Why is it so hard to save?

A reward today counts extra, so the same choice gets a different answer up close and far away: discounting, present bias and commitment devices.

1 Self-tests

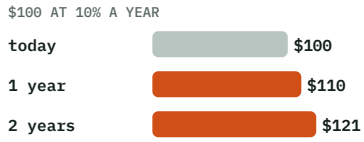
the same week, twice

- Choice 1: **$100 today** or **$110 in 1 week** · Choice 2: **$100 in 1 year** or **$110 in 1 year + 1 week**
- Same $10 more · same 1-week wait · only the **date** moves → many: $100 today, but $110 a year away
- No right answer · nothing stored or sent · RATIONAL same gap, same wait ⇒ **same answer** both times

2 Discounting

waiting has a price

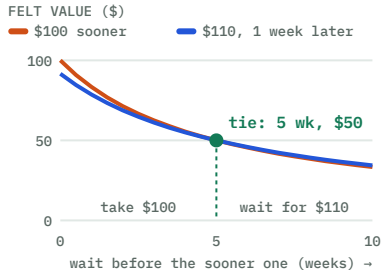
- **Discounting**: "valuing money less the longer you must wait for it" → money today can earn interest (what a bank pays for keeping it)
- Bank 10% a year: `$100 → $110 → $121` (not $120: interest on interest) · `$200 → $220 → $242`
- +$10 on $100 in 1 week = **10% in a week** (+$10 on $200 = 5%) ≫ 10% a year ⇒ a steady person **waits**
- **Rational rule**: lose the **same share** of value for each week of waiting ⇒ the answer does not depend on the date



3 Present bias

"now" counts extra

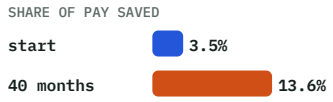
- **Present bias**: "the pull of 'now': a reward today counts extra, so we choose differently when the same choice is far away"
- Toy rule (made-up numbers): felt value `= amount ÷ (1 + 0.2 × d)`, d = weeks → falls **fast first**, slowly later
- $100 or $110 a week later → tie at **5 weeks** (both $50) · closer ⇒ take $100 · further ⇒ wait for $110
- $80 or $100 two weeks later → tie at **3 weeks**: `80 ÷ 1.6 = 50 = 100 ÷ 2`



4 Evidence

Thaler · Benartzi

- **Richard Thaler** (American economist, Lesson 1) · 1981 · as good as **$15 today**: $20 in 1 month · $50 in 1 year · $100 in 10 years
- Yearly rate ≈ **345% → 120% → 19%** ⇒ falls as the wait grows = **hyperbolic discounting**: the first stretch hurts most
- **Save More Tomorrow** (Thaler + Shlomo Benartzi, Israeli-American economist): commit today to save part of **future raises** → **78%** joined
- Average saving **3.5% → 13.6%** of pay in 40 months (after four raises) · why → nothing cut today, nothing feels lost (Lesson 3: a loss hurts ≈ 2× a gain)



5 Who uses it

fun now, bill later

- **Who uses it**: free trials that renew · pay-later plans (buy now, pay in parts later) · credit cards → the good today, the bill later (feels small)
- Chain: free 30 days, then $12/month → $0 today, $12 feels small → "cancel later" → day 30: a chore today, put off → **$12 month after month**
- **Commitment device**: "a choice made now that makes it costly or impossible to give in to your later self" → fee for early withdrawal · locked account · delete the game app · renewal off on day 1
- Save from raises: `$2,000 + $100 − $60 = $2,040` take-home → pay never goes down

6 Your defense

the far-away question

- Ask: **"If both dates were a year away, which would I pick?"** → no "now" in it · answer flips when the date moves ⇒ present bias
- Decide for **later-you** now: far-away-you chooses calmly → tie your hands today (commitment device)
- Present bias vs commitment vs steady: plan slips when later becomes now · giving in made costly in advance · same answer near and far

Watch out: waiting is **not always** best · the test only removes the pull of now · $50 today at 5% → `$52.50 > $51` in a year ⇒ taking the $50 is steady, not biased