

THE FINANCIAL WELL-BEING OF THE FUTURE ME.

How to Nudge People towards Greater Financial Well-being?

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- It is often thought that a person's ability to ensure their future financial well-being is defined by **money wisdom**. However, recent studies show that good financial knowledge does not always lead to smart organisation of one's financial matters. Studies of money wisdom show that the people of Estonia plan and invest for future financial well-being less than their knowledge and income would enable (OECD 2016; Meriküll and Rõõm, 2016).
- So far, objective indicators (like savings rate, wealth) have mainly been used to estimate **financial welfare**. However, in recent years researchers have started to pay more attention to the subjective aspects. Financial welfare cannot be estimated with objective indicators only, without understanding people's values and preferences.
- Financial well-being has been defined as the perception of being able to maintain the current standard of living and to achieve the desired living standards and financial freedom in the future (Brüggen et al., 2017). It consists of two aspects: **stress related to the management of money today and a sense of security in one's financial future** (Netemeyer et al., 2018). Concern over current management is demonstrated by behaviour in organising financial matters, self-awareness and consumer values. Future financial security is characterised by perceived self-efficacy, willingness to take investment risks and long-term planning of financial matters (Netemeyer et al., 2018). In the context of securing well-being in retirement, the second aspect, i.e. sense of security in reaching the desired standard of living in the future, is more important, but this cannot be achieved without knowingly organising financial matters in the present.
- **According to their own estimation, the level of the financial well-being of the people of Estonia is good.** In the study conducted in 2015, men, younger people and Estonians give a higher estimation to their financial well-being than women, the middle-aged and

elderly, and non-Estonians. There is a strong connection between the level of income and financial well-being (Riitsalu and Murakas, 2019). However, it should be kept in mind here that only the first aspect of financial well-being, i.e. the current coping, was assessed in Estonia, and the security in future was not measured.

- Economic psychology and behavioural economics researchers have shown that people prefer short-term goals over long-term ones. Future well-being is too abstract and incomprehensible aim for refraining from spending money today. What's more, **we may not be able to perceive the "future me" as ourselves**. One way for reducing the contradiction between the present and the future me could be through visualisation (Hersfield et al., 2009). If we can visualise ourselves as old, it is easier to imagine our needs in that stage of life. This in turn makes the planning of financial matters for the future more specific and more clearly understandable.
- **People see putting their money aside to grow for the sake of a distant future as losing their money**. At the same time, people are two times more sensitive to the pain of loss than to the joy of winning (Kahneman and Tversky, 1979), therefore they try to avoid losses even if the probability of financial gain lessens. In order to get over this reluctance to lose, people need quick feedback on their long-term financial decisions. Something simple and inexpensive can be used for that, like the text Tubli! (Well done!) with a smiley.
- People tend to be optimistic and self-confident, therefore the possibility that their income may decrease is underestimated. **They prefer to expect positive events** like a pay rise or promotion, and think less of health risks and negative scenarios (Kahneman and Riepe, 1998).
- Providers of financial education have so far tried to help people make complicated choices by teaching them the basic truths of investment services and trying to raise awareness of the need to make wise choices. Unfortunately, this is not enough.
- **To secure long-term financial well-being of people, the knowledge of behavioural economics is worth applying**. It also has to be taken into account that, despite the abundance of information and good knowledge, people may not make rational choices in good time.
- Several countries (like the United Kingdom, the USA, etc.) have started to use "nudging" to lead people towards thinking themselves more about their future. In Estonia, too, it is possible to learn from behavioural economics and improve the people's financial well-being through it.