The Sting Of Paying In Cash

SHOPPING
PHYLLIS KORKKI

Making payments online or with cards makes transactions feel less real, according to two studies.

MICHAEL WARAKSA

Paying with cash is painful — and that's a good thing, according to new research.

When people pay for items using cold, hard cash rather than by card or online, they feel more of a sting and therefore assign more value to the purchase, according to Avni M. Shah, an assistant marketing professor at the University of Toronto Scarborough. Her findings were born of personal experience: One day she forgot her debit card, so she paid for a latte with physical dollars — and felt her drink tasted better that day. Could her method of payment have been the reason?

She tested her theory two years ago, when she was a doctoral student at Duke University. She decided to sell discounted mugs with the Duke University logo on them to school staff and faculty in their offices. She asked one group to pay $2 for the mugs with cash. The other group had to pay with a card.

Then Professor Shah returned to each purchaser two hours later and said she needed to buy the mug back. To soften the blow, she asked the buyers to name their price. The people who had paid for the mug with a card asked for an average of $3.83 back, while those who had paid with cash asked, on average, for $6.71.

"Some of the cash folks literally blocked their hand over the mug and said, 'You can't take this back,'" Professor Shah said.

Professor Shah, who also teaches at the Rotman School of Management, published her study in The Journal of Consumer Research. Her co-authors are Noah Eisenkraft, James R. Bettman and Tanya L. Chartrand.

In another study, Professor Shah gave $5 to her research participants to donate to one of three causes. One group received the amount in cash, and the other in the form of a voucher. Then she gave the participants a ribbon that they could wear on their lapels to show that they had made a donation.

Later, about half the people who had made the donation with cash reported wearing the ribbon, whereas only 14 percent of the voucher group had done so. It suggested that the cash group — and it hadn't even been their cash — felt more of an emotional connection to the cause.

Of all the payment methods, "Cash feels the most painful," Professor Shah said. "Even a check feels quite painful." Therefore the purchase is more meaningful. In a separate study involving charitable donations, she found that people who donated by check were more likely to make a repeat donation the next year compared with those who had donated by card.

Card and digital payments seem less real than cash, she said. It's true that the unreality of these methods can cause people to make more purchases in the first place (to the detriment of their finances). But those same people tend to be less loyal to particular brands, Professor Shah said. "It's an 'out with the old, in with the new' mentality."

"I'm not saying we should revert back to cash," she added. But there are ways to make the fact that people are parting with their money more vivid, she said — for example by introducing a buzzing noise into the process or sending an email reminder of the transaction.

If companies and organizations want to encourage repeat business, they may want to return a little more pain to the payment process, she said.

Book Says Set Goals, Then Plan

LESSONS
PAUL B. BROWN

When it comes to planning your financial future, you may be starting in the wrong place.

That's the contention of Jason Vitug, a millennial who wrote "You Only Live Once," which is aimed at his generational cohort. Mr. Vitug writes that people usually start their financial planning with the wrong kinds of goals. For example, they want to retire by age 64 with $1 million in savings or buy a house within five years, or a new car within two — or a combination of these targets.

The problem with that approach, he says, is that those decisions end up governing many parts of your life and may not be aligned with what is truly important to you. If extensive leisure travel gives your life meaning, then having a house and car could tie you down.

Mr. Vitug argues that you need to figure out your ultimate desires first and then set financial goals to help you achieve them.

This, as his subtitle says, is "the road map to financial wellness and a purposeful life."

Will this lead you to a purposeful life? Possibly.

But financial wellness? That's an open question, because Mr. Vitug does not spend much time explaining how to achieve the financial goals you have set.

While he does a terrific job of addressing the need to keep credit card debt to a minimum, explaining that high interest rates can be a significant drag on achieving your ambitions, he is short on specifics. For example, his section on investing is only two pages long.

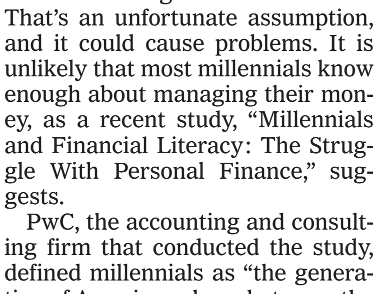
This is intentional, he says. He writes that it is important to understand that "managing your finances responsibly can be summed up with the following advice: Save more than you spend, invest early and frequently, pay off debt and use credit sparingly, build assets and create passive income."

Because he assumes that readers know this, he appears to think that there is nothing further to discuss. That's an unfortunate assumption, and it could cause problems. It is unlikely that most millennials know enough about managing their money, as a recent study, "Millennials and Financial Literacy: The Struggle With Personal Finance," suggests.

PwC, the accounting and consulting firm that conducted the study, defined millennials as "the generation of Americans born between the early 1980s and the mid-1990s." The study found that only 24 percent of them "demonstrated basic financial knowledge." The study concluded: "Among the overall population, millennials are the age group with the lowest level of financial literacy."

If Mr. Vitug is trying to educate millennials, then even a basic primer would have helped.

But his bigger point is right. The life you want to live should determine your financial goals.



TONY CENICOLA/THE NEW YORK TIMES; PHOTOGRAPH BY LAURA MAGRUDER FOR THE NEW YORK TIMES

Student Aid Rule Targets Accounts

ANN CARRNS
YOUR MONEY

As college students prepare for a new academic year, they can expect changes in the process of choosing a bank account to receive their financial aid balances.

Federal rules that took effect July 1 prohibit colleges and universities from steering students to specific bank accounts to deposit aid. Often, students have money left — known as a credit balance refund — after a college deducts the cost of tuition and fees from financial aid. Students can use the balance for other costs, like textbooks and living expenses.

But concern had arisen in recent years about colleges that hired private companies to manage and distribute the refunds. Students often received marketing materials that implied they had to open a special account, often a debit card account with hefty fees, to get their money. In some cases, companies mailed a debit card to students with instructions to activate it, suggesting that not doing so would delay receiving the funds.

Under the new rules, schools must provide a "neutral" menu of ways students can receive their money, and the choice to have it deposited in an account the student already has must top the list. The rules also prohibit debit accounts used to distribute financial aid from charging overdraft fees, which are charged when the account balance is overspent, or transaction fees when the cards are used to make purchases.

Q & A

¶ How should I decide what account to use for a financial aid refund?
If you already have an account you like, "use that one," said Lauren Saunders, a lawyer with the National Consumer Law Center. Students "shouldn't be pushed into an account," she said.
If you do need a bank account, you should shop around and compare fees and services, including available automated teller machines, said Suzanne Martindale, a lawyer with Consumers Union. Consider not only campus-affiliated banks, but also credit unions that may be nearby. "Do a little homework," she said.

¶ Must colleges disclose whether they make money from banking agreements?
The new federal rules require colleges to disclose if they have such agreements as of Sept. 1. They have until September 2017 to disclose any compensation they have paid or received.

¶ Where can I get more information about campus banking?
The Consumer Financial Protection Bureau offers tips about evaluating campus bank accounts as well as bank accounts in general.

It May Be Time to Weigh Refinancing

BORROWING
NEIL IRWIN

Mortgage rates are falling, driven by shifts in the bond market.

It's a good time to check the rate on your home mortgage, because you might save money by refinancing. For that, American homeowners can thank British voters, central banks in Europe and Japan, and a global economy that just can't get out of first gear.

The average interest rate on a 30-year fixed-rate mortgage was 3.61 on July 21, which is down from 4.2 percent a year ago and 3.9 percent at the start of 2016 (the rates on 15-year fixed-rate mortgages and various forms of adjustable-rate loans are also down). This movement is being driven by shifts in the global bond markets.

There is even reason to think mortgage rates could fall further in the weeks ahead as banks start to pass more of the savings from low rates in the bond market through to customers — though would-be refinancers would have to be willing to bet that global markets won't reverse themselves in the interim.

Using the rule of thumb that refinancing frequently makes sense when rates have fallen by a full percentage point, people who took out loans at the prevailing rate at various points in late 2013 and the first part of 2014 might see favorable economics for refinancing, as will those whose loan was first made anytime before mid-2010.

People with narrower gaps between their interest rate and those that prevail now might also consider refinancing. That makes sense particularly if they expect to remain in their current home for many years, thus allowing time for even modest monthly savings to accumulate enough to justify the one-time expenses tied to refinancing a loan.

Lower rates can make this a good time to refinance for people who want a different type of mortgage, like moving from a 30-year loan to a 15-year one to pay off the home faster.

To explore whether refinancing might make sense in your situation, use any of several online calculators, such as this one created by the housing site Zillow. A mortgage broker or banker can help determine the exact rate, eligibility and fees that would apply.

What no one can know is whether rates will pop back up or continue to drop. As much as mortgage rates have declined in 2016, and especially since Britain voted to leave the European Union, they actually haven't declined as much as the long-term interest rates that prevail on the global bond market.

Essentially, banks have been able to keep much of the savings of falling global rates for themselves.

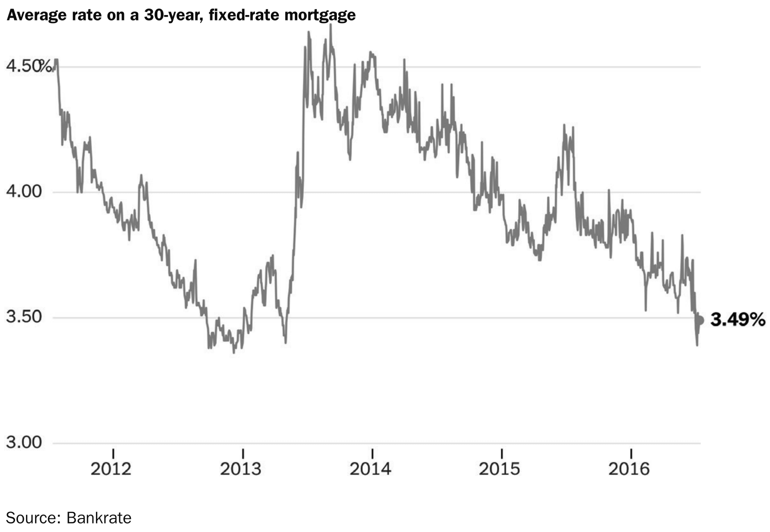
The gap between long-term rates on global markets and what banks charge their customers for a mortgage has spiked repeatedly in the last few years, but those spikes have inevitably been short-lived. Assuming the pattern holds, it would mean that mortgage rates will fall further in coming weeks, as competitive pressure takes hold and more banks pass along the low interest rates prevailing on the bond market.

That said, there's no guarantee that will happen. Yes, there's reason to think banks will lower the premium they charge for mortgages. But with Treasury yields at low levels, the same technical forces that have driven rates down in the last few months could reverse. That means even small gains in the global economic outlook could cause a rapid rise in rates.

So if refinancing looks desirable now, you might save a little more on mortgage interest if you wait. But if you wait, your opportunity could evaporate.

A Sharp Fall in 2016

A sluggish global economy and intervention by central banks have pushed rates down, making refinancing a potentially attractive option.



Source: Bankrate