



Saving for the future: Dynamic effects of time horizon



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ABSTRACT

Why is the public so underprepared for retirement? We studied the saving behavior of a large cross-section of adults to investigate age differences in motivations to save across adulthood. Our investigation revealed that both a future oriented mindset as well as adequate financial knowledge may be necessary for younger adults to engage in saving for their retirement. This finding is consistent with a theoretical account in which younger adults who have long time horizons prioritize preparatory goals and knowledge seeking. As time horizons shorten, motivations to realize goals replace motivations to gather knowledge. Accordingly, future oriented attitudes were more directly associated with saving with advancing age, such that future oriented adults who were approaching retirement saved regardless of their level of financial knowledge. Our findings reveal a dynamic character of saving tendencies across adulthood and imply age differences in the psychological factors that motivate saving behavior.

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We meet at a moment of great uncertainty for America. The economic crisis we face is the worst since the Great Depression. Markets across the globe have become increasingly unstable, and millions of Americans will open up their 401(k) statements this week and see that so much of their hard-earned savings have disappeared.

—Obama Oct. 13, 2008 economic crisis speech

1. Introduction

The global financial crisis of 2008 has shown with devastating consequences that the future is highly uncertain. Rising life expectancies in past decades has lengthened retirement years (Lee, 2001) and greater access to employment-based retirement plans has forced financial decisions about the future into the hands of workers (Gough and Niza, 2011). Yet, the American public (Topoleski, 2013) and people in other countries (Crossley et al., 2012) are seemingly underprepared for retirement, and many retirees live below the poverty threshold (Lusardi and Mitchell, 2007a). Policy initiatives can stimulate saving behavior (Thaler and Benartzi, 2004), but will be most effective if informed by sound psychological principles.

In the U.S., the 401(k) plan is the principal employment-based retirement scheme. Workers who opt into the plan can decide on

the contribution they wish to make to their pension account. Some companies in the U.S. offer 401(k) plans that enable workers to choose how to invest their contributions in stocks, bonds, and the money market (Gough and Niza, 2011). The 401(k) plan and other saving schemes offered by employers bestow in their workers a financial independence and personal liability, but also raise the need to ensure that people possess the adequate knowledge and future oriented mindset necessary to make advantageous decisions about their financial future (Chan and Stevens, 2008; Choi et al., 2002).

People who are future oriented are more likely than others to save for retirement (Hershey et al., 2007; Jacobs-Lawson and Hershey, 2005) and to enroll in employment-based retirement plans (Howlett et al., 2008; Munnell et al., 2001). Future oriented attitudes are characterized by long planning horizons and a focus on future as opposed to present or past goals. In the Munnell et al. (2001) study, workers who expressed planning horizons of five years or longer were more likely than individuals with shorter planning horizons to enroll in the 401(k) plan and had made greater savings contributions. Lynch et al. (2010) distinguish between propensities to plan money and time in the short- and long-term, where only a propensity for long-term planning of money is shown to predict individuals' personal credit scores.

Future oriented individuals typically report that they are more knowledgeable of financial planning for retirement (Hershey and Mowen, 2000; Hershey et al., 2007). Higher levels of financial literacy are associated with greater engagement in retirement planning (Hilgert et al., 2003; Lusardi and Mitchell, 2007a; 2009) and a reduced likelihood of having debt (Lusardi and Tufano, 2009).

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Concerns regarding low levels of financial literacy in the U.S. population have prompted researchers and institutions to develop education programs for improving financial literacy as a means of fostering financial investment for retirement (e.g., [Jacob et al., 2000](#); [Lusardi and Mitchell, 2011](#)). However, relevant financial knowledge as well as a future oriented mindset may both be necessary for engagement in retirement saving. Among a sample of graduate students, [Howlett et al. \(2008\)](#) found that only those who were both informed about how a retirement plan worked and were future oriented expressed a willingness to enroll in the plan. This implies that education programs that target financial literacy may be insufficient in engaging retirement saving behavior unless also targeted at people's attitudes about the future.

[Hershey et al. \(2007\)](#) have proposed that a future oriented mindset triggers the pursuit of financial knowledge necessary for making informed decisions about saving. More generally, [Carstensen](#) and colleagues ([Carstensen et al., 1999](#); [Charles and Carstensen, 2009](#)) have proposed that for young adults who have a long time horizon (e.g., until retirement), time is perceived as open-ended, and this prioritizes goals that are preparatory and which emphasize knowledge acquisition for future possibilities. For example, young adults will often prefer the company of a social partner that can offer novelty and new information (e.g., a book author) over the company of a close friend or family member ([Fung et al., 1999](#)). Although this account was developed as a theory of emotion regulation in social contexts ([Charles and Carstensen, 2009](#)), the notion that time horizon is important for goal setting is highly relevant to financial planning. Information seeking capitalizes on time available during early adulthood. A future oriented mindset may trigger the pursuit of financial knowledge in young adulthood by motivating goals to prepare for the future.

As time horizons shorten (e.g., with the passage of time), time constraints are perceived. Consequently, motivations to gather knowledge and seek new experiences are replaced with motivations to realize goals ([Carstensen et al., 1999](#)). This implies that in the financial context, future oriented attitudes may have a more direct influence on decisions about saving that are less dependent on financial knowledge as one approaches retirement. This is because as time horizons shorten, priorities shift away from preparatory goals (e.g., knowledge acquisition) and toward realizing goals (e.g., making savings contributions). An implication is that some adults who are approaching retirement may be motivated to make decisions about saving without seeking necessary financial knowledge. Indeed, financial literacy is poor particularly among adults aged 50 years and older ([Lusardi and Mitchell, 2011](#)).

As retirement looms large on the horizon for individuals approaching retirement, the financial demands of retirement may become more salient. Construal level theory proposes that events that are far in the future are mentally represented abstractly and in terms of their goal-relevant features ([Trope and Liberman, 2003](#)). For young adults with a long time horizon, such goals are likely to be preparatory and motivate knowledge seeking. Events that are in the near future are perceived in more concrete detail and in a more contextualized form. For example, when asked to imagine reading a science fiction book either tomorrow or in one year, participants imagining the longer horizon described the activity in terms of higher-order goals (e.g., "broadening my horizons"), whereas those imagining the shorter horizon focused more on details of actions involved (e.g., "flipping pages"; [Liberman and Trope, 1998](#)). Hence, people's mental representations of future events change as they approach those events in time. Similarly, individuals who are approaching retirement are likely to perceive retirement in more concrete terms that reflect the actual financial requirements of retirement.

Here, we investigate the association between future oriented attitudes and financial knowledge with retirement saving behaviors across the adult lifespan. We anticipate that a future oriented mindset will influence retirement saving by motivating knowledge acquisition during young adulthood, but will have a more direct influence on retirement saving as individuals approach retirement and their time horizons shorten.

2. Study 1

In Study 1, we investigate differences with age in the influence of future oriented attitudes and financial knowledge on retirement saving behavior. We reasoned that financial knowledge would mediate effects of future oriented attitudes on retirement saving in young adulthood, such that only young adults who are both future oriented and knowledgeable of finance would engage in saving. This would suggest that a future oriented mindset motivates preparatory goals and knowledge seeking behavior among individuals who have long time horizons. We expected that future oriented attitudes would have a more direct and un-mediated association with retirement saving in later adulthood as people approach retirement. This would suggest that shortening time horizons prioritize realizing goals (i.e., making savings contributions) over preparatory and knowledge seeking goals. Consequently, some older adults may be motivated to make decisions about retirement without seeking the necessary financial knowledge. Specifically, we hypothesized that (a) future oriented attitudes would be a stronger predictor of retirement saving as age advanced toward retirement as the effects of a future oriented mindset would depend less on an individual's financial knowledge. As future oriented attitudes are proposed to have a more direct effect on retirement saving with advancing age, we further hypothesized that (b) future oriented attitudes would interact with financial knowledge and age when predicting retirement saving.

As discussed earlier, long planning horizons as opposed to a focus on short term outcomes may motivate a future oriented mindset. [Lynch et al. \(2010\)](#) have distinguished between the short- and long-term planning of money and time, in which tendencies toward long-term planning of money are found to predict personal credit scores. On the basis that financial planning can be distinguished from other types of planning (e.g., planning of time), we hypothesized that (c) a tendency toward the long- and away from the short-term planning of money would predict greater retirement saving. We further hypothesized that (d) if financial planning of the future motivates a future oriented mindset, then future oriented attitudes should mediate any effects of financial planning tendencies on retirement saving.

In addition to assessing effects of future oriented attitudes, planning horizons, and financial knowledge on retirement saving we also assessed individuals' financial risk tolerance, as this also is associated with more active engagement in retirement saving ([Jacobs-Lawson and Hershey, 2005](#)) as well as the accumulation of financial assets (e.g., [Dulebohn, 2002](#)). Risk taking in financial contexts, however, reduces with age ([Rolison et al., 2012](#); [Rolison et al., 2014](#)), such that older adults are less willing than younger adults to engage with financial risks. Thus, individual differences in financial risk tolerance may predict engagement in retirement saving only among younger adults.

2.1. Method

2.1.1. Participants

The research materials and procedure were approved by the ethics committee at Scripps College, Claremont (U.S.). Prior to the study, participants were told that the purpose of the study was to assess their financial decision making, which would include

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