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Exploring the Generational Cohort's saving and spending towards Propensity to Invest

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Abstract

The generational cohort's propensity to invest was analyzed concerning their savings activities and spending patterns to explore what, how, why, and to what extent they differ in the context of savings and spending. The in-depth interview was used in the qualitative research with emphasis on generating data to establish how they balance savings and spending, leading to their motivation to invest. The Baby Boomers consider savings and spending a state of mind and a choice. Generation X perceives savings and spending as a context of time and space, and Generation Y views savings and spending as concerning self-interests. Further, interviewees from the cohorts agree that savings primarily have money in a bank, and spending is generally characterized as prioritizing needs over wants.

Moreover, the cohorts interpret the balance of savings and spending as an utmost mechanism to increase funds for contingency and support for future needs. The anticipated future use did not necessarily lead to their propensity to invest. Findings revealed that their willingness to invest depends on their capacity to properly allocate resources by monitoring their savings activities and spending patterns. The probability of engaging in investments is *relative to having a large amount of money that can be set aside. The urgency to focus their effort on saving is not primordial. Some Baby Boomers and Generation X will not consider investing due to the associated risks of investments. Generation Y's self-concept is paramount in saving and spending, resulting in less likelihood of engaging in investments. This is exacerbated by the pandemic, affecting their savings and spending.*

Keywords: *Generational cohort, savings, spending, propensity to invest*

Introduction

The generational cohorts have been studied across various topics and disciplines, but none so far probed the relationship between the generation's behavioral differences and financial behavior (Sulphey & Faisal, 2020). Behavioral differences are a theme among scholars' and experts' conversations, particularly in the financial industry, as a factor in determining how financially literate an individual is relative to making rational and well-informed financial decisions. Valcanover, Sonza, and De Silva (2020) cited Tversky and Kahneman (1974), who claim that the individual's decision-making process in uncertain situations is affected by heuristics and cognitive biases.

Financial literacy considers a person's source of income and how to effectively use, spend, and make reliable savings and investment decisions (Ates et al. 2016). As a critical life skill, it can enhance the individual's well-being, uplift living standards, and generate the best financial choices. This comes with awareness, knowledge, skills, attitude, and behavior towards income resources and expenditures (Hussain & Sajjad, 2016). Essentially, making wise financial decisions protects from economic shocks and associated risks (Philippas & Avdoulas, 2019). Yuesti et al. (2020) suggest that financial literacy can help in income management and money decisions in demanding living and working situations (Ates et al., 2016). From this perspective, the question is: "Can the balance of savings activities and spending patterns affect the generational cohorts' propensity to invest?"

Review of Related Literature

The *Generational Cohort Theory* explains that a generation of individuals shares a distinctive set of values, beliefs, attitudes, and behaviors that are formed by significant social, political, and economic events that occurred during the early stage of their life cycle (i.e., childhood, adolescence, and/or early adulthood) (Inglehart, 1977). Each cohort is unique in their perspective towards life molded by critical events they have experienced. In the study, the generational cohorts are clustered according to their birth years: Boomers, 1946 to 1964 (ages 55-73), Gen X, 1961- 1979 (ages 39-54), and Gen Y or the Millennials, 1980 to 2002 (ages 23-38) (Dimock, 2019). Lyon et al. (2005) claim that the notion of 'generation' as a way of understanding differences between age groups is widespread in society. Members of a generation are linked through shared life experiences which create a tying bond with members in what has been termed 'cohorts. They are a cohesive group born during the same period and experienced similar events. During their formative years, the economy, technology, world events, cultural norms, and mores shaped their point of view (Chun, 2016)

Each generational cohort has some common general characteristics (Smith, 2020). Anastasia et al. (2019) found that Baby Boomers were born when the economy started developing. They enjoy tinkering, are highly idealistic, individualistic, career-oriented, value instant gratification, and tend to reject authority (Sandeen, 2008). As they approach retirement, their financial risk tolerance of wealth accumulation, financial market participation, and economic behavior is essential to learn and gather data or information (Riley & Chow, 1992; Barsky et al., 1997). Baby Boomers give their quality of life a lower rating than adults in other generations. They are likely to worry that their incomes will not keep up with inflation, even though this generation enjoys the highest income of any age group, according to the Pew Research Center Social and Demographic Trends (2008). They are also more likely than younger or older adults to own stocks or bonds and to have retirement accounts. Barnier (2021) said they are still economically powerful and are known to be among the wealthiest generations despite their age. Compared to other cohorts, Baby Boomers have low investment decisions, financial literacy, and locus of control (Putri & Simanjuntak, 2020). Also, most of them are not aware and knowledgeable of credit and debit cards.

Another cohort, Generation X, experienced various economic downturns and financial crises that made them very financially conscious. Bhadade et al. (2020) consider them a very skeptical generation who are significantly different in spending money, making investments, and making payments. Regards Generation Y, also known as millennials, echo boomers, internet generation, iGen, and net generation (Tyagi et al., 2019), their early and regular exposure to technology is a primary formative trait in their cognitive, emotional, and social outcomes (Killins, 2017). Dewi et al. (2020) describe them as creative, goal-setters, and risk-takers who are always looking for new possibilities. GenY is not interested enough to spend time and resources learning financial literacy. Most millennials use the internet as their source of financial knowledge (Gill et al., 2020).

Rosdiana (2020) argues that there are still many other factors to be explored about financial behavior and investment decisions. The financial behavior of individuals prone to over-consumption resulted in various irresponsible financial practices resulting in the inability to handle personal finance decisions and prevent financial problems (Sugiantara et al., 2020). Komara et al. (2019) found that low financial literacy reduces the ability to make informed decisions on short-or-long-term financial decisions. Sugiantara et al. (2020) propose that financial literacy be used to increase awareness of the risks received from each financial instrument, thereby boosting prosperity and welfare. According to this research, financial knowledge, as well as financial attitude and behavior, significantly influences the investment choice of Millennials.

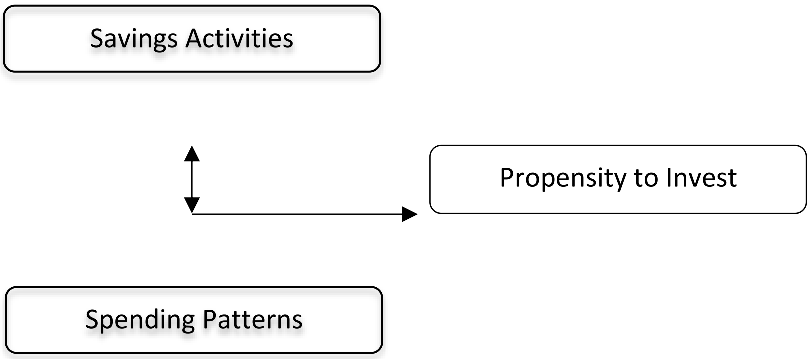
Behavioral finance is interdisciplinary (Altsani et al., 2018) and is affected by psychology, sociology, and finance. People who exhibit responsible financial behavior tend to use money effectively, such as making money, managing and controlling expenses, and investing promptly (Altsani et al., 2018). Financial behavior can be regarded as an essential part of financial well-being linked to personal financial management at the individual level (i.e., financial planning, management, and control) (Herawati et al., 2018). Herawati et al. (2018) found an association between socioeconomic status and financial behavior. As such, one's confidence in their financial capacity can influence how one behaves (Herawati et al., 2018). Also, saving, spending, debt, and positively investing affect financial behavior, and financial behavior positively affects decision-making (Sudindra, 2018).

Framework

This study intends to understand the differences among the generational cohorts in terms of their savings and spending preferences as a manifestation of their financial literacy and consequent financial behavior. The literature review contextualized the cohort has perceived savings and spending as well as their propensity to invest in establishing how, whether and to what extent savings and spending differ among them. The research proposition, "Can the balance of savings activities and spending patterns affect the generational cohorts' propensity to invest?" was explored. Figure 1 illustrates the variables included in the interaction of the savings activities and spending patterns leading to the generational cohort's propensity to invest.

Figure 1

Conceptual Framework



Methodology

The qualitative research design using the in-depth interview technique was conducted. The population of the study consists of the working class from the Baby Boomers (18), Generation X (12), and Generation Y (23). They are assumed to have income associated with savings and spending, leading to a propensity to invest. During the pandemic, the data collection process was done last November 5 to 19, 2021. Researchers personally approached the qualified participants via online appointments for the interview. Their convenient time availability and access to the virtual platform were noted. Upon their consent, the online interview lasted about 30 minutes. Queries on what saving, spending, and investing are and how and when they save and spend were included. They were asked to compare their saving, spending, and investing activities at the time *before* and *during* the Covid19. Also, the factors affecting their willingness and decision to invest were asked. In the transcript, thematic analysis was done following manual coding stages. First, read and develop a thread of keynotes. Second, reviewing the generated data. Third, analyze and identify compatible data according to keynotes or themes. Lastly, finalize the data and write the report to present the interpretation of the findings.

Discussion of Results

The Baby Boomers have equated savings as a "*pag-iipon*" which means putting money in the bank, while "*pagtitipid*" means setting aside a portion of their salary or income for emergent situations use. 10 of 12 chose to have money in the bank, and 7 of 12 set aside from salary or income as a form of savings and 5 of them use their savings for future use and emergency. People tend to save money in the bank because of the low risk, perhaps immediately withdrawing when needed. Gen X views savings as money from salary, income, or investment aside despite expenses for emergent situations and retirement. Gen Y defined savings as "money left after expenses" used for security in the event of uncertainties. Alternatively, spending money on necessities. Savings are usually sourced from money in banks, income, e-wallets, and investments. Their savings are intended for emergencies, travels, pleasure, and future use. Investments are perceived to lead to the possibility of loss but saving money in a bank offers security yet at a low return.

Spending has been associated with consumption as a state of mind (Rosdiana, 2020). Baby Boomers associate spending with a choice to prioritize needs or wants, such as money to buy goods and services and pay bills. Spending is for having groceries, medication, utilities, children's education, and other necessities. Their criteria for spending include priority for needs over wants, durable, cheap, and quality goods and services depending on daily needs or occasional reasons. For Gen X, spending is exchanging money for goods and services bought for personal needs and/or wants, including everyday expenses and purchasing items that will bring satisfaction in the long run. They spend after researching and evaluating alternatives to match the criteria for spending, including necessity, price, quality, and durability. For Gen Y, who grew up in an era of consumerism (Gill, Li & Matovu, 2020), spending is equated to expenses for buying, paying, and "*walwal*" (slang for easy-go-lucky lifestyle). Gen Y said they opt to spend to sustain daily living and business operations, to support family and themselves, for wants and payables, and for goods and services. Significantly, 11 out of 23 Gen Y interviewees claim they spend on necessities based on their needs. Their spending criteria include satisfaction regarding wants, quality, durability, and low cost.

Everyone can benefit from setting and keeping a budget, regardless of their financial situation or generation (Fay, 2020). They would feel in control of their finances when they have a budget. In order to track this budget, the Baby Boomers said that they prefer to make a list of what to buy and pay every month, write it down in a notebook after spending, upload spending details in the family chatroom, and scan official receipts. Some even use their bookkeeping system to keep track of expenses aside from keeping notes ad planning before spending. When Baby Boomers were asked about the association between savings and spending, they captured five essential comparisons: how much money left versus how much money for shopping; categorizing money received versus money spent; money in bank versus money withdrawal; monthly salary versus bank account for spending; and set aside monthly budget versus the use of extra money. For Gen X, savings and spending were associated with inflow and outflow income, savings versus expenditures, and income versus expenses. They said planning for spending or saving every month or week and categorizing expenses could aid in tracking finances. Baby Boomers claim that balancing spending and savings is difficult as there are obligations to prioritize, resulting in debts. They said that unbalanced savings and spending lead to unfavorable outcomes. For monitoring purposes, Gen X use notebook, monthly bills, receipts, passbook, bank statement, checking account statement, and Microsoft excel in monitoring spending and savings. They agree that taking notes and keeping a record of everyday and monthly expenses enable them to balance their savings and spending. Gen Y agrees that balanced saving and spending avoids fund shortages or debts. It is knowing limitations and minimizing expenses to reach financial goals. Gen X contends that spending overlaps savings is costly financial trouble. Otherwise, there is stability. For Gen Y, the connection between spending and savings is evident in payables and in how much money was held against how much money was used. They observed that the urgency to save money manifests when the budget is tight. The scarcity made them propose only to spend when needed as it is uncommon to save.

Gen Y adds that they keep notes and receipts, budget and plan in excel file, do online banking, manual listing or mental tracking and save according to schedule to monitor how they can balance their spending and savings. They track their expenses more sensibly and are likely to stick to fixed budgeting compared to Baby Boomers (Weiss, 2016). Although the cohorts have varied spending patterns, they similarly use taking down notes as a monitoring technique. Tracking savings and spending enable them to spend freely while avoiding debt and guarantees that finances are in order and that they are living within their means (Klein, 2014). The least preferred monitoring technique is keeping receipts. Solutions (2021) suggest that when one receives a receipt, it has to be saved until one can match it with their budget and record it to avoid a budget blowout. All cohorts agree that the negative consequence of spending and savings is financial difficulty, while the balance in spending and savings builds up resources for future utility.

With the advent of the pandemic, fears of shortage, lack of sovereignty, anxiety aggravation, and panic buying characterized society. Individuals responded to risks by purchasing essentials to deal with the crisis. The Baby Boomers claim that being aware of one's spending habits and creating savings goals is a focal point resulting in a positive effect. For Gen X and Gen Y, the element of an unforeseen contingency weakens their spending and savings. Pressure is placed on the self-interest in attaining a balance in their financial lifestyle. Gen X mentions the loss of enjoyment, while Gen Y is concerned with being disciplined and reaching set goals.

Further, Baby Boomers saved much money during Covid-19 while still making money. Gen X saved money and could cover basic needs due to less budgeting. Some are less fortunate, so they spend their time searching for cheaper needs and wants. Based on their spending patterns, their financial habits do not limit their actions. They save money for medication, groceries, and bills. Also, they spoil their friends and family when they deserve it. During Covid19, businesses were closed, earning no sales or profit. Income was inadequate due to increased production costs and reduced savings. However, based on their spending habits, they only buy necessities. As for Gen X, they have not been focused on saving money due to various expenses such as children's allowance, tuition fees, etc. Their spending patterns make them less motivated to spend more since they prioritize monthly payments, groceries, and children's tuition costs. The least they do is control their finances, and they did relatively well. During Covid19, they store money for emergencies despite the tough spending on daily consumption.

According to an interviewee from the Baby Boomers, they have some investment knowledge associated with the source of income and profit for allocation. For Gen X, investment is money in financial institutions, buying property to augment income, and saving for the long term for cash to grow with an expected return. Gen Y views investments as savings and a tool to grow the network. Regarding their motivation for investments, Baby Boomers cited micro-finance, business, government, cooperatives, insurance and mutual funds, but most have not been engaged in such investment venues. They explained that having emergency funds, possible gain, and more savings, and the influence of trusted persons, family, and friends can engage them if allowed to invest.

Conversely, others say they are not encouraged nor feel motivated to invest because of scams. Next, some of Gen X have investments such as insurance and stocks. Generally, they are motivated to invest for the expected profit or income, future funds for the family, and security for health expenses. In addition, some Gen Y have engaged in short-term investments in exchange for returns. In contrast, for Gen X, basic investment knowledge was not considered important enough for them to use the information as motivation to invest.

The interview included a question using the scale of one being the highest and five as the least for their willingness to invest. Baby Boomers' willingness to invest falls under the mean of 3, their view of risky investment can explain this, and they lack extra money. Few consider the investment to support future expenditures and generate earnings for future use. Gen X is willing to invest in the family's emergency budget and future expenditures. However, they are unwilling to invest due to a lack of money and investment risks. Only one from Gen Y gave a score of 5 on the scale. This can be interpreted to mean that the likelihood to invest is for assurance of gain for future needs. Those who scored 4 and 5 are afraid of encountering risks and have no money to invest. Individuals with a favorable view of an investment will eventually have a high motivation to invest, but their willingness to invest would be greater if they see investment as a platform from which they can generate money. Investment is viewed as an avenue to make money. However, investment decisions differ for each generational cohort relative to their knowledge, exposure, and investment experience.

Conclusions

Amid the pandemic, the financial crisis in the different sectors of society was a pressing concern necessitating an appropriate response. As the Generational Cohorts were beset with financial challenges, they claim that the urgency to balance their savings activities and spending patterns is paramount to keep them afloat. This can be done by tracking and monitoring items they need to prioritize while setting aside their wants. Spending within their means is considered a deliberate act of subsistence, while safekeeping money in the bank as savings can increase their funds for contingency and as support for future needs. Despite the weak propensity to invest, balancing savings and spending were intended to secure sufficient money for anticipated contingent situations and assurance of a source of funds when the need arises. Their motivation to heighten their capacity to allocate their resources is more significant than their effort in investments. The Baby Boomers and Generation X are adamant about participating in ventures associated with risks, and Gen Y's self-concept makes them less concerned with investments. Further, the study's findings confirm that the cohorts' savings and spending can impact business regarding reduced consumption. Also, the Generational Cohort perceived monetary management is less likely to contribute to economic growth.

Limitations and Recommendations for Future Research

Future research can use quantitative techniques to measure the parameters of savings activities and spending patterns to elucidate variables that significantly differ for the three generational cohorts. Moreover, the crux of savings and spending among the cohorts contextualized in times of crisis or contingent situations relative to the association between financial literacy and financial behavior is worthy of further exploration.

In line with the findings and conclusion, the researchers highly encourage the business sector to create value propositions targeting the cohort’s increased consumption of goods and services. Moreover, financial institutions can develop portfolios relevant to the Generational Cohorts' interests to invigorate Gen Y's intent to invest and to stimulate the Baby Boomers and Gen X to invest in improving the country's economy.

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