“Impatience” helps explain failure to save, researchers say

By Editor Test *Thu, Feb 3, 2011*

When it comes to saving for retirement, the ability to delay gratification seems to matter as much or more than the ability to understand investment concepts.

Why do so many people undersave for retirement, take on too much debt, and make poor mortgage decisions? Researchers Mitchell, director of the Wharton School’s Pension Research Council and Justine Hastings of Brown University recently sought to determine whether poor decisions were the result of financial illiteracy or inability to defer gratification.

After reviewing responses to a survey in Chile, Mitchell and Hastings determined that both factors play a role, but that inability to defer gratification, or “impatience,” was a bigger influence on the failure to accumulate adequate savings for retirement.

The two researchers looked at the results of the 2009 Social Protection Survey in Chile, during which each participant was asked to play an “Investment Game” for a gift card. In return for filling out a short questionnaire, each participant received a gift card for use at Chile’s largest grocery chain.

Respondents who completed the questionnaire right away would immediately receive a 5,000 peso gift card (US$8). If he or she decided to fill out the questionnaire later and mail it back in a pre-paid, addressed envelope within four weeks, the gift card would be worth more. The higher amount ranged from 6,000–8,000 pesos in 500 peso increments, and respondents who were willing to wait the longest (up to four weeks) got the biggest gift card.

The experiment revealed three different types of people: the “impatient” who took the lower gift-card amount immediately, the “efficacious deferrers” who chose the later amount and returned the survey for the higher amount, and the “inefficacious deferrers” who opted for the later higher amount but never sent in the questionnaire to activate their cards.

The more impatient respondents were the ones less likely to have saved a lot for retirement. “Our results show that our measure of impatience is a strong predictor of retirement saving and investment in health,” the researchers reported. Financial literacy, though also correlated with accumulated retirement saving, “is a weaker predictor of sensitivity to framing in investment decisions.”

“These results have implications for policymakers interested in enhancing retirement well-being through addressing shortcomings in behavior and economic decision making that may hinder planning, decision making and investments for long-run financial and physical health,” the researchers said.

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