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ONE HUNDRED DOLLARS NOW OR A HALF MILLION DOLLARS LATER?

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Introduction

Most people do not think about retirement savings early enough and miss years of compound interest earnings (Figure 1). The prospect of millions of seniors living well below the poverty level is not ideal. The purpose of our study is to determine if different methods of envisioning the future can prompt millennials to increase their savings early in life.

Methodology

Study 1:

- Subjects: 71 students enrolled in a Personal Finance course at Augustana College.
- Manipulation: Subjects were randomly assigned students to either backcasting or forecasting mindset based upon survey questions conducted by Berts and Wilson from 2009.
- Dependent Variable: An investment question offering them options to be paid now or save a portion of their payment for two weeks and receive a higher return. The students were compensated for their participation for at least $2.
- Reception: Half of the students were randomly assigned to either backcasting or forecasting mindset.

Study 2:

- Subjects: 41 random students walking by the College coffee lounge.
- Manipulation: Half of the students were randomly assigned to either backcasting or forecasting mindset.

Results & Discussion

Study 1: Out of 71 participants, 7 were removed for not coming back for the second survey.

Manipulation Check: Five common questions following the manipulation questions were used as a manipulation check. Paired-sample t-tests were conducted and we found that two questions showed significant differences between backcasters and forecasting mindset

Hypothesis Tests: T-tests indicate no significant difference in mean current payment between backcasters and forecasters. Similarly, there was not a significant difference between two conditions in the second round of surveys. We also did not find any significant difference in the course sample between week 1 and week 2.

Discussion: We considered possible three possible factors that may have resulted in our results. One, because the class was primarily business majors, they may have been more conscious of quantitative decision.

Study 2:

Manipulation Check: We found a significant difference between mean amount people receive between the two conditions in the percentage sample, percentage backcast (M=1.2, SD=.42), percentage forecast (M=1.6, SD=.52), t(18)=1.89, p=.074. It shows that our manipulation was partially successful.

Hypothesis Tests: There was no significant difference in the mean amount subjects wanted to receive now between the dollar value sample and the course sample in the first week. However, we did notice more variation in the money received now between the dollar lounge group and the percentage lounge group. For dollar sample (M=1.26, SD=.43), and for percentage sample (M=1.4, SD=.50). Although this is not a significant difference.

Conclusions

Our initial experiments provide some initial support for the importance of envisioning a future scenario in the willingness to make a current sacrifice for some future gain. Future research will explore using videos to produce stronger manipulations, incorporating some level of risk for the future return, and sampling a diverse group of millennials.

References


Figure 1. Distribution of Retirement Savings Amounts among Households Age 55-64

Figure 2 & 3. Backcasting vs Forecasting visual example

Figure 4. Mean difference of the amount of money people receive now

Figure 5. Mean difference between backcasting and forecasting

The research funding was generously provided by Augustana College. We thank Dr. Norling for letting us collecting data from his course.