ONE HUNDRED DOLLARS NOW OR A HALF MILLION DOLLARS LATER?

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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 to either backcasting or forecasting mindset based upon survey questions conducted by Bort et al. in 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.

Study 2:
Subjects: 41 students walking by the college coffee lounge.
Manipulation: Half of the students were randomly assigned to either backcasting or forecasting mindset.
Dependent Variable: Similar to Study 1 for 20 of the subjects. For the remaining 20, we expressed the investment question amount into the percentage they will earn ("Receive 1 now and earn 150% interest per week") compared to the number of dollars ("Receive 1 now and 3 later"). This group was only surveyed once, but they had to return to the coffee lounge the following week to receive the rest of their payment.

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 show significant differences between backcasting and forecasting mindsets: Question 9 ("How do you feel about the results of the previous term at school?") and Question 11 ("How would you rate your performance in school by far?"). This provides a weak indication of a successful manipulation.
Hypothesis Tests: T-tests indicate no significant difference in mean current age (t(39) = 1.58, p = .126), 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 = 1.2, SD = .50), t(20) = 1.58, p = .126, and for percentage sample (M = 1.4, SD = .50). Although this is not a significant difference, t(39) = 1.98, p = .054, given our small lounge sample size (20 people each sample group), we feel this is a path to pursue in future research.

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 (see Figure 4).
Hypothesis Tests: There was no significant difference in the mean amount subjects wanted to receive now between the dollar value lounge sample and the course sample in the first week. However, we did notice more variability 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, t(39) = 1.98, p = .054, given our small lounge sample size (20 people each sample group), we feel this is a path to pursue in future research.

Discussion:
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. Hopefully, this stream of research will enable marketers of financial savings and investment products to develop impactful marketing campaigns to reach young investors before it is too late.

Conclusion

Our 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. Hopefully, this stream of research will enable marketers of financial savings and investment products to develop impactful marketing campaigns to reach young investors before it is too late.

References

Figure 1. Distribution of Retirement Savings Amounts among Households Age 55-64. GAO analysis of 2013 Survey of Consumer Finances (SCF) data. (GAO-15-519)
Figure 2. Mean difference of the amount of money people receive now and in the future payment. Because these factors more closely replicate the real world of retirement planning, we will continue to pursue similar samples in future research.

Figure 4. Mean difference of the amount of money people receive now and in the future payment. Because these factors more closely replicate the real world of retirement planning, we will continue to pursue similar samples in future research.