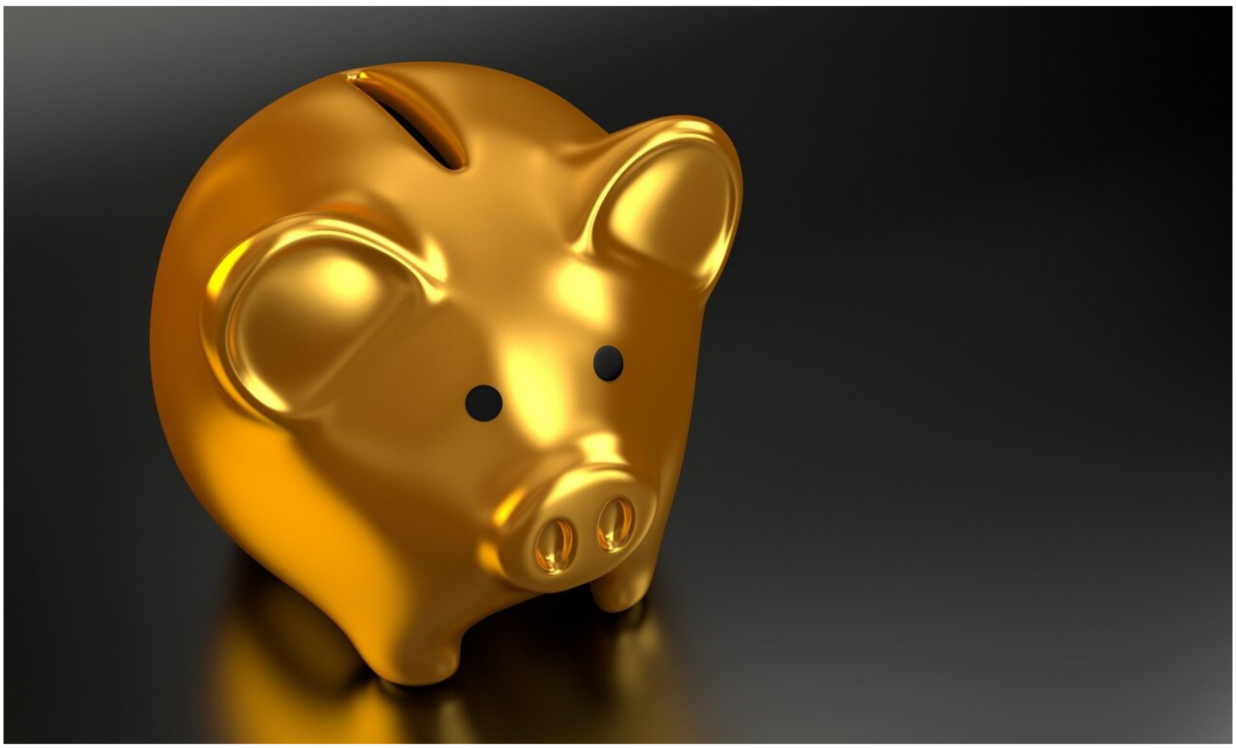
Setting goals will make you a better saver, says study

April 21 2021



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Setting yourself goals is the key to successfully saving money, according to a new study from experts at the University of Stirling.

Led by Dr. Frederick Changwony, financial researchers from Stirling Management School analyzed data from a large sample of UK households using the Office for National Statistics Wealth and Assets Survey—and found that setting goals, alongside having confidence in your numerical ability and using professional financial advice, were all more likely to make you a successful saver.

While the financial planning profession has long advocated setting goals in order to save well, this study—published in the Journal of Banking and Finance—now provides rigorous, empirical evidence backed up by an extensive review of the underlying theory to support this practice.

The research shows households that set goals are more likely to save and invest their savings in riskier assets with a higher long-term return. Individuals who are confident in their own numerical ability were also more likely to save and invest in bonds and stocks, irrespective of whether or not they had savings goals.

Households with access to professional financial advice were found to own more stocks and bonds compared to cash, and as a result, able to save more money in the long-term. With setting goals forming a key part of the financial advisory service, these households also benefit from putting savings targets in place.

The proportion of stocks held by households with four or more savings goals was more than twice as much as those with no savings goals and as a result, were more likely to achieve their long-term savings goals.

The paper, Savings goals and wealth allocation in household financial portfolios, also found people who do not have access to financial advice, do not consider themselves to be particularly numerate, and who rely on friends, family and social media for financial advice, are less likely to own stocks and bonds, and as a result, are less likely to hit their long-term savings objectives. For those households, setting goals has the greatest potential benefit for their savings.

Setting regular goals

Based on their findings, the research team recommend that people set regular savings goals, with an end date and target figure and give these meaningful names, such as 'house deposit'; seek out professional advice; and enhance their financial literacy and numeracy using free online resources, to give themselves the best chance of saving a larger sum of money.

Dr. Frederick Changwony, who led the study, said: "At a time when many households have built up involuntary savings during the coronavirus lockdowns, there is an opportunity to review how they continue to save for the future."

Co-author Dr. Kevin Campbell said: "Setting goals is at the core of the financial planning process advocated by the personal finance profession, yet until now, few studies have formally examined how savings goals, financial advice, and numerical ability influence households saving habits when taken together."

Dr. Isaac Tabner added: "There hasn't been an easier time to save effectively, with so many tools available online and through apps to make setting goals, tracking spending and saving money, simple and manageable. This process doesn't need to be tricky—you can do it from your smartphone and could find it makes a big difference to how successful you are at putting a healthy pot of money aside."

More information: Frederick Kibon Changwony et al. Savings goals and wealth allocation in household financial portfolios, *Journal of Banking & Finance* (2020). DOI: 10.1016/j.jbankfin.2020.106028

Provided by University of Stirling