Taking Care of the Future Self

BY ART MARKMAN, PHD

How can you get people to set aside money their current self wants to use and save for their future self in retirement?

As a retirement investment advisor, you're fighting an uphill battle. You sit across the desk from people who may be 20 or 30 years away from retirement. It feels far off. It is far off. And so people resist setting money aside now for the future.

Perhaps the biggest source of human misery is the tradeoff between short-term and long-term goals. We're wired to do what seems best to us right now, even if those actions conflict with what's best for us in the long-term. That's why people trying to lose weight eat that piece of cake instead of dieting. It's why students play another video game rather than studying for an upcoming exam. It's also why we spend our money now rather than saving for retirement.

That fundamental fact about human psychology is the reason why we've created elaborate retirement instruments. As the sociologist Viviana Zelizer points out, the way we treat money is interesting. Currencies were created in order to provide a uniform source of value that could be used in any situation. It allowed societies to get away from bartering and supported trade over longer distances.

Yet, since the beginning, humans have created special types of money. If you give someone a gift of cash, for example, you expect them to use it to buy something special, even though—

from an economic standpoint—that money instantly becomes part of that person's overall wealth.

Retirement accounts are also odd from an economic standpoint. They create barriers to using funds in the present. But these accounts are crucial, because they allow us to protect our future self from our current self. Our current self has needs such as paying bills. It also has wants such as a new car, an updated kitchen, or a spiffy smartphone. We take that money away from our current self to give to our future self.

Although we have these retirement accounts, few people save enough money for their retirement. There are lots of reasons for this. For one, there are many expenses in the present that are important, and so it's just hard to find enough money to save for the future. But even when it is possible to save for the future, your "old" self feels distant from who you are now. It's hard to deny your current self to benefit the person you'll be after you retire.

So, what can you do to help your clients save enough for retirement?

This question was explored by Christopher Bryan and Hal Hershfield in a paper in the August 2012 issue of the *Journal of Experimental Psychology: General*.

They point out that there are two distinct ways to try to convince people to save for their future. One is to remind people that it's in their own best interest to save money for the future. That is, people must be reminded that the money they save now will be money they get to use later.

The second is to appeal to people's sense of social responsibility. People may have a hard time visualizing their future self, but they certainly know that self is someone close to them. And most people spend money on their close relatives in addition to themselves. So, appealing to people's responsibility for their future self may be an effective way to get them to save for the future.

WHICH STRATEGY IS MORE EFFECTIVE?

To test this idea, employees at a university were given one of two persuasive messages about retirement savings. One message focused on how retirement savings were in the person's best interest. The other message focused on how saving for retirement was a responsibility to that person's future self.

The researchers also gathered information about how socially close, as opposed to financially close, people felt to their future selves. Socially close means thinking about the relationship you'd have to your own future self. When most people think about retirement, they focus on their financial responsibilities to themselves in the future. But, if they focus on other aspects of their relationship to their future self (that they have to be kind and nurturing to that future self) they're much more likely to save for retirement.

Finally, the researchers gathered information from the university benefits office about how much money people chose to save for retirement after seeing the messages.

The message about self-interest had no influence on people's behavior. That is, reminding people that it was in their own self-interest to save for retirement didn't spur additional savings.

The message about taking responsibility for the future self did affect some people, though. In particular, people who felt socially close to their future self were much more likely to save additional money for retirement after being exposed to the message about responsibility. Those people who didn't feel socially close to their future self weren't much more likely to save for retirement.

One way to think about this result is that people would never deny their children food, clothing, or other key necessities. In a very real sense, though, when people don't put money away for the future, they're denying their future self. It's just harder to see the cloudy future than it is to see the actual child sitting at the dinner table.

The results of this study provide a window into the way people think about retirement savings. It also suggests a strategy for helping people protect their long-term selves from their short-term selves. First, get people to feel socially close to the person they're going to be in the future. Ask them to spend some time writing down a description of who they'll be and what they'll do when they get to retirement age. After getting people to feel closer to their future self, remind them of their responsibility to that future self. Have them treat that future self as a member of the family.

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