The Great Recession and the Shortening of the

Financial Planning Horizon

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The mean financial planning horizon in the 1992 to 2007 Survey of Consumer Finances (SCF) datasets was fairly stable, with all years in the 4.8 to 4.9 year range except for 2001, which had a mean of 5.3 (Hong & Hanna, 2014). However, the mean horizon in the 2010 SCF dropped to less than 4.1 years. What factors contributed to this decrease? Were the factors related to the planning horizon in 2010 similar to the factors related to the planning horizon in the analysis reported by Hong and Hanna (2014)? Most of the effects shown for the multivariate analysis in the 1992 to 2007 period were similar for the multivariate analysis of 2010, though the age for the maximum horizon is 5 years higher in 2010 than the age for the calculated maximum in the combined sample.

Introduction

The financial planning horizon is sometimes discussed as being similar to the investment time horizon (Grable, Archuleta, & Evans, 2009), e.g., how many years until retirement? Hong and Hanna (2014) and Hong and Hanna (2012) discussed a different financial planning horizon concept, the one that is included in the U.S. Survey of Consumer Finances and the U.S. Health and Retirement Study. In those surveys, respondents are asked:

> In planning your saving and spending, which of the following is most important to you: the next few months, the next year, the next few years, the next 5 to 10 years, or longer than 10 years?

Hong and Hanna (2014) reviewed studies that had used this variable as an independent variable representing time preference. Most of the studies (eg. Kim & DeVaney, 2001; Rha, Montalto, & Hanna, 2006; Wenzlow, Mullahy, Robert, & Wolfe, 2004) assumed that the planning horizon variable is a proxy for time preference. Hong and Hanna (2014) also analyzed factors related to the planning horizon (recoded to approximate midpoints of the ranges) and concluded that the variable was related to household situational factors and not necessarily a pure measure of respondent time preference.

Hong and Hanna (2014) found that the mean financial planning horizon did not vary much in the 1992, 1995, 1998, 2004, and 2007 SCF datasets, with the means ranging from 4.8 to 4.9 years, and only 2004, with a mean of 5.3 years, was somewhat different than the other survey years.

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They also found that the mean planning horizon increased with age up to the 40 to 49 age range, then decreased, and increased with household income and with net worth. Their multivariate regression results included an age pattern somewhat similar to the similar to descriptive pattern, with calculated financial planning horizon at the mean values of other independent variables increasing from about 4.0 years at age 20 to 5.0 years at age 43, then decreasing with age, with the calculated horizon at age 77 being about two years lower than the horizon at age 43.

Objectives

We are interested in whether the financial planning horizon was different in 2010 than in the years before the Great Recession, and whether factors affecting the financial planning horizon were similar in 2010 to the effects reported by Hong and Hanna (2014).

Methods

We use the 2010 Survey of Consumer Finances (SCF) cross-sectional dataset, which was sponsored by the Federal Reserve Board. The purpose of this survey is to collect the U.S. household's financial information such as income, assets, liabilities and investments as well as their socio-demographic information. We use the methods discussed by Hong and Hanna (2014), including following standard approaches recommended by Lindamood, Hanna, and Bi (2007). We use the coding of the financial planning horizon answers as our dependent variable that was used by Hong and Hanna (2014):

the next few months= 0.3 years, the next year = 1year, the next few years = 3 years, the next 5 to 10 years =7 years, and longer than 10 years = 15 years.

James (2009) used a somewhat similar coding scheme for this variable, and our results are not sensitive to the exact recoding of the time periods to the number of years.

For comparison purpose, our independent variables were those selected based on Hong and Hanna (2014). The independent variables includes survey year, age, marital status, education, race/ethnicity, presence of child, income, current income compared to normal income, home ownership, employment status, and health status.

Results

Table 1 shows that the mean financial planning horizon in 2010, at 4.05 years, is much lower than the mean horizon in any of the previous survey years from 1992 to 2007, and the differences between the mean horizon in 2010 and the mean in each of the other survey years are highly significant. In contract, most of the mean horizons for survey years before 2010 are not significant different from each other, for instance, the mean for 2007 is significantly different only from the mean for 2001. Figure 1 shows the same pattern graphically, with a sharp drop from 2007 to 2010, from about 4.8 years to less than 4.1years.

Table 2 shows two Ordinary Least Squares regressions of the financial planning horizon on household characteristics. The regression for the combined data is the same one reported by Hong and Hanna (2014), and the regression for 2010 shows the results just for the 2010 SCF.

The combined effect of age and age squared in the 2010 regression is somewhat similar to the combined effect reported by Hong and Hanna (2014), with the calculated financial planning horizon at the mean values of other independent variables increasing from age 20 to age 48, then decreasing. Figure 2 shows the calculated pattern for 2010 based on our regression on the 2010 SCF dataset, and the calculated pattern for Hong and Hanna (2014) regression for the combined dataset for 1992 to 2007. In 2010 the maximum calculated horizon at mean values of other variables is at age 48, with a horizon of about 4.1 years, compared to the 1992-2007 analysis, with a maximum horizon at age 43, with a horizon of about 5.0 years.

Results from combined dataset and 2010 data were similar in terms of significance and coefficients. Most of the household characteristic variable, including respondents' age, marital status, education, race/ethnicity, presence of child, income, net worth, home ownership, and health status had significant effects on the financial planning horizon. Single male, single female and partners had shorter financial planning horizon than married households. Education was positively related to the financial planning horizon, except that those with a high school degree were not significantly different from those who had not completed high school. Households with at least one child at home had a shorter horizon than those who did not have any children at home. The log of income and the log of net worth were positively related to the financial planning horizon. Households who indicated that their current income was lower compared to the normal year had shorter horizon than those who responded that current income was same as normal year. Home owners had a longer horizon compared to renters. Respondents who reported poor health had a shorter financial planning horizon than those with excellent health. Employment status had small, mixed effects, with self-employed having a longer horizon than employees, but other differences were not significant. The only difference between 2010 and combined dataset was race/ethnicity. In combined dataset, both Blacks and Hispanics had shorter financial planning horizon than Whites, but Asian and other race/ethnicity groups were not significantly different from Whites. In our analysis of the 2010 dataset not only Blacks and Hispanics, but also Asian/others had shorter financial planning horizon than Whites.

Since the Great Recession occurred between the third quarter of 2007 and the second quarter of 2009, analyzing the 2010 SCF dataset allows us to examine household financial attitudes after the recession period. Household income and net worth decreased due to the Great Recession, and unemployment sharply increased, so it seems plausible that household concerns led shorter financial planning horizons. It also possible that household who depleted their resources had to deal with short term pressing concerns such as keeping up with mortgage and other debt payments.

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Table 1. Mean Financial Planning Horizon by Survey Year

Survey Year	Mean Horizon	Sig. level for difference from 2010	Sig. level for difference from 2007
1992	4.78	<.00001	0.3357
1995	4.79	<.00001	0.4512
1998	4.91	<.00001	0.0538
2001	5.28	<.00001	<.00001
2004	4.83	<.00001	0.9186
2007	4.82	<.00001	
2010	4.05		<.00001

Weighted RII analysis by authors of 1992-2010 SCF datasets.

Table 2. Comparison of OLS Regression for Combination of 1992-2007 SCF Datasets to OLS Regression for 2010 SCF dataset

Variable	Combined data, 1992-2007			2010 data		
	Coefficient	Standard Error	P-value	Coefficient	Standard Error	P-value
Intercept	-1.1626	0.15228	0.0017	-1.33186	0.27648	<.0001
Survey year (2004)						
1992	-0.07587	0.105139	0.4705			
1995	0.18052	0.101174	0.0744			
1998	0.08339	0.101002	0.4090			
2001	0.31486	0.100074	0.0017			
2007	0.13215	0.100000	0.1864			
Respondent's age						
Age	0.15045	0.01156	<.0001	0.11829	0.00939	<.0001
Age squared/10000	-17.32152	1.11468	<.0001	-12.2569	0.89989	<.0001
Marital Status (married)						
Single male	-0.27651	0.09908	0.0053	-0.60206	0.0794	<.0001
Single female	-0.50033	0.08706	<.0001	-0.60192	0.06932	<.0001
Partner	-0.59852	0.13426	<.0001	-0.34714	0.10334	0.0008
Respondent's education (less than high school)						
High school	0.14021	0.10794	0.194	0.12261	0.09258	0.1854
Some college	0.44567	0.11939	0.0002	0.5291	0.10308	<.0001
Bachelor degree	1.0688	0.11170	<.0001	1.42399	0.09533	<.0001
Race/ethnicity (White)						
Black	-0.67544	0.10739	<.0001	-0.60865	0.08088	<.0001
Hispanic	-0.9986	0.13155	<.0001	-0.63597	0.09034	<.0001
Asian and other	-0.2861	0.15913	0.0723	-0.45972	0.12002	0.0001
Presence of Child	-0.32022	0.06892	<.0001	-0.50023	0.05667	<.0001

Variable	Combined data, 1992-2007			2010 data		
	Coefficient	Standard	P-	Coefficient	Standard	P-
Log(income)	0.23214	0.01784	<.0001	0.21375	0.01207	<.0001
Log(net worth)	0.08656	0.00831	<.0001	0.12075	0.00531	<.0001
Current income compared to normal year (normal)						
Income higher	0.11243	0.09494	0.2365	0.19202	0.0992	0.0529
Income lower	-0.30682	0.08344	0.0002	-0.23321	0.05957	<.0001
Home ownership	0.87283	0.08822	<.0001	0.37436	0.06787	<.0001
Respondent's employment status (Salary worker)						
Self-employment	0.21896	0.07639	0.0042	0.7814	0.06567	<.0001
Not work	0.33864	0.17476	0.0526	-0.23418	0.12747	0.0662
Retired	0.12907	0.11054	0.2429	0.0902	0.0878	0.3043
Respondent's health status (Excellent health)						
Good health	-0.58277	0.06766	<.0001	-0.6926	0.0581	<.0001
Fair health	-0.87639	0.09791	<.0001	-0.92695	0.07918	<.0001
Poor health	-1.32021	0.16346	<.0001	-1.42148	0.12853	<.0001

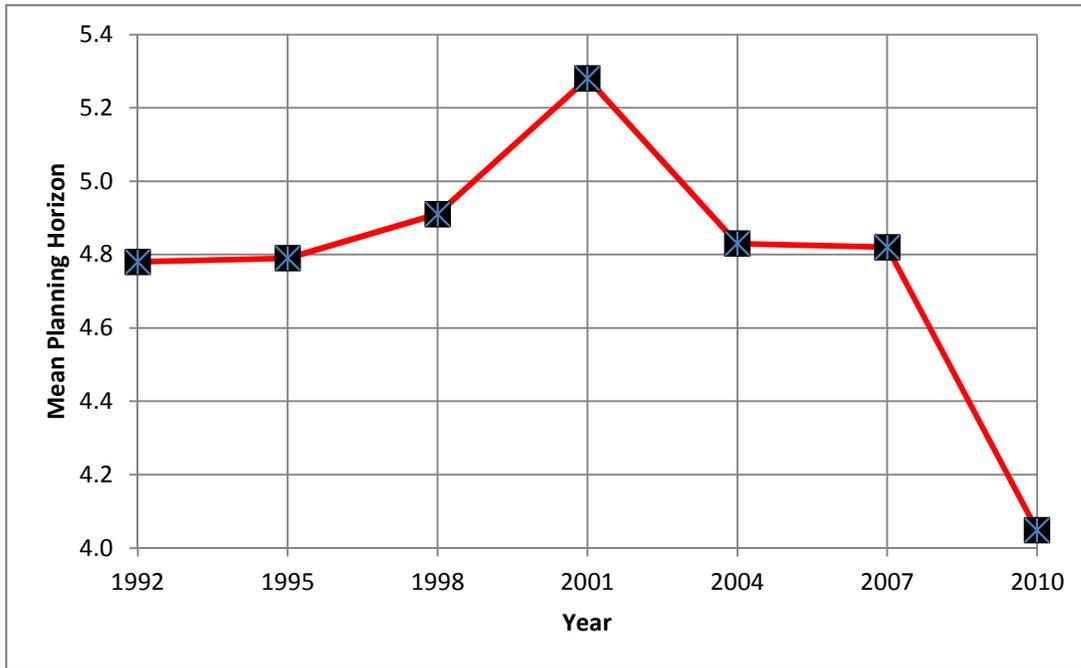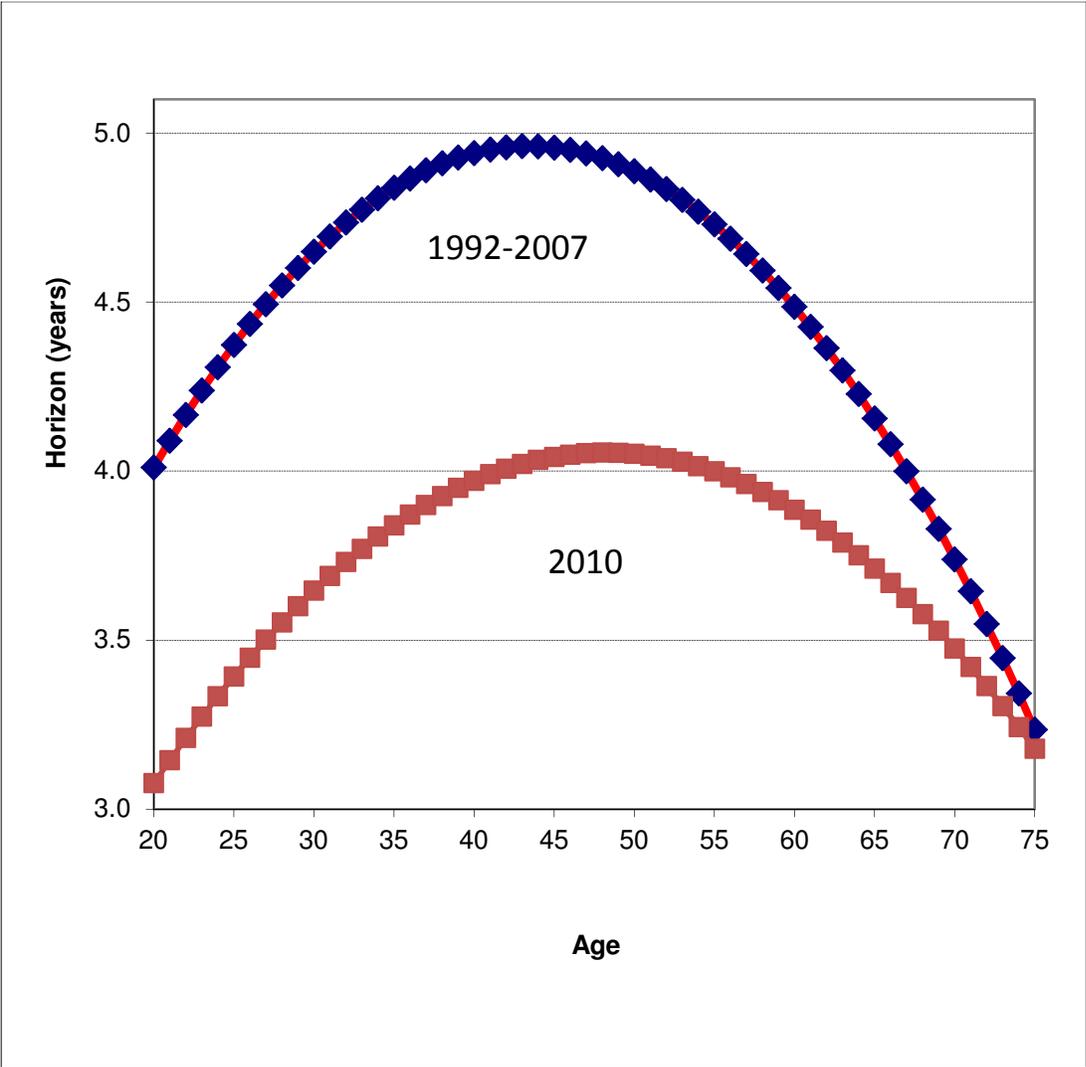Figure 1. Mean Financial Planning Horizon by Survey Year, 1992-2010

Figure 2. Comparison of Calculated Horizon Pattern by Age Based on 1992-2007 OLS

Regression with Pattern Based on 2010 OLS Regression

Based on combined effect of age and age squared shown in Table 2, at mean values of other independent variables.