

Buying a new furnace: Will you use your savings or assume more debt?

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It's getting closer to winter, and all of a sudden you need a new HVAC system that'll cost \$5,000. You've got the money in a savings account. Will you spend that money, or pay with a high-interest credit card instead? According to a study in the *Journal of Marketing Research*, if you have earmarked those savings for a "responsible" purpose, you are probably going to preserve them and pull out the costly plastic.

"People's sense of [personal responsibility](#) and feelings of guilt can affect their financial decisions—and not in a good way," write the authors of the study, Abigail B. Sussman (University of Chicago) and Rourke L. O'Brien (University of Wisconsin-Madison). "If the money they have in savings is set aside for something they think is important to their sense of self-worth—say, their child's education—they will leave those savings untouched, even if they earn hardly any interest, and incur high-interest [credit card debt](#) instead."

The authors conducted six experiments that tested three hypotheses, including the hypothesis that people will be more motivated to preserve savings that have been earmarked for "responsible" goals than savings that have been earmarked for less responsible goals or for nothing at all. Typically, participants were presented with a financial emergency and randomly given a [savings account](#) meant for a child, a car, or nothing in particular and a credit card that charged a low, medium, or high interest rate.

The authors found that people were willing to combine money from savings with money that they borrowed to meet emergency expenses. Nevertheless, how much consumers were willing to spend down their savings depended on what those savings were for. If maintaining those savings was important to a participant's sense of responsibility, the consumer was more likely to borrow, even at high interest rates.

"Contrary to what other studies find, our study shows that earmarking [savings](#) can have negative consequences. If consumers come to regard as sacred the money that they have set aside for a particular purpose, they might preserve that money even at a cost that exceeds the amount of that [money](#) itself," Sussman and O'Brien write.

More information: Abigail B. Sussman et al. Knowing When to Spend: Unintended Financial Consequences of Earmarking to Encourage

Savings, *Journal of Marketing Research* (2015). [DOI: 10.1509/jmr.14.0455](https://doi.org/10.1509/jmr.14.0455)

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