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DOG BITES MAN: AMERICANS ARE SHORTSIGHTED ABOUT THEIR FINANCES

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Introduction

Americans are increasingly required to save more on their own for retirement. But human nature suggests they will focus more on day-to-day needs than on distant concerns, posing a barrier to saving for the long term. This *brief* explores whether respondents are more likely to focus on the future if they are less worried about day-to-day money issues or are more financially literate.

The discussion proceeds as follows. The first section explores the extent to which households' financial satisfaction reflects day-to-day concerns over those in the distant future. The second section addresses whether those that face fewer day-to-day concerns are more focused on future needs. The third section examines whether financial literacy enhances a household's sensitivity to future needs. The final section concludes that financial satisfaction primarily reflects day-to-day concerns, a finding that doesn't change much even if households have few short-term worries or if they are more financially literate. These results underscore the need for policies that get individuals to save.

Is Satisfaction Tied to Short- or Long-Term Issues?

This study examines the relationship between a household's *subjective* financial assessment and its *objective* financial condition. It uses data from the FINRA Investor Education Foundation's 2012 *State-by-State Financial Capability Survey,* an online survey of 25,509 American adults.[1] The study is limited to households in the labor force and excludes respondents who are younger than 25, retired, disabled, or unable to answer questions about their current financial condition. The final sample is 10,578 respondents. The dataset includes population weights, which are used to make the sample nationally representative.[2]

At the beginning of the interview, respondents are asked: "Overall, thinking of your assets, debts and savings, how satisfied are you with your current personal financial condition?" on a scale from 1 to 10. Figure 1 (on the next page) shows the distribution of responses, which represent a broad range.

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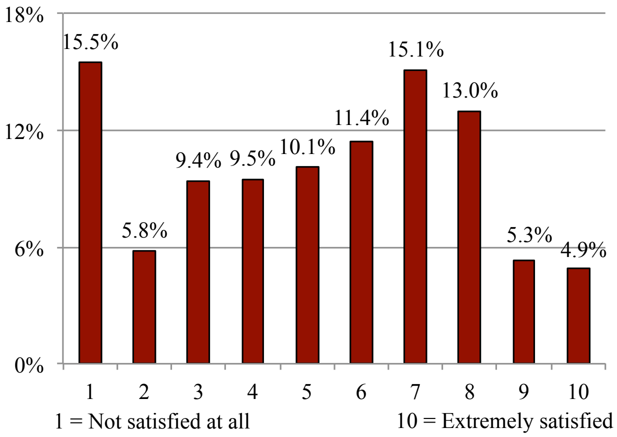
Figure 1. Percentage of Households Reporting Various Levels of Financial Satisfaction, 2012



Source: Authors' calculations using data from FINRA Investor Education Foundation (2012a).

A regression analysis is then used to sort out the strength of the relationships between day-to-day and distant concerns and financial satisfaction. The household's response to the financial satisfaction question is the dependent variable and the equation includes three types of independent variables: financial satisfaction = f (day-to-day concerns, distant concerns, and controls).[3]

Table 1 lists the day-to-day concerns and distant concerns included in the analysis. The control variables are age, income, sex, marital status, ethnicity, education, aversion to investment risk, seen a financial advisor in past five years, financial literacy, and county unemployment rate.

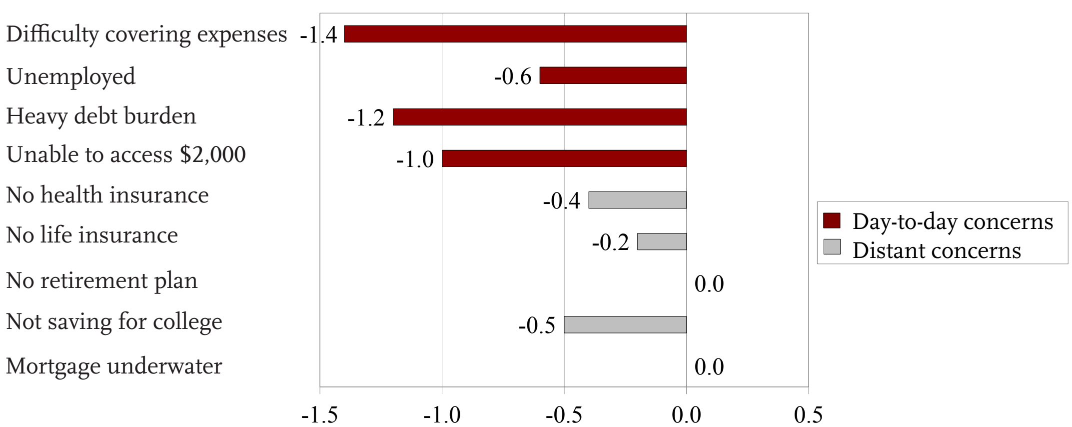
Table 1. Measures of Concern Used in Analysis

Day-to-day concerns	*Distant concerns*
Difficulty covering expenses	No health insurance
Unemployed	No life insurance
Heavy debt burden	No retirement plan
Unable to access $2,000	Not saving for college[a]
	Mortgage underwater

[a] Individuals without dependent children are treated as not having a college saving concern.
Source: Authors' methodology.

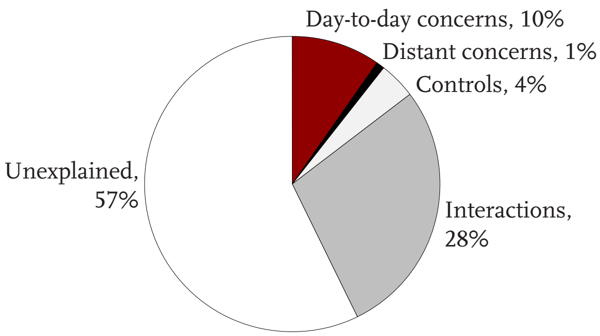
Figure 2 reports the results of the regression, which show the relationship between each variable and financial satisfaction; a coefficient of '1' equals a 1-unit change in a respondent's satisfaction rating. (See the Appendix for full results.) The effects of the day-to-day concerns are considerably larger than those of the distant concerns. Specifically, the coefficients

Figure 2. Impact of Day-to-Day and Distant Concerns on Financial Satisfaction



Note: All results are statistically significant except "no retirement plan" and "mortgage underwater."
Source: Authors' calculations.

Figure 3. Percentage of Variation in Household Satisfaction Explained By Various Factors



Source: Authors' calculations.

for the day-to-day concerns range from 0.6 to 1.4 points, and all of them are statistically significant. In contrast, the largest coefficient for the distant concerns is only 0.5, and two of the five are not statistically significant. These results provide some support for the hypothesis that day-to-day concerns rule the day. However, the size and significance of the coefficients do not fully answer the question because the frequency of day-to-day vs. distant concerns is also important.

Therefore, we conducted a statistical analysis to determine how much of the variation in financial satisfaction is explained by the various factors.[4] As shown in Figure 3, the outcome strongly supports the hypothesis: day-to-day concerns explain 10 percent of the variation compared to just 1 percent for distant concerns.

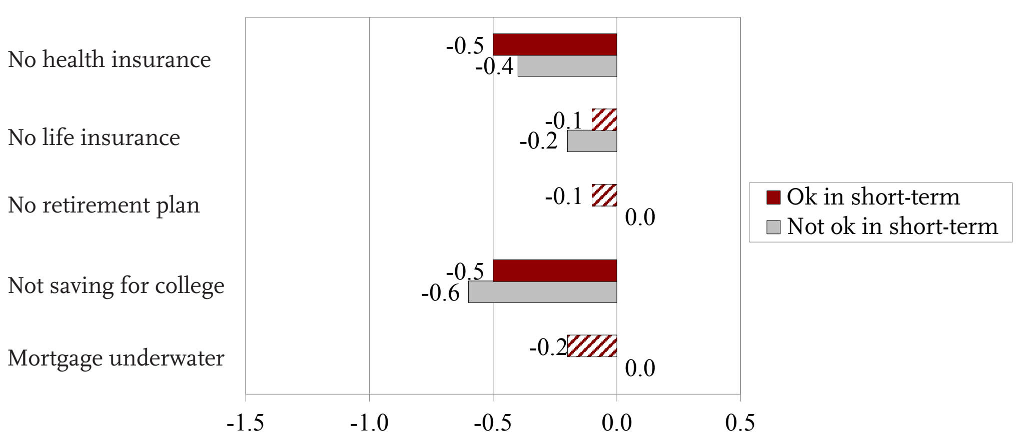
What If Short-Term Finances Are Ok?

While day-to-day concerns appear to have the most influence over financial satisfaction, the situation could differ for households with more stability in their short-term finances. To test this hypothesis, the sample is split between households deemed "ok" or "not ok" in the short term. Households that are "not ok" are those that either have difficulty covering expenses or are unemployed. All other households – roughly half of the sample – are deemed to be ok in the short term.

The same regression equation presented above is then estimated separately on the two sub-samples, producing separate coefficient estimates for each concern for the two groups. The coefficients for distant concerns appear very similar between the two groups, except for "mortgage underwater" (see Figure 4).

A further step is to test whether the differences *between* the effects of the distant concerns on the two groups of households are statistically significant. This exercise compares the coefficients in the two equations for each of the distant concern variables. The result fails to show any statistically significant differences between the "ok" and "not ok" households. Thus, day-to-day worries still appear to trump distant concerns even for households who face fewer pressing financial challenges.

Figure 4. Impact of Distant Concerns on Financial Satisfaction, by Household's Short-Term Financial Status



Note: Solid bars are statistically significant.
Source: Authors' calculations.

What About the Financially Literate?

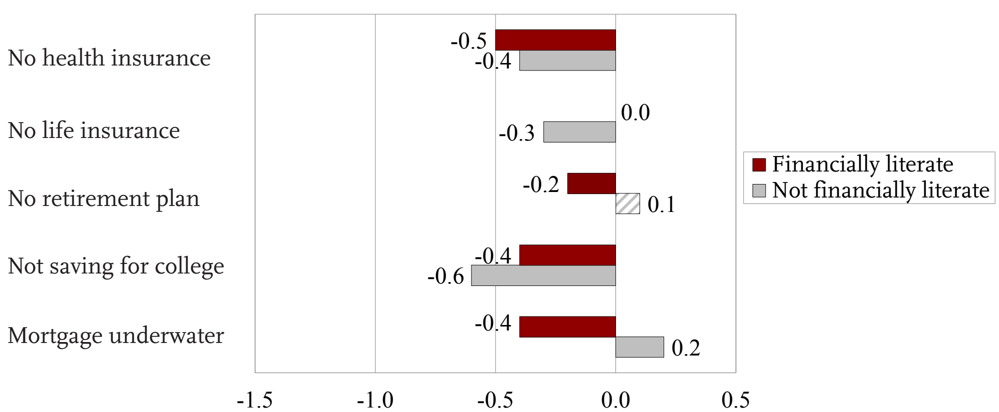
The final analysis tests whether financially literate individuals are more sensitive to distant concerns. Again, this exercise uses a split sample, classifying respondents as financially literate or non-financially literate. Financial literacy is defined as the ability to correctly answer at least four of five financial literacy questions, and this group comprises roughly half the sample.

The coefficient estimates for distant concerns for the two groups are shown in Figure 5. The results for health insurance and college saving look quite similar for the two groups. But the coefficients for the other three variables appear different. Again, a test is used to see whether the differences in the effects on the two types of households are statistically significant. In this case, the test does show statistically significant differences for the life insurance, retirement plan, and "mortgage underwater" variables, but the magnitude of these differences is relatively small – only 0.3 to 0.6 units on the 10-point scale of financial satisfaction. Overall, then, the results show only weak support for the notion that financial literacy will increase households' focus on long-run financial issues.

Conclusion

This study finds that a household's financial satisfaction is intensely present-minded. It is highly correlated with day-to-day financial conditions, with much more muted relationships to distant concerns. Nor does this basic relationship change much if the household's day-to-day finances are in reasonable shape or if the individual making the assessment is financially literate. Thus households, by themselves, cannot be expected to devote much effort to addressing long-term saving goals. These results suggest a need to reduce reliance on individual decisionmaking by making it both easy and automatic for individuals to save.

Figure 5. Impact of Distant Concerns on Financial Satisfaction, by Household's Financial Literacy



Note: Solid bars are statistically significant.
Source: Authors' calculations.

Endnotes

1 FINRA Investor Education Foundation (2012a and 2012b).

2 The reduction in the sample did not result in any significant change in the demographic characteristics of the working-age respondents. Therefore, the analysis used the population weights for the full sample.

3 The study uses Ordinary Least Squares.

4 An ANOVA test is used to determine the extent to which day-to-day concerns, distant concerns, control variables, and interactions between the concerns and controls explain variations in financial satisfaction.

References

FINRA Investor Education Foundation. 2012a. *Financial Capability in the United States*. Washington, DC.

FINRA Investor Education Foundation. 2012b. *2012 National Financial Capability Study: State-By-State Survey Methodology*. Washington, DC.

APPENDIX

Appendix Table 1. Summary Statistics of Factors Affecting Financial Satisfaction

Variable	Mean	Standard deviation	Minimum	Maximum
Difficulty covering expenses	0.6	0.5	0	1
Unemployed	0.1	0.3	0	1
Heavy debt burden	0.4	0.5	0	1
Unable to access $2,000	0.4	0.5	0	1
No health insurance	0.2	0.4	0	1
No life insurance	0.2	0.4	0	1
No retirement plan	0.3	0.4	0	1
Not saving for college	0.3	0.5	0	1
Mortgage underwater	0.1	0.3	0	1
Single	0.2	0.4	0	1
Post-marriage	0.2	0.4	0	1
Not white	0.3	0.4	0	1
At least some college	0.7	0.5	0	1
Risk averse	0.8	0.4	0	1
Did not seek a financial advisor	0.4	0.5	0	1
Financially literate	0.5	0.5	0	1
Unemployment rate	7.4	1.9	0.8	17.7
Household head age 25-34	0.3	0.4	0	1
Household head age 35-44	0.2	0.4	0	1
Household head age 45-54	0.3	0.4	0	1
Household head age 55 or older	0.2	0.4	0	1
Lowest income quartile	0.3	0.4	0	1
Second income quartile	0.3	0.4	0	1
Third income quartile	0.2	0.4	0	1
Highest income quartile	0.2	0.4	0	1

Source: Authors' calculations.

Appendix Table 2. Marginal Impact of Factors Affecting Financial Satisfaction

Variable	Marginal effects
Difficulty covering expenses	-1.4 ***
	[0.1]
Unemployed	-0.6 ***
	[0.1]
Heavy debt burden	-1.2 ***
	[0.1]
Unable to access $2,000	-1.0 ***
	[0.1]
No health insurance	-0.4 ***
	[0.1]
No life insurance	-0.2 **
	[0.1]
No retirement plan	0.0
	[0.1]
Not saving for college	-0.5 ***
	[0.1]
Mortgage underwater	0.0
	[0.1]
Single	-0.3
	[0.1]
Post-marriage	-0.3 ***
	[0.1]
Not white	0.1
	[0.1]
At least some college	-0.0
	[0.1]

Variable	Marginal effects
Risk averse	-1.1 ***
	[0.1]
Did not seek a financial advisor	0.2 ***
	[0.0]
Financially literate	-0.4 ***
	[0.0]
Unemployment rate	0.0
	[0.0]
Age 25-34	0.6 ***
	[0.1]
Age 35-44	0.2 **
	[0.1]
Age 55 or older	0.0
	[0.1]
Lowest income quartile	-0.2 **
	[0.1]
Second income quartile	-0.1 **
	[0.1]
Highest income quartile	0.4 ***
	[0.1]
Constant	8.1 ***
	[0.1]
Observations	10,578
R-squared	0.41

Notes: Standard errors in brackets. * p<0.05, ** p<0.01, *** p<0.001.
Source: Authors' calculations.

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