

Psychological
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when they



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Psychological vulnerability leads people to procrastinate. Procrastination is a psychological state that makes people desist from carrying out tasks or making decisions by systematically postponing deadlines. To make matters worse, the greater the task or the decision, the more they procrastinate. When they have no alternative left but to tackle the problem, it is too late to solve it effectively. While people understand that postponing retirement-related decisions carries future costs (to pension income), the immediate cost to be incurred in terms of time and effort encourages them to avoid the planning. The temporal distance between retirement and more immediate tasks lead people to what is known as temporal discounting (Raaij). This refers to people's tendency to prefer immediate rewards to rewards more distant in time.

Temporal discounting is explained by the fact that individuals attribute more value to a reward obtained immediately than to a greater reward obtained later. Current pleasures prevail over future benefits. For instance, a consumer will typically prefer \$500 now to \$520 in a month's time. Waiting a month for \$20 more is not perceived as a sufficient trade-off. The satisfaction resulting from the immediate reward is outweighed. People's preference for immediate rewards decreases and eventually reverses as the time horizon lengthens.

The further a reward lies in the future, the less value is attributed to it. If the person is offered \$500 in six months or \$520 in seven months, they will select the second option. People would rather have some money to spend now (in restaurants, the movies, long-weekend holidays, etc.) than

postpone consumption in favor of a better pension income (a reward obtained in twenty-or thirty-year time).

The tendency to prefer a modest reward now rather than anticipating a more significant return in the future can be disastrous for saving toward retirement.