.

Researchers at Waterloo asked students in the university's co-operative [education program](#) to set a savings goal at the beginning of a work term, and then asked them again at the end of the term whether they had met their goal. Co-op students alternate work and study terms, and most plan to save much of their [earnings](#) from the work term for use during the subsequent study term.

At the beginning of the term, the students expressed strong intentions to save and estimated their chances of doing so to be quite high, around 85 per cent on average. If those self-predictions were accurate, then about 85 per cent of the students would have been expected to achieve their goal by the end of the term.

But only 65 per cent of the students reported having been successful. In short, at the beginning of the term, students were overly optimistic about their chances of reaching their savings goal.

Some of the students were offered enrolment in a program that could help them to save. The program required them to monitor their savings and report their progress every other week during their work term. It turns out that the students in the program were more successful at achieving their savings goals.

Although the progress-report program helped the students to save, the students failed to recognize its benefits.

When they were asked at the beginning to predict the impact it would have, most students thought the program wouldn't do anything to help them. After all, they were very optimistic (in fact, too optimistic) that they could achieve their savings goal without any outside help.

In a second study, the progress-report program was described to another group of students, who were asked how much they were willing to pay to be enrolled in it. (The cost was deducted from an \$8 payment the students received for being in the study.)

Students were typically unwilling to pay more than \$1 for the program, and the most common response was zero. In reality, the progress-report program seems to have been worth quite a bit more, given that it increased students' chances of achieving their savings goal, which averaged around \$5,000, by a full 10 percentage points.

The study's authors suggest that being overly optimistic about achieving future goals, whether in saving [money](#) or in some other aspect of life, can be costly if it leads people to overlook ways in which they could make it easier to accomplish those goals.

Take RSPs as an example. Many people intend to make a contribution every year but fail to do so. Optimism that they will manage to make a lump-sum contribution by the end of the year might lead them to undervalue the benefits of setting up automatic monthly (and less painful) withdrawals from a bank account to a RSP.

As the authors conclude, optimism "can be costly if the disproportionate focus on good intentions leads people to overlook steps they could take to make their futures brighter."

Interestingly, the optimism the students exhibited in predicting their own success in achieving their savings goals did not extend to their predictions of how other students would fare.

In fact, the same students who had undervalued the progress-report program for themselves, thought it would be helpful for others.

The study's authors say that being "in the grip" of a strong intention to accomplish an important goal makes people's self-predictions of their own future behaviour more susceptible to excessive optimism than their predictions of how others will behave.

**More information:** The study, Good Intentions, Optimistic Self-Predictions, and Missed Opportunities, is scheduled to appear in a forthcoming issue of the journal *Social Psychological and Personality Science*. It is available online at [spp.sagepub.com/content/early/recent](http://spp.sagepub.com/content/early/recent)

Provided by University of Waterloo

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