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Focus on FINANCE

Why Are We So Impatient? A Look into Money and Delayed Gratification

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> "The future simply doesn't tempt us as much as the present does."
> —Dan Ariely, author of *Dollars and Sense*

GLOSSARY

Capital gains: A profit from the sale of financial investments.

Delayed gratification: The act of resisting an impulse to take an immediately available reward in the hopes of obtaining a more-valued reward. The ability to delay gratification is essential to self-regulation or self-control.

Dividend: A share of a company's net profits paid to people who own stock in the company.

Interest: The price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays interest to the account holder.

Investment (financial): An asset purchased with the hope that it will gain value and provide a financial return.

Opportunity cost: The value of the next-best alternative when a decision is made; it's what is given up.

Savings account: An account with a bank or credit union in which people can deposit their money for future use and earn interest.

Introduction

There are human behaviors or habits that we consider healthy, such as exercising and eating nourishing foods. We may strive to do our best to exhibit those behaviors, but there is usually something pulling us in a different direction. The notion of saving money, whether for something new in the future, a financial emergency, or retirement, is considered a healthy financial habit. But getting into the habit of saving money for later use is just as challenging as committing to exercising or eating better.

Believe it or not, there is a cost to not saving for the future: You might not be prepared for a financial emergency, such as unexpectedly losing your job, or you might have to delay retirement. What keeps many of us from making healthy physical and financial commitments? **Delayed gratification** and self-control are psychological forces that make us work toward future results, whether it's working out, eating better, or saving money.

There are a few things you can do with money: Spend it (this includes paying bills, living expenses, and taxes), save it, or do both. People use 100% of what they earn, but how much someone allocates toward spending or saving is where self-control kicks in. People get into the habit of spending and only saving money when (and if) they have some left over after spending. Spending and saving are conflicting goals because a person cannot spend and save the same dollar—there is an **opportunity cost**. Both spending and saving bring gratification; the issue is about timing.

Save Now, Spend Later

We place value on whether we save or spend our money based on opportunity costs. Imagine you have $500 right now and must decide whether to spend it on something you want or use it to kick-start a **savings account** (a good and essential first step toward getting into the habit of saving). You decide to spend the $500 because the thought of having to wait to buy something new feels awful; it feels much more exciting to buy something new right now. The opportunity cost of your decision is not having the money available for use in the future. In addition, you also miss out on the interest you could earn from keeping money in a savings account or maybe even the **dividends** and **capital gains** from an **investment**.

The rewards of saving are not fully realized until some point in the future, although you feel the cost of saving immediately: You can't spend the money yet. For this reason, people often give in to the temptation to spend and have little self-control to save their money.

Saving requires strategy and more effort than spending. It also requires revaluating current behaviors, such as frequently spending money eating at restaurants or online shopping. It is easier to postpone saving than to have the willpower to steer away from temptations that prevent you from saving. Having $500 in a savings account is a good goal, and it is also a good amount of money to spend on several things you may be wanting. You will likely be more tempted to spend the money than be enthusiastic to save it. There aren't nearly as many advertisements out there informing people of the simple ways to save money and feel satisfaction watching those savings grow over time.

Why We Often Bend to Instant Gratification

People tend to be emotionally disconnected from their future selves. Someone's lack of connection to what may happen in the future stems from not being able to see or feel it. The present is tangible, vivid, and salient; but the future, not so much. We simply have predictions, as the future is unknown, less tangible, and not nearly as real as the present.[1]

The weight we place on the importance of our current wants is far greater than the weight we place on our future wants. This could explain why people procrastinate saving for retirement or an emergency. We look to experience and enjoy what is in front of us. For this reason, some people get frustrated with the delayed results of habits such as exercising, eating better, or saving money.

"The Marshmallow Test" (boxed insert) details a famous experiment conducted with children in the 1960s; it is often used to explain self-control and delayed gratification. Educators have used this experiment to explain that the future is just not as tempting as the present.[2]

The Marshmallow Test

In 1960, psychologist Walter Mischel conducted what became well-known as the Marshmallow Test. This experiment placed young students in a position to test their self-control in resisting temptation and being rewarded for doing so (delaying gratification). Children four to five years of age were placed in a room where they sat at a table with a marshmallow placed in front of them. The marshmallow was the immediate reward. But if they waited for up to 20 minutes and did not eat the one marshmallow, they could have the larger reward of an additional marshmallow. If the children wanted to eat the one marshmallow, they would ring a bell for the researcher to return. If they did not eat it, did not leave their chair, and waited for the researcher to return, they could have a second marshmallow. Most children ate the first one, giving up the reward of the second marshmallow.

The Future Is Bright, But So Is That New Smartphone

Saving for retirement can be difficult for a 23-year-old recent college graduate to think about. If they're employed, they can start saving for retirement. However, because retirement seems so far way, thinking about their non-working years might not make a lot of sense to them. There is no emotional attachment to retirement because it is so distant. Younger workers do not usually feel it necessary to save for a time when they will stop working and enjoy their "golden years." What is more "golden" to younger people are the experiences they can have now and what is in their *near* future. The excitement of buying that new outfit with their first paycheck, taking that weekend trip with a friend, or buying the latest cell phone is exciting! Why save for the *possibility* of something when you can experience and spend on what *is* right now? The further out in the future, the less likely people are to save, because they often have little to no connection with the unknown.

Retailers know that their consumers feel this way; it is why they have successfully implemented tools to make shopping easier and faster. With just a few clicks, you can purchase multiple items and get them delivered on the same day or within the week. You get instant gratification knowing an item now belongs to you, and you anxiously await its arrival. Online retailers do whatever they can to stimulate our desire to shop and enjoyment in purchasing.[3]

Shopping is more personalized than ever, too. When consumers log in to a website that they've already visited, targeted options may be presented based on previous search history. Research has shown that consumers enjoy this and, as a result, are more likely to make a purchase. Retailers want the experience of online shopping to be a positive one that requires little effort on a consumer's part. Positive experiences make it hard for shoppers to resist the temptation to make a purchase. Saving, on the other hand, requires effort and so is harder to do.

Making the Future Feel as Good as the Present

Research has shown that humans are genetically wired to live in the moment, which is what drives our desire to consume as much as possible. Dr. Brad Klontz conducted a study showing that when people were emotionally invested in their savings goal (whether it's a new outfit or new car), the rate at which they saved increased by up to 73%.[4] Setting up visuals and reminding yourself why you are saving in the first place helps keep that emotional connection to your savings goal, helping you to achieve that goal. In addition, financial education plays a crucial role in equipping students with knowledge and skills they'll need to make good decisions later in life.

Psychologists find that people who successfully meet future financial goals have common traits, which others can use to find gratification in establishing and meeting their financial goals. The common traits are (1) having clarity about what they want to accomplish and (2) being emotionally invested in their goals. It's important to have clarity about your goal and how it is an expression of your values. Being emotionally invested in a goal and checking in with ourselves on our progress will help generate self-control and reinforce how we see the *present* opportunity costs (such as sacrifices and delays) that will ultimately bring about a meaningful accomplishment for our future.[5]

Conclusion

It's important to take a moment to reflect on the decisions we make in the present and how they will affect our future. Someone may have made decisions in the past where they think, "If only I had known better," or "If I would have just waited"!

Yes, there are moments in life and experiences that are valuable now. But it is also important to remember that you will have valuable moments in the future and that being financially prepared for those (retirement, financial emergency) can bring as much gratification in the present—and make the opportunity costs of being prepared well worth it.

It is possible to overcome temptation by being aware of your financial behavior and knowing that money is a powerful tool: It can bring you a great sense of gratification not only in the present, but also in preparing for the future. ■

Notes

[1] Ariely, D. and Kreisler, J. "We Lose Control," in *Dollars and Sense*. New York, NY: HarperCollins, 2017.

[2] Mischel, W. *The Marshmallow Test: Mastering Self-Control*. United States: Little, Brown Spark, 2014.

[3] Zhang, W.; Leng, X. and Liu, S. "Research on Mobile Impulse Purchase Intention in the Perspective of System Users During COVID-19." *Personal and Ubiquitous Computing*, 2020; https://doi.org/10.1007/s00779-020-01460-w.

[4] Klontz, B. "When It Comes to Money Matters, Our Brains Are Actually Wired to Do It All Wrong." CNBC, updated March 2020, retrieved January 2023; https://www.cnbc.com/2019/12/09/when-it-comes-to-money-our-brains-are-wired-to-do-it-all-wrong.html.

[5] Aubrey, A. "Time Is Fleeting. Here's How to Stay on Track With New Year's Goals." NPR *Morning Edition*, January 2023; https://www.npr.org/sections/health-shots/2023/01/02/1144894026/time-is-fleeting-heres-how-to-stay-on-track-with-new-years-goals.

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"Why Are We So Impatient? A Look into Money and Delayed Gratification"

After reading the article, answer the following questions:

1. Which of the following best describes an example of delayed gratification?
   a. Seeing a $200 pair of shoes and deciding to purchase them now with a credit card
   b. Seeing a $200 pair of shoes and deciding to save the $200 with a goal to purchase them in two months
   c. Seeing a $200 pair of shoes and deciding to use the money from your savings account to purchase them now
   d. Seeing a $200 pair of shoes and deciding to ask a parent to purchase them for you that same day, with the promise that you will pay them back

2. Why do people face opportunity costs when deciding between saving and spending their money?
   a. A person cannot spend and save the same dollar.
   b. Saving and spending result in delayed gratification.
   c. When someone saves money, they miss out on interest.
   d. Unlike saving, spending requires self-control.

3. Diana has $2,000, and she has the choice of either spending it on a weekend vacation or saving it in an account for a two-week vacation later in the year. Diana decides to spend it on a weekend vacation. What is the opportunity cost of her decision?
   a. Not going on the two-week vacation
   b. Any amount over $2,000 for the weekend trip
   c. The time spent planning the vacation
   d. New luggage for her vacation

4. Charlie knows that he should save up for a minivan for the family. But, when he goes online and sees an ad for sneakers that cost $100, he purchases the new pair of sneakers. This is an example of what psychological force that prevented Charlie from saving?
   a. Opportunity cost
   b. Spending
   c. Self-control
   d. Investing

5. Which of the following describes why people often bend to instant gratification?
   a. More weight is placed on current wants than future wants.
   b. The present is not as tempting as the future.
   c. It is easier to emotionally connect to the future than to the present.
   d. People don't have self-control problems.

6. In the marshmallow experiment, the kids who ate the marshmallow before the 20 minutes were up were not rewarded. This is an example of what psychological force that prevented them from waiting to eat the marshmallow?
   a. Saving
   b. Eating better
   c. Delayed gratification
   d. Opportunity cost

7. The opportunity cost of delaying saving for retirement is the interest earned through having money invested for the future.
   a. True
   b. False

8. Being able to resist an immediate reward with the hope of gaining a reward more valuable in the future is the ability to delay gratification.
   a. True
   b. False