

AGE MY FACE

Strategies to Increase Savings, Change Behavior

Whether dieting, exercising or saving for the future, maintaining focus on our resolutions is a universal challenge.

The burgeoning discipline of behavioral economics is behind these strategies that overcome the obstacles and temptations that deflect us and our clients from our plans. Behavioral economics advocates, such as Nobel winner Daniel Kahneman from Princeton, Chicago's Richard Thaler and Yale's Robert Shiller have conducted these interesting experiments designed to help investors reach their goals.

Age My face

Want to retire wealthier? Start by scanning your photo!

Last year there were newspaper reports of a research study in which recent college grads were shown their photographs digitally aged — so that they looked like their grandparents.

After a few minutes with this photo, they answered a questionnaire on savings intentions; those who spent time with their aging self were willing to save twice as much for retirement as those who hadn't seen themselves in their advanced years.

That is what happens when you make the benefits of saving for retirement more vivid!

Age my face is a fee iPhone app available for download here:

<http://itunes.apple.com/us/app/age-my-face-free-aging-tool/id379459295?mt=8>

Making Long-Term Goals More Real

Another experiment currently underway at Stanford examines the impact of talking and picturing what lifestyle will look like in retirement — what their day will look like, the leisure activities they will pursue, the travels and vacations they will go on.

Results indicate that those investors who are asked to provide a detailed picture of their lifestyle are prepared to commit to more ambitious savings and investment plans and are more likely to stick with those plans than those who haven't gone through this process.

Short-term Rewards & Long-term Goals

Another barrier to sticking to plans is the mismatch between short term pain and long term rewards. Being in cash during volatile markets may provide some short-term peace of mind but for most investors staying on the sidelines will make it impossible to reach their goals. And the enjoyment we get, for example, from splurging on expensive meals or new clothes gives us a short-term payoff, but that same spending can sabotage clients' ability to reach long term goals.

An experiment that is showing promise related to linking short-

term rewards to desired behavior. For example, clients can agree that if they stick to their savings plans, they'll enjoy a long weekend away once a quarter or go south for an annual vacation. By connecting short and mid-term rewards to the right behavior, people find it easier to avoid the behavior that deflect from their long-term plans.

Save More Tomorrow Plan

Using this savings technique, employees at one company tripled their savings rates from 3.5% to 11.6% in just over two years.

Richard Thaler of University of Chicago proposes this plan which asks investors to commit to allocate 20% to 40% of future salary increases and bonuses to their savings program.

By asking for a commitment today on something that will happen in the future, the chances are increased that people will buy into the right kind of behavior.

Interested in reading more about these techniques? Here is an interesting article from WSJ:

<http://online.wsj.com/article/SB10001424052748703410604576216663758990104.html>