

You and Your Savings -- Is Something Holding You Back?

A recent study identified two personal biases that could be holding many people back from making a serious effort to save for their retirement.

It's one thing to know you should be making a real effort to save enough money for retirement, and it's another to actually do it. In a recent study,* researchers looked at the relationship between how much people save and two personal biases that could be holding them back.

Today's Thinking

Called "present bias," this is the tendency to procrastinate on decisions that could benefit you in the long run but require you to give up something in the short term. Saving for your future involves a short-term cost in that you have less money to spend now. The researchers found that individuals who do not have this bias had 19% more in savings than those who do.

Not Perceiving the Power of Compounding

This bias can also wreak havoc on people's savings. Compounding is what happens when the money you save is invested and earns a return. That money is then reinvested, giving you a chance to earn a return on your earnings as well as on the initial amount you invested. Over time, compounded earnings can really boost your savings. According to the study, people who appreciate the power of compounding have about 20% more saved than those who do not.

The researchers found that most people have one or both of these biases. Working to overcome them could help you be more proactive when it comes to retirement saving.



** Source/Disclaimer: Gopi Shah Goda, Matthew Levy, Colleen Flaherty Manchester, Aaron Sojourner, Joshua Tasoff, "The Role of Time Preferences and Exponential-Growth Bias in Retirement Savings," NBER Working Paper No. 21482, 2015*