

Focus on future to save more money

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When it comes to personal finances, impulsiveness and materialism can lead to bad decisions and a failure to save enough, but research presented at the annual convention of the American Psychological Association suggests that when people focus more on the future, they tend to be less impulsive, regardless of their level of financial literacy.

"Our results suggest that by helping people to create vivid, detailed mental pictures of their future, we may be able to help people make

better financial decisions," said Sarah Newcomb, PhD, a behavioral economist at Morningstar, who presented the research.

As life expectancy continues to grow in the United States and fewer employers offer fixed-income retirement programs in the form of pensions, there is a greater need than ever for individuals to save for their retirement themselves, according to Newcomb. Unfortunately, savings rates have dropped to only about 40 percent of what they were in the 1980s.

"We wanted to better understand the psychological factors that drive consumer spending and saving with the hope of identifying and targeting those that could potentially motivate more saving and investment among people who have adequate resources but poor financial management skills," she said.

In the study, Newcomb and her colleagues conducted an online survey of over 700 adults in the United States (57 percent male; 47 percent had a bachelor's degree or higher). Participants were asked questions designed to measure financial behaviors as well as attitudes known to be associated with saving or spending, including [impulsiveness](#), materialism, financial literacy and the extent to which they think about the future.

As expected, the researchers found that high levels of impulsiveness and materialism were associated with poor financial decision-making (i.e., more spending, less saving). They also discovered that while financial literacy and the way people think about the future were both associated with good financial decisions, the strongest predictor was not literacy but focus on the future.

Further analysis suggested that the only relationship that could be found among the four attitudes was between impulsiveness and future focus.

Individuals who spent more time contemplating events yet to come scored significantly lower in impulsiveness.

These findings offer a starting point for developing behavioral interventions to promote savings, budgeting, and other positive financial interventions, according to Newcomb.

"The U.S. government has invested hundreds of millions of dollars into financial literacy programs, but these findings suggest that [financial literacy](#) alone may not be the answer," she said. "Working with individuals to develop a clearer picture of their future may have a more substantial impact than simply teaching financial concepts."

One finding Newcomb said was completely unexpected involved those individuals who did not use credit: The effect of impulsiveness on bad financial behavior disappeared.

"This suggests that the first line of intervention for better financial health among people who struggle with impulse problems may be to stop the use of credit cards altogether," said Newcomb.

However, for those unwilling to cut up their credit cards, there may be a solution. Simple visualization and writing exercises designed to help people create vivid, detailed mental pictures of their future help them improve their financial behaviors and ultimately their lives, she said.

More information: Session 1109: "Overcoming Impulsiveness: Identifying Prime Targets for Interventions to Improve Financial Behavior," Paper Session, Thursday, Aug. 4, 10 - 10:50 a.m. MDT, Room 112, Level 2, Meeting Room Level, Colorado Convention Center, 700 14th Street, Denver. www.apa.org/news/press/release...ng-impulsiveness.pdf

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