How a future selfie can help you save more for retirement

Ever seen a really bad photo of yourself – one that ages you? It might be cringeworthy now but there maybe a hidden upside

Research suggests, picturing yourself years from now might help motivate you to save for retirement, and lead to a more comfortable life for your future self. This idea was explored by Hal Hershfield of New York University who found that when people are shown an avatar of themselves modified to look much older are likely to choose to save more for their future than people who are shown a non-aged avatar. To understand why this might improve saving rates, we look at the concept of 'empathy gaps'.

Hot and cold decisions

Back in 1996, behavioural economist George Loewenstein wrote about the effect of emotions on decision making. For example, being hungry or angry can lead us to act in ways we wouldn't normally, and can even make us feel "out of control".

This can be thought of as two different states of being: a 'hot state' when we are emotional versus a 'cold state' when we are dispassionate, satiated and at ease.

The decisions we make in a hot state are often at odds with those we would typically make in a cold state. For example, if shopping after lunch (cold state) I might pick up some lettuce and vegetables to make a salad for dinner, but by the time I get home from work, hungry and tired after a long day (hot state), I want nothing more than an easy takeaway meal.

Strangers to ourselves

Follow-up research by Loewenstein and fellow behavioural economist Dan Ariely showed that not only can our desires vary depending on the state we're in, but we also underestimate how differently we will feel in these conditions. This underestimation of the change in our preferences – and therefore our decisions, which may have financial consequences is called an empathy gap.

Put another way, when in a cold state we find it hard to empathise with the person we become in a 'hot' state. The experience of shopping on an empty stomach demonstrates, this empathy gap can also be applied to understanding financial decisions.

Me now versus me later

The empathy gap isn't just between our hot and cold selves; it's also about our present and future selves. Many of us know we should be contributing more into our pensions but then fail to do it.

It is tempting to spend more money on things we enjoy today than to save for a rainy day. Dan Goldstein, a researcher at Microsoft Research, describes this conundrum in his TED talk. Goldstein explains that commitment devices agreed to in a cold state might help us avoid veering off course when in a hot state.

However, another way to prevent making decisions, not in our perceived self-interest is to improve the emotional connection between our various 'selves'. Goldstein, specifically shows in his research with the German financial services company Allianz that increasing the vividness of what it will be like to be older can help us empathise with our future self.

Bridging the emotional gap

That artificially-aged portrait or unflattering photo might make us cringe. But on the positive side, they seem to help us imagine the future consequences of the decisions we're making today.

They can narrow the empathy gap – or improve the emotional connection- between our future selves and our present selves, nudging us towards saving more now for the benefit of our long-term financial health.

So the next time you are deciding on pension contributions, consider both the current obligations of your present self and how you want to live when you're retired. In the absence of an ageing app to doctor up your own 'future selfie', spend some time with a photo of your parent or grandparent. It might change your financial behaviour – now and in the future.

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