



Sheridan



Understanding Varying Investment in Education Savings Plans: A Psychological Perspective

Key Takeaways

1

Optimism predicts the degree to which a person chooses to invest generally. Messaging that emphasizes the value of the future, and the expectation that improvement can be achieved can encourage people to invest.

2

Optimism also predicts belief in the value of post-secondary education. If you wish to encourage people to invest in education, cultivating an optimistic atmosphere will encourage them to see post-secondary education as a wise investment for their families.

3

The tendency to attempt to get the most out of life, or: maximizing predicts the extent to which people believe post-secondary education is a valuable investment. The common belief in the value of post-secondary education is still a strong force motivating people to invest.

4

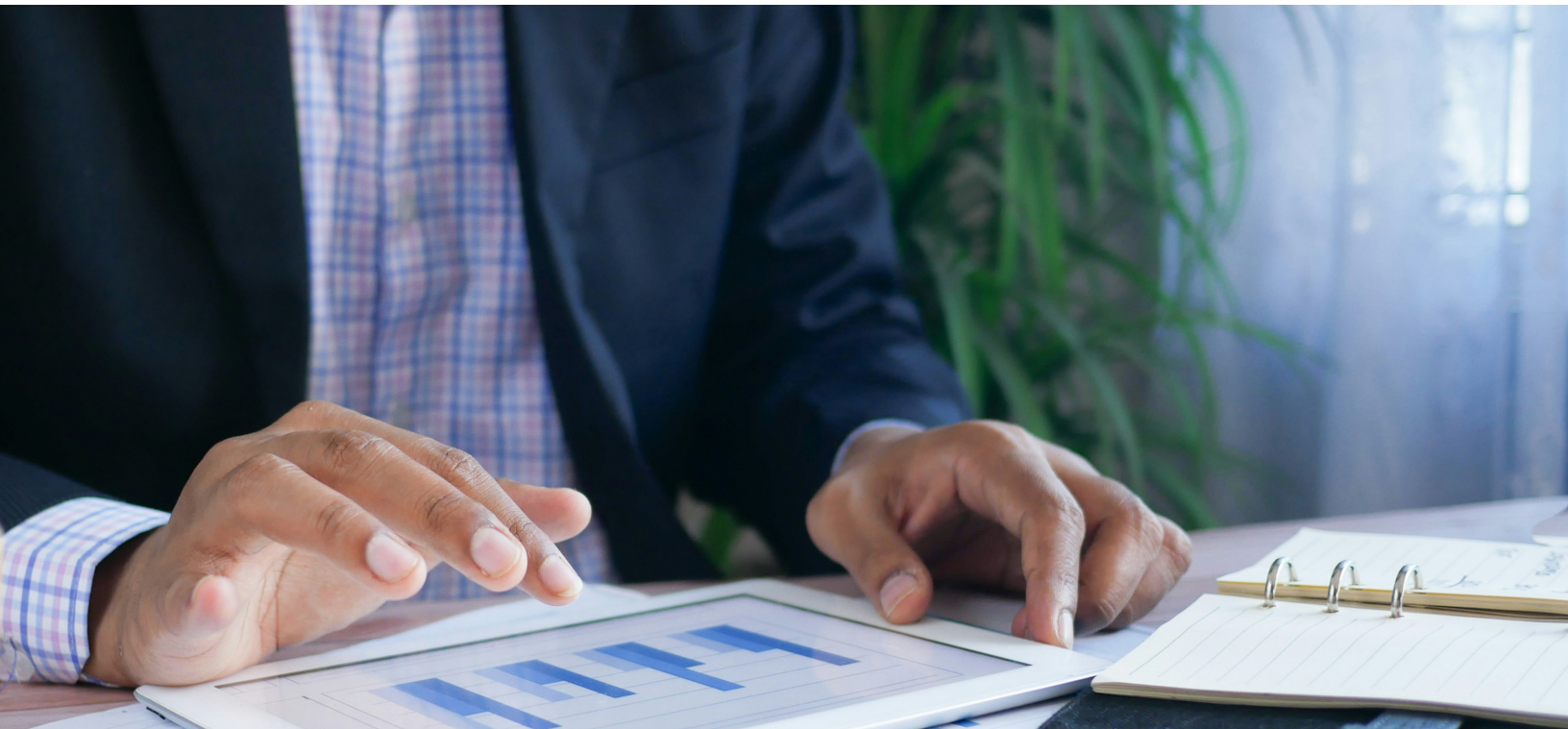
A persistent belief that the future will be worse than the present is negatively predicted by numeracy. The less a person is comfortable working with numbers, the worse they believe the future will be. Helping people understand data and the implications of data may be protective against defeatism. Emphasize that the presence of doom and gloom in messaging does not necessarily mean that those messages are true. The facts in the real world may paint a more optimistic picture than what is assumed, and understanding these facts can help cultivate an accurate yet not pessimistic view of the future.

Introduction

Employment and Social Development Canada operates the Registered Education Savings Plan (RESP) program. This program is intended to help Canadians afford post-secondary education for their children through the opening of long-term savings accounts to eventually be spent on tuition, learning materials, etc. Despite the popularity and perceived value of post-secondary education, as of 2021 only 53.9% of eligible households in Canada had an active RESP (ESDC Canada, 2021). As an additional incentive, RESPs also offer matching Canadian Education Savings Grants (CESGs) which are federally funded contributions to the RESP up to 20% of the first \$2,500 contributed each year. However, the average contribution in 2021 was only \$1,635 meaning that many RESP holders were not receiving the maximum possible CESG contributions (ESDC Canada, 2021). Many practical barriers likely contribute to this underinvestment, but also important are psychological tendencies, preferences, and biases that may prevent people from making the most out of their RESP investments. In order to examine this, we conducted a survey in collaboration with the Canadian Scholarship Trust Foundation (CST) to measure various psychological traits of RESP holders to see if there are identifiable psychological factors which may predict either their investment into their RESP specifically, or else, their general investment behaviour.

Participants & Procedure

Two Hundred Sixty-Five Registered Education Savings Plan (RESP) account holders ($M_{age} = 43.4$, $SD_{age} = 11.5$, 69% Female) were recruited by collaborators at the CST via email to participate in a 20-minute online survey. Over the course of the survey, they completed several individual differences and thinking style measures and gave consent to allow the CST to share de-identified information (e.g., balance) about their RESP account with the researchers before finally providing basic demographic information.



Measures

Actively Open-Minded Thinking. A task which measures the degree to which a person is willing to consider alternative viewpoints, is sensitive to evidence which may contradict current beliefs, maintains an open mind with respect to new or emerging information, and is willing to actively reflect about the extent of their knowledge.

Numeracy. Numeracy was measured using two tasks, the first being the Berlin Numeracy Test (Cokely et al., 2012), a four-item test designed to assess numerical ability, particularly in the context of risk and probability. The second task was an item taken from the Cognitive Reflection Test (Frederick, 2005) which reads: “a bat and a ball together cost \$1.10. The bat costs \$1 more than the ball. How much does the bat cost?” This style of question presents an appealing intuitive but incorrect answer, which must be noticed and corrected with the proper calculation. These five items in total were averaged to form one numeracy score.

Maximizing and Satisficing. This task (Schwartz et al., 2002; Nenkov et al., 2008) measures the extent to which a person is compelled to always seek the most optimal option in a given pursuit, or else is willing to accept a sub-optimal, but perhaps easier or closer option (e.g., “I never settle for second best”).

Optimism. A six-item test designed (Scheier et al., 1994) to measure the extent to which a person maintains positive expectations about the future (e.g., “Overall, I expect more good things to happen to me than bad”).

Dark Future. A five-item scale intended (Zeleski et al., 2019) to assess anxiety about the future, and expectations that the future will be worse than the present (e.g., “I am disturbed by the thought that in the future I won’t be able to realize my goals”).

Other Investments. Participants were asked to provide an estimate of their total investable financial assets for their household. They were instructed to include things like pensions, retirement savings, or any other financial investments, but not to include non-financial assets (e.g., property).

Value of Post Secondary Education. A three-item task asking participants to rate the value of post-secondary education in terms of its expected economic payoffs, broader social payoffs, as well as in terms of personal development/growth.



Results & Discussion

Spearman Rank correlations are reported in Table 1. In terms of RESP investing, the tendency to maximize (wishing to make the most out of opportunities in general) negatively predicted the total balance of participants' RESP account $(264) = -.15, p < .05$. This may be because a tendency to pursue maximizing may cause people to seek investments with larger payoffs per dollar, where the RESP program may be designed to help families who otherwise may not have saved enough to engage in some amount of saving behaviour. The tendency to engage in maximizing also predicted belief in the value of post-secondary education $(264) = .16, p < .05$ indicating that those who report wanting to get the most out of all possible pursuits tend to endorse the value of post-secondary education as an investment. Dispositional optimism similarly predicted endorsing the value of post-secondary education $(264) = .15, p < .05$ indicating that those who are more optimistic tend to see value in post-secondary education. Though, as with many of these results, because the sample is already comprised of those with a RESP, participants already presumably endorse the value of post-secondary education enough to make some amount of investment. With a sample that included both those that do have RESP investments, as well as those who would otherwise be eligible but who have not started saving with an RESP, belief in the value of post-secondary education would likely have more predictive power. Optimism also predicted the self-reported amount of total financial investment in all forms $(264) = .18, p < .05$ which indicates that the more a person thinks the future will be good, and that good things will happen to them, the more likely they are to invest money generally. Relatedly, the belief that the future will be worse than the present negatively predicted total investment generally $(264) = -.18, p < .001$. As mentioned previously, it is likely that perceived value of post-secondary education, optimism, and belief in a bleak future, are underestimated here in terms of predictive power. Future research would benefit from contrasting those already invested in various education savings plans such as RESPs with those who otherwise could take advantage of savings but have not.

Table 1: Correlations between investment behaviour and individual difference measures.

	M	SD	1	2	3	4	5	6	7
1. RESP Account Balance (\$CAD)	15814	17649	-						
2. AOT	4.82	0.91	.01	-					
3. Numeracy	2.19	1.47	.15	.32***	-				
4. Maximising	4.44	1.04	-.15*	-.17**	-.18*	-			
5. Value of PSE	5.84	1.45	-.04	-.08	.04	.16*	-		
6. Optimism	4.80	1.09	.05	.05	.17*	-.04	.15*	-	
7. Dark Future	3.81	1.41	.06	-.00	-.20*	.07	-.11	-.59***	-
8. Other Investments (\$CAD)	420742	1.97e ⁶	-0.08	0.08	.19*	.03	.05	.18**	-.27***

Note: $N = 265$. Spearman's Rank Correlations. * $p < .05$, ** $p < .01$, *** $p < .001$ RESP = Registered Education Savings Plan. AOT = Actively Open-Minded Thinking. PSE = Post Secondary Education

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About this Project

This study and report are projects of the “Community Ideas Factory: Behavioural Insights Unit” at Sheridan College.



The Community Ideas Factory (CIF) is a unique, community-college-private sector partnership that seeks to foster innovation in the Social Economy by connecting the talent, facilities, networks, resources and capabilities of the College with the needs and the efforts of the non-profit community in and around the Halton Region. Since its inception in 2016, the CIF has engaged more than 50 non-profits agencies, numerous private sector actors, and hundreds of social program stakeholders and Sheridan students in applied research projects on topics ranging from: affordable housing, food security, employment equity, wrap-around programming, education savings, and charitable giving behaviours in a time of Covid. Outcomes of our work at the CIF include: conception and design of new agency programs, policy reports, new data to drive decision-making, agency website upgrades, academic-community conference papers, and numerous academic publications.

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