What is the relationship between habit and saving? Using the self-report habit index (Verplanken and Orbell 2003) and applying it to saving, survey data were collected to (1) validate the role of habits in regular savings; (2) test whether participation in a savings program aids in the formation of savings habits; and (3) examine the role of habits in the perception of financial strain, to measure the effects of habit on a mental construct.

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Accounting for the Role of Habit in Regular Saving
Caezilia Loibl, Ohio State University, USA
David S. Kraybill, Ohio State University, USA
Sara W. DeMay, Ohio State University, USA

EXTENDED ABSTRACT

Conceptualization
What is the relationship between habit and saving? The many public calls for consumers to establishing a habit of saving indicate that it is a desired behavior, but, obviously, a difficult one to achieve. Savings habits are frequently practiced behaviors, done without a particular sense of awareness, with the goal of freeing up funds for saving or debt reduction. Automatically packing lunch for work, browsing supermarket shelves for discounted products, calling friends after 9 p.m. and on weekends when the phone rates are low are thrifty behaviors that appear to be habitual for many. Using the self-report habit index (Verplanken and Orbell 2003) and applying it to saving for the first time, survey data were collected to (1) validate the role of habits in regular savings; (2) test whether participation in a savings program aids in the formation of savings habits; and (3) examine the role of habits in the perception of financial strain.

Method
The treatment group included participants in a federally funded, multi-year savings program that provides incentives for low-income individuals to save toward purchasing a home, financing higher education, or capitalizing a small business. American Dream Demonstrations have documented the exceptional effectiveness of the program, based on mandatory deposits, matched savings, intensive financial education, and regular one-on-one counseling. In spring 2008, a paper survey was distributed to participants in this savings program who had enrolled with a program network in the U.S. Midwest; the response rate was 52% (n=94). The comparison group consisted of low-income individuals in the general population who lived in counties served by the network but who were not savings program participants. Addresses of 2,200 individuals were purchased to collect data by mail survey; the response rate was 15% (n=291). Nearest-neighbor matching without replacement was used to pair comparison group with treatment group observations to account for demographic differences (N=128).

Savings habits were measured with the Self-Report Habit Index (Verplanken and Orbell 2003), which was developed to reflect the different facets of habit, including the frequency, lack of awareness and control, and mental efficiency of behavior (Honkanen, Olsen, and Verplanken 2005). It compared well to other published measures of habit (Verplanken, Myrbakk, and Rudi 2004) and has been proved useful for a diverse number of common behaviors. The present study contributes to this literature by measuring habit formation during a behavioral intervention and applied to financial behaviors.

Major Findings
To validate the discriminant validity of the habit concept, the individual volume of savings deposits was regressed on attitude, subjective norm, perceived control and intention, past deposit frequency, and habit. Habit emerged as a significant predictor of savings deposits, confirming its role as an independent factor in explaining saving.

To examine the influence of program participation on habit formation, the length of participation was divided into six-month intervals. Compared to non-participants, the savings habit of program participants increased over time, peaked at 19-24 months, and then flattened. There was no difference in savings habit between non-participants and new enrollees, thus supporting successful habit formation during savings program participation.

While habit tends to be associated with overt behavior, the habit literature notes its influence on mental processes (Verplanken 2006; Verplanken et al. 2007). Results of hierarchical regression analysis support the independent role of habit for reducing the perception of financial strain above the influence of household income and savings. This analysis parallels findings on the influence of mental habits on self-esteem (Hilton and Devall 1997).

Study findings document the role of habit for regular saving and the success of targeted educational and behavioral interventions on developing savings habits.

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