

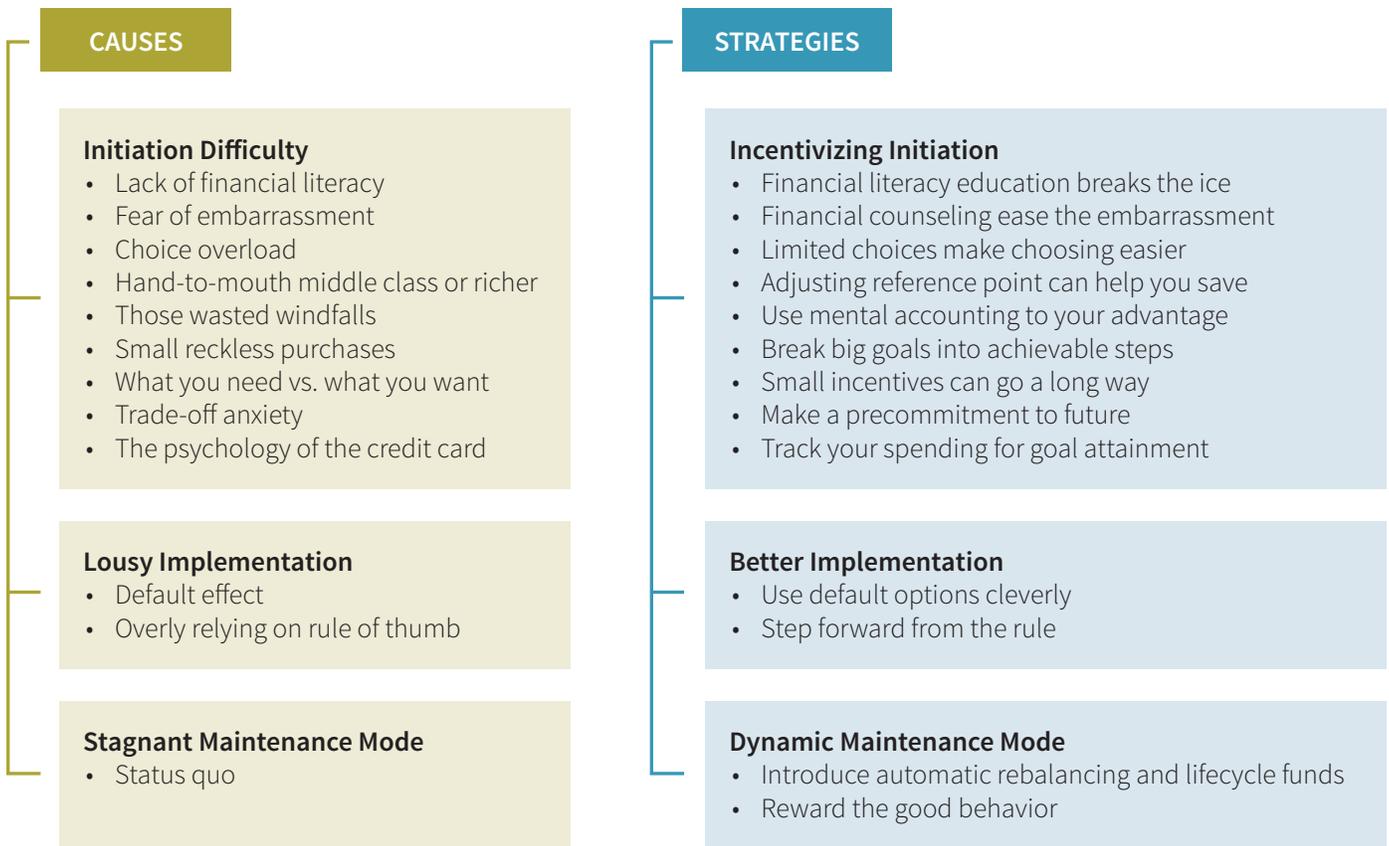


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Figure 2
Typical Causes of Procrastination and Strategies Against It



discussing their personal finances due to lack of knowledge or lack of understanding.

- **Fear of embarrassment: “I feel so embarrassed talking about it.”** Sometimes people already know they have financial problems but feel too embarrassed to admit it or to seek help. In addition, they may have no idea where to go if they do need help in figuring out how bad those problems are and how to fix them.
- **Choices overload: “I don’t know which one to choose.”** When faced with too many options, people may freeze and not make a decision. For instance, presenting too many investment fund choices can cause confusion and hence inaction.
- **Hand-to-mouth middle class or richer: “I have no extra money to save.”** National Bureau of Economic Research analysis⁷ shows that about a third of Americans households are living paycheck to paycheck; two-thirds of that group are middle class or richer—the “wealthy-hand-to-mouth.” A quarter of that group earns over

\$100,000 annually. These people may believe they have no disposable money. This is more likely because of impulse spending than low income.

- **Those wasted windfalls: “A gift card is not for saving.”** Mental accounting underlies people’s tendency to value some dollars less than others and thus to waste them. Study has long shown that when people get financial windfalls such as a bonus, tax refund or gift card, they are more likely to spend it than to save it.⁸
- **Small reckless purchases: “It is just a Starbucks’ latte.”** Many people don’t consider themselves reckless spenders and are cost-conscious on large financial decisions such as a house or car. However, mental accounting discipline is relaxed when making small purchases, such as a daily Starbucks’ latte.
- **What you need vs. what you want: “But I really want it.”** People often spend impulsively on things they want but don’t really need out of immediate emotions. When we’re in

a good mood, we would spend out of pleasure. When we're in a bad mood, we would spend to make us feel better.

- **Trade-off anxiety: “Live in the present, at the cost of tomorrow.”** Saving for retirement involves a trade-off between now and the future. Dollars assigned to future mental accounts are often devalued, which leads us to pursue small but immediate gains and hence spend more easily and more foolishly in the present.
- **The psychology of the credit card: “Just put it on the card.”** People tend to spend more when they use credit cards than when they use cash because credit card spending desensitizes people from the pain of spending.⁹ Moreover, many people have savings in their bank accounts and at the same time revolving balances on their high interest credit cards.

Lousy Implementation

Procrastination is still here even when you get started. A financial wellness plan is often like a new year's resolution. Many people make it; less people achieve it. We already recognize that we need to make some change in life. Procrastination is the thief of that change in our life.

- **Default effect: “I will stick to the default.”** When procrastinators do make decisions, they often simply pick the default choices. For example, many employer-sponsored saving plans require active elections on the part of employees. Consequently, many employees will not be enrolled by default.¹⁰ In addition, study also finds that the majority of employees participating in a 401(k) plan tended to stick to the default contribution rate of 3% or less.¹¹
- **Overly relying on a rule of thumb: “According to the rule.”** Many procrastinators can't or won't make time to examine their own financial needs and choose to take the easy way out by overly relying on some rule of thumb for making financial decisions. While rules of thumb are useful as general guidelines, they often oversimplify complex issues in ways that can fail individuals' long-term financial prospects.

Stagnant Maintenance Mode

Procrastination persists years after you get started. Many people prefer sticking with a financial wellness decision made a long time ago and fall into the trap of status quo bias by doing nothing. In the face of dynamic changes in our life and in the market, making no decision could actually be a bad decision.

- **Status quo: “I will just keep it that way.”** Once the financial decision is made, many procrastinators do nothing and just leave it unchanged. For example, an early study shows that more than half of TIAA-CREF plan participants had

never changed their initial chosen asset allocation over their lifetimes.¹²

HARNESS THE POWER OF INERTIA FOR INCENTIVIZING SAVINGS

Employers and advisers can adapt their programs to ease people into better financial wellness. We underscore some strategies and tools to equip people to effectively initiate and manage their financial wellness plans.

Incentivizing Initiation

A journey of a thousand miles begins with a single step. Employers and advisers can incentivize and promote positive behaviors that help one make the first step toward a successful financial wellness plan.

- **Financial literacy education breaks the ice.** Financial wellness programs can offer basic financial literacy workshops with interactions, humor and games. For instance, a Monopoly-based game can walk people through different life stages such as buying a house or having a child and encourage participants to engage in “savings missions.” Evidence shows that most workshop participants will take positive actions to improve their financial well-being.
- **Financial counseling eases the embarrassment.** Money issues can be overwhelming and confusing. Many employers offer financial counseling services as part of financial wellness program. Talking to a knowledgeable and trustable professional can help ease the embarrassment and get people help with their personal finances.¹³
- **Limited choices make choosing easier.** The more funds offered, the less the participation rate. Consolidated options and personalized recommendations could solve the problem of choice overload.¹⁴
- **Adjusting your reference point can help you save.** A hand-to-mouth person may find it too difficult to save because of current financial needs. By adjusting expectations to a lower reference point such as hypothetically imagining a salary cut or tax increase, an individual may realize he or she can actually adapt to a smaller paycheck and save for retirement.

Financial wellness plan is often like a new year's resolution. Many people make it, less people achieve it.

- **Use mental accounting to your advantage.** By funneling money into a pension fund or savings account directly from your paycheck, people usually mentally count it as savings and thus less are likely to spend it. Similarly, by allocating debt payments such as a mortgage, student loan or credit card balance through direct deposit, people will mentally subtract the money from income and therefore are more likely to pay down their debts.
- **Break big goals into achievable steps.** Small steps are the secret to big success. Just a few dollars a day can add up to significant savings over time. It helps people recognize that saving may not be as daunting as it seems. For example, a person may easily save the cost of a Starbucks' latte—\$5 per day—and put away \$1,825 a year, or \$73,000 in 40 years, even without taking the interest rate into consideration.
- **Small immediate incentives can go a long way.** A small immediate incentive can encourage people to reach large long-term savings goals. For instance, employers can offer a \$100 wellness incentive to employees who complete a financial fitness check with a retirement vendor.
- **Make a precommitment to the future.** The budget indicates the priority. People can employ precommitment strategies to help them accomplish their long-term goals. For instance, retirement accounts are such precommitment devices as they discourage impulsive behavior through penalties on early withdrawal.
- **Track your spending for goal attainment.** When people track their expenditures, they are often shocked to discover how much money is overspent or gets used for things they really don't need. Most people have a strong tendency to avoid losses, and tracking spending can help people stop unnecessary purchases and head in the right direction regarding their financial goals.

Better Implementation

For people interested in improving their financial wellness, there is always room for further improvement through better implementation. Financial wellness programs sponsored by employers and advisers can help people get access to financial education and guidance to more effective management of their personal finances.

- **Use of default options cleverly.** Empirical evidence shows that default options—such as employees are entered into an automatic savings plan by default and must take action to opt out—have tremendous impact on savings and participation rates. While less than 10% of individuals eligible for IRAs participate in a self-initiated plan, employer-sponsored retirement plans such as a 401(k) with automatic enrollment boast participation rates in excess of 90%.¹⁵

- **Step forward from the rule.** We can use the rule of thumb as the starting point but must adjust it based on an individual's situation. For instance, one can use the commonly cited "100 minus your age" rule to understand the basic principle of gradually reducing risk over time but select lifecycle funds to professionally determine proper investment mixes tailored to meet investment objectives based on various time horizons.

Dynamic Maintenance Mode

Just like driving a car, you have to make adjustments along the way. A successful financial wellness program should be interactive and dynamic, such as rewarding people for making wise decisions and navigating them through different life stages for their financial wellness plans.

- **Introduce automatic rebalancing and lifecycle funds.** This strategy exploits an individual's tendency to stick with the status quo, at the same time dynamically adjusting their portfolios to meet investment objectives. For instance, retirement management firms can suggest or make it as default that retirement portfolios are automatically rebalanced on participants' birthdays. People can also select lifecycle funds that are automatically adjusted and balanced during the course of the fund's time horizon as the investor ages toward retirement.
- **Reward the good behavior.** We all like a treat for our good behaviors. Small rewards for good saving behaviors help reduce the stress and negative emotions associated with following a planned budget.

SUMMARY

Financial wellness has increasingly become a key component of individuals' overall healthiness, happiness and productivity, yet many Americans are considerably less prepared for their personal finances due to procrastination. In this essay, we discussed various causes and negative implications of procrastination, and also different strategies to harness the power of inertia to aid individuals in their pursuit of future financial well-being. It is our hope that this work will serve to further increase public awareness about how procrastination may limit the degree of financial wellness and provide insights to help people make positive changes around financial wellness. ■



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