The Fewer, the Better: Number of Goals and Savings Behavior

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Contrary to common belief, we demonstrate that a single savings goal leads to greater savings and savings intention than multiple goals due to the implementation intention evoked by the single goal. This effect is attenuated when the saving is easier to implement or multiple goals involve little competition among themselves.

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state that they don’t want to recycle is taken as an intention to recycle, the recycling truck may end up making a lot of wasted trips to pick up recyclables that never materialize.

Fourth, opt-out choices are often legally or ethically unacceptable. For instance, in a retirement saving context, we might want employees to sign up for “auto escalation” to boost their contributions by a percentage point or so a year or sign up for a supplementary retirement account (Thaler and Benartzi 2004), but it is illegal to auto-enroll employees in auto escalation plans.

Fifth, opt-out policies can be counterproductive if those who implement them view them as a substitute for other interventions, such as educational programs that give people the information they need to make an informed choice.

Finally, employers may not adopt automatic enrollment because they don’t want to assume the burden of responsibility for planning for their employees. They may fear, to some extent rightfully, that some employees may interpret defaults as implicit advice (McKenzie, Liersch, and Finkelstein 2006) and may be upset with their employer during market downturns.

**Active Choice: Avoiding the Problems Associated with Opt-Out**

Three studies, two on organ donation (Spital 1993, 1995) and one on retirement planning (Carroll et al. 2009) attempt to achieve the same basic goal as opt-out – of ensuring that people who would benefit from an intervention, receive it – without the disadvantages of opt-out. Instead of waiting for people to opt-in, Spital (1993, 1995) found support in public opinion surveys for the idea of forcing people to choose whether they want to or don’t want to donate their organs. Sixty three percent of a random sample of 1000 adults in the United States said they would support mandatory choice (Spital 1993).

In an observational study, Carroll and colleagues (2009) measured the impact on savings plan enrollment in a firm that required all new employees to explicitly choose between enrolling and not enrolling in a 401(k) plan. The language (I want to enroll vs. I don’t want to enroll) was deliberately designed to not advantage any one option (Carroll et al. 2009). The result was a 28% increase in enrollment in the “Active Decision” condition compared to when employees opted-in.

Building on the research by Carroll et al. (2009) and Spital (1993; 1995) we advance the concept of forced choice by testing four important enhancements. Taking advantage of the opportunities afforded by a controlled study, we control for additional enrollment materials such as one-on-one coaching from human resources and other enrollment prompts such as reminders.

Second, we provide conceptual and empirical evidence for the cognitive processes that make Active Choice effective. We predict greater regret aversion for the new opportunity expressed as a forced choice than as a default.

Third, we examine a modified approach that we call ‘Enhanced Active Choice’ that advantages the option preferred by the communicator by highlighting losses incumbent in the non-preferred alternative. For example, Enhanced Active Choice might reframe the alternatives as a choice between: “I want to enroll in a 401(k) plan and take advantage of the employer match” versus “I don’t want to enroll in a 401(k) plan and don’t want to take advantage of the employer match.” We believe dislike for the non-preferred alternative will be more marked when the costs of non-compliance are highlighted in the choice format.

In sum, our main hypotheses are (H1) that Active Choice (‘un-enhanced’ or basic and ‘enhanced’) will result in more compliance than opt-in non-enrollment defaults, and (H2) that Enhanced Active Choice will result in more compliance than basic Active Choice. We test these hypotheses in four studies involving three different decision tasks: intention to get a flu shot (study 1), desire to get a flu shot reminder (study 2), and enrollment and disenrollment in a prescription drug refill program (studies 3 and 4).

**The Fewer the Better: Number of Goals and Savings Behavior**

**EXTENDED ABSTRACT**

Goals play an important role in different aspects of consumer life such as risk-taking behavior (Atkinson 1957) or spending and savings behavior (Shefrin and Thaler 1988; Soman and Cheema 2004). Prior research suggests that multiple goals lead to greater performance (Locke and Latham 1990), or that the greater the number of means to pursue a goal, the more likely is one to pursue on that goal (Kruglanski et al. 2002). Drawing on research on implementation mindset (Gollwitzer 1999), we make the opposite prediction and argue that presenting a single savings goal (e.g., saving for children’s education) leads to higher saving achievement than presenting multiple savings goals (e.g., saving for children’s education, retirement and future housing).

Researchers on implementation intention have studied different stages that individuals go through when they make goal-related decisions (Gollwitzer 1999; Gollwitzer and Bayer 1999): an initial stage with a deliberative mindset, in which individuals are uncertain about their goals and seek to define a desired outcome by considering the tradeoffs between the goals; and a subsequent stage with an implemental mindset in which individuals have already established the goal they wish to pursue and are considering when, where, and how to attain the goal. This stream of research has demonstrated that forming implementation intentions leads to more successful goal attainment than merely forming a goal.

While implemental mindsets can be induced in different ways such as instructing people to think about the how (vs. the why) or simply asking people to consider which of a number of alternative products they would prefer(Xu and Wyer 2007, 2008), we propose that presenting consumers with a single goal can also help evoke an implementation intention compared with multiple goals because multiple goals evoke tradeoffs consideration among goals which hinders people from translating the savings goals into action. However, when people only have one goal, they no longer need to make goal trade-offs and are more likely to move onto the second stage of the goal pursuit -- a position to think about implementing the goal. As a result, their commitment with the task at hand (i.e., saving) will be stronger and their savings intention will be higher. Further, based on prior research that implementation intention has its greatest benefits in complex and difficult situations (Gollwitzer 1999; Gollwitzer and Brandstatter 1997), we also expect that the advantage of a single savings goal over multiple savings goal on consumer saving will be attenuated when the goal is easy to implement.

We conducted four studies to test our hypotheses. In study 1 (n=83) which was conducted in a small town in India with local farmers and workers in a financial literacy program, we either told participants to save more to finance their children’s education or to save more to finance their children’s, any healthcare needs they might have, and to provide a nest-egg for when they retire. Participants in the control condition were given no specific goals at all. The results showed that single goal led to higher savings rate over the next 6 months than multiple goals, followed by no specific goal at all.
In study 2 (n=194), participants in an executive skills were introduced to a hypothetical savings program that required them to deposit a minimum of $300 each month for 10 years to be invested in bonds and government securities. Participants in the difficult-to-save conditions were told that they have a monthly discretionary amount of $400 after paying for the essential monthly expenses, whereas participants in the easy-to-save conditions were told to have a monthly discretionary amount of $1200. Further, in the single goal conditions, participants were reminded that they should start thinking about providing for their children’s future education. In the multiple-goal conditions, more goals were reminded (i.e., children’s future education, housing expenses, retirement savings and other slush funds for emergencies). The results showed that when it was difficult to save, single goal led to higher savings intention than multiple goals; however, when it was easy to save, the advantage of single goal was attenuated. We also measured participants’ implementation mindset, and found its mediation role in the aforementioned results.

In study 3 (n=156), rather than measuring participants’ implementation mindset, we manipulated their mindset based on the same scenario as in study 2. We again found that single goal led to greater savings intention than multiple goals when participants didn’t receive any mindset manipulation or when they received a goal intention manipulation. However, when participants received implementation intention manipulation, multiple goals led to equally high savings intention as single goal. This further confirmed implementation intention as the underlying process for the advantage of single goal over multiple goals.

Because our key premise is that multiple goals evoke trade-off consideration among the goals and thus hinder people from moving into an implemental mindset, we believe that if the competition among the multiple goals and thus the trade-off is removed, the effect of single goal over multiple goals will be attenuated. In study 4 (n=274) where we used non-competing goals (i.e., saving for future wellbeing such as peace of mind, flexibility, and independence), we indeed found that a single goal (i.e., saving for future wellbeing such as peace of mind) no longer led to higher savings intention than multiple goals, further confirming that the disadvantage of multiple goals was due to the hurdle to the implemental mindset.

Our work adds to research on financial decision making by demonstrating a new way to increase savings behaviour/intention — limiting the number of savings goals to evoke an implementation mindset. Our findings have important implications to the goal literature, literature on attitude change (e.g., number of argument; Petty and Cacioppo 1984), and to policy-makers in encouraging consumer saving.

**On Assets and Debt in the Psychology of Perceived Wealth**

**EXTENDED ABSTRACT**

Perceptions of wealth are central to economic behavior and feelings of well-being. To date, research on wealth perception has mostly focused on relative wealth, namely, how well off people are when compared to those around them (e.g. Frank 1999, 2007), and on conspicuous consumption, whereby people purchase visible status items to signal wealth (e.g. Heffetz 2010; Veblen 1899).

While these perspectives are important, they focus on features that, at best, act as correlates of wealth. People are influenced by the perceived wealth of others, but that, of course, does not fully correspond their actual wealth. Nor do the social motivations to impress others through financial extravagances. While important, these perspectives do not provide insight into a person’s sentiments about her actual wealth. In contrast, the present studies look at wealth perception as it is influenced by factors directly related to wealth, namely, people’s assets and debt. We explore how these factors shape perceptions of wealth, both one’s own and others’, as well as the willingness to engage in important financial transactions, including borrowing, lending, and spending, that emanate from such perceived wealth.

We first examine how full knowledge of total assets and debt enters into the perception of wealth. We find that keeping total net worth constant, people with positive net worth are seen as wealthier when they have lower debt (despite, consequently, having lower assets). In contrast, keeping total net worth constant, those with negative net worth are considered wealthier when they have greater assets (and, consequently, greater debt). Across a series of studies, we find that, when judging the wealth of people with equal positive net worth, approximately three-quarters of participants view those with lower debt and lower assets to be in a better financial position than those with higher debt and correspondingly higher assets. In contrast, when judging the wealth of people with equal negative net worth, approximately three-quarters of participants viewed those with higher debt and higher assets as in a better financial position than those with lower debt and correspondingly lower assets.

We show this pattern to be robust to possible interpretations that appeal to liquidity constraints or to computational demands, and we find that it applies to participants’ judgments both about themselves and about others. We also extend the findings to contexts where they yield counter-normative judgments, in which the perceptions described above persist when net worth differs by approximately 20% (e.g., where a person of $10,000 net worth but lower debt is perceived as wealthier than a person of $12,000 net worth but greater debt).

In follow-up studies, we extend these findings to several financial decisions, including reported willingness to borrow, lend, and spend. Specifically, we demonstrate that people with the preferred wealth distributions are more likely to take on additional debt, and that others are more likely to evaluate them as in a better position to borrow money. Furthermore, those with preferred wealth profiles (although equal or lower actual wealth) are willing to spend more to purchase luxury items.

To explain these results, we test the hypothesis of an attentional shift when subjects confront positive versus negative net worth scenarios. We first show a positive correlation between asset balances and perceived wealth for those with equal negative net worth ($r = .73, p = .017$), and an asymmetric negative correlation between asset balances and perceived wealth for those with equal positive net worth ($r = -.91, p < .001$). We then provide more direct evidence that in the positive net worth scenario, debt (rather than assets) draws subjects’ attention, by coding participants’ initial reactions to financial profiles. The burden of holding debt stands out as a salient negative relative to one’s overall positive state, disproportionately affecting perception. Conversely, in negative net worth scenarios, the possession of assets attracts more attention as it stands out against one’s overall negative state.

We discuss how the findings go beyond a prospect theoretic account, and we explore how they can be used to explain why some individuals are debt averse, avoiding financially wise low interest loans, while others are debt seeking, taking on economically questionable high interest loans. Finally, we consider several policy implications, with an emphasis on the consequences for borrowing among the poor.

Interestingly, the same general impulse for financial wealth and stability can trigger opposing behaviors: a striving for greater assets despite larger debt in some circumstances, and for lower debt, even