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Visualising Your Future Self

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Sometimes even the most convincing arguments will not necessarily lead to a change in behaviour. We know, for example, extensive knowledge about the dangers of bad lifestyle habits is often not sufficient reason to persuade people changing their lifestyles for the better. Likewise, financial researchers always have been puzzled by the disconnection between what people believe they should be doing financially, like saving more for retirement versus what they are actually doing (beliefs versus actions). Behavioural science together with the latest advances in technology, however, may offer fresh perspectives how to convince more people, especially younger generations, starting to take retirement planning more seriously.

Numerous studies have shown that people very often overestimate their actual savings or where they indicated to increase their contributions, they in fact never did. Thus, while most people understand the need to save more for retirement, they seldom follow their own beliefs with increased contributions.

Why is it so difficult for people to set aside money for the long term? Unrealistic return expectations and high temptations (immediate gratification) are obvious reasons. Then also estimating what you will want or need 30 or 40 years from now is almost impossible. You do not know your future desires, because you do not know your future self.

Therefore, it is not surprising that young people typically do not want to save for their retirement, since that stage of life feels as if it will be lived by someone else. Moreover, when you save money today on behalf of your remote future self, you deprive your present self of immediate rewards. Of course, if you spend tomorrow's savings today, you will not have cash when you need it in the future. While that is true for all ages, the opportunity cost is by far the greatest for young people.

The basic tenet of standard economic theory assumes rational decision-making. Yet, the theory is found wanting in the real world: Many people are not able to grasp how much they need to save for retirement or having the self-control to forgo current rewards in favour of later benefits. Even those people who can do the maths often find their best intentions derailed by

the lure of immediate gratification leading to poor financial decisions that the rational mind, if given sufficient time to reflect, would reject.

But perhaps the most basic cause is a fundamental human weakness that is psychological in nature: The present self may be disconnected from the distant future self; hence it may be difficult to focus on the benefits of financial rewards that will be only available at retirement. Basically, it is a failure to identify with oneself in the future. Or, we view our future selves as strangers!

Hal Ersner-Hershfield, a researcher at the *Kellogg School of Management*, Northwestern University (Chicago, U.S.A) says: "Saving for retirement may feel to the present self like giving money to a stranger years in the future. That is a strong disincentive to saving now."

This unconscious assumption of a different self in the future is demonstrated by brain scans. Researchers found that when people think about their future selves, the same brain region lights up as when they think about strangers. Moreover, this disconnect is stronger in some people than in others. And those in whom the brain region is activated most when looking at future selves also show the steepest discounting of the future, i.e. an unwillingness to save.

The question researchers are grappling with is whether the psychological gap between the present and future selves can be closed, and if so, how would this affect the willingness to save?

To be sure researchers are facing some real challenges: For a start, it is not something people usually do and so it is a very uncommon thought exercise for most. And for anyone imagining themselves at the age of retirement conjures up many possibilities and permutations that will lead to multiple future selves. Under this array of potential future selves, people normally find it very difficult to bring a single future self into focus.

Nonetheless, scientists may have found a very powerful visualisation tool that originated from sci-fi movies and games, namely the concept of creating "avatars" or digital self-images. Thereby researchers are hoping to exploit the so-called *Proteus effect* – behavioural changes

in the real world that are triggered by changes in how we appear in a virtual world. For example, experiments have shown that if you are sent into a virtual-reality environment with a particularly good-looking "avatar," you are likely to become more sociable in the real world. Or, if your avatar is exercising in a virtual world it can motivate you to add an hour a day to your exercise routine in the real world, etcetera.

How does the *Proteus effect* make people more willing to save? Let us go inside a high-tech scientific laboratory at Stanford University. Here scientists are busy developing an avatar of a young female student, Ms Price by using special software to "age-morph" a recent photograph of her.



Ms. Price sees her avatar in a mirror displayed inside a virtual-reality headset. Eight cameras tucked away just below the ceiling of the laboratory capture Ms. Price's precise position in the room, so the older avatar she sees in virtual space replicates the movements the young woman makes in real space.

After about three minutes, Ms. Price doffs the virtual-reality goggles. She sits down at a computer terminal and answers a set of questions about time and money. Describing how she answered the experiment's survey questions about spending and saving, Ms. Price says, "When the amounts were small, I was choosing to have most of the money right now, tonight. But as the amounts got larger, I found myself hesitating. I don't know if that's because of the avatar, but I found myself pausing to consider it more."

Thus far the outcome of experiments like the one described above seems promising. It is reported that young people who saw their elderly avatars would save twice as much as those

who did not. Also, students whose avatars were morphed to retirement age said they would save 30% more than those whose avatars were not aged. Interestingly, when the students saw similarly age-processed images of *other* people, it did *not* affect their allocation to savings. Only when they saw images of their *own* future selves they allocated more to savings.

In another experiment scientists added an emotional dimension to the future selves. *“They first took three photographs of each participant, one with a very happy expression, another with a very sad expression and a third one with a neutral face. These three images were then digitally processed to form a series of about a dozen expressions in a future self-image, progressing from very happy to very sad.*

The experimenters then linked this sliding emotional scale to a sliding financial scale, going from minimal allocation of savings for retirement on the left to optimal allocation on the right. Participants could then see the emotional reaction of their future selves to different rates of saving for retirement by the present self: pushing the slider toward the left (low allocation) end of the scale evokes an ever sadder future face; when participants move the slider toward the right (high allocation) end of the scale, the smile on their future selves’ faces gets ever broader.”

Seeing our future selves boosts savings



Seeing a happy future self further boosts savings



Virtual reality and age-progression technology helps people recognize that the future self is the same person as the present self. Thereby it repairs the disconnection between the two selves and leads to far-sighted decisions that take care of the future self by making adequate contributions to a retirement plan.

At the moment though the technology is still in a developmental phase and perhaps commercialisation thereof would still be an expensive option. Nonetheless, further advances and enhancements in virtual technology and application software will lead us into a new, exciting era of rendering sound financial advice to everyday people. In fact, it is very possible that many people for the first time will actually “see” the benefits of saving now for retirement instead of being merely viewed as an “abstract” exercise or, if you wish, considered as a “concerted effort” by the financial services industry to sell their products to the public!

Sources:

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