



# DOES TIME REALLY EQUAL MONEY?

Jason L. Harman

As people approach retirement age, a paradoxical phenomenon starts to take shape — they take bigger risks when it comes to savings that don't necessarily result in bigger rewards, just at the time they should be avoiding risk. Why is that? Because the time horizon is suddenly drawing short, and people are realizing they didn't save enough money over the years.

Saving money over time can be difficult, and psychologists who study human decision making have shed some light on how the human mind perceives both time and money, and why we have so much difficulty saving for the future.

Two important concepts you should know about are *Temporal Discounting* and *Loss Aversion*.

Temporal discounting basically means that things in the future carry less weight in our mind than things today. Here's a common example:

Let's say you have the choice between being given \$100 today and \$105 one week from today. Most people see this offer and think, \$100 is great! I'll take that, an extra \$5 isn't worth waiting a whole week for.

But let's say instead that you were offered \$100 a year from today and \$105 a year and one week from today. Most people will choose \$105 this time, thinking, I'll have already waited a year, it's worth \$5 to wait an extra week. The impact of both waiting the extra week and the \$100 don't carry as much weight if they're far off in the future.

In addition to temporal discounting, the human mind is wired to give more weight to negative things than to positive things. This is known as "loss aversion," and it can be summarized simply by knowing that losing \$10 hurts more than gaining \$10 feels good. Importantly, we don't have to actually lose money; if we perceive something as a loss, we'll weight it more.

So deciding to increase the amount of money taken out of your paycheck to save for the future feels like a loss because it's less than you brought home in your last paycheck.

Couple that feeling of loss with temporal discounting and you can see why so many people have trouble saving for retirement. The perceived benefits of saving for retirement in the future often don't outweigh the perceived pain of not having that money today.



[PNC.com/AchievementSessions](https://PNC.com/AchievementSessions)

PNC Bank has contracted with the instructors in these videos and asked them to share their money management expertise. The opinions, advice and other information offered by the instructors are theirs alone, and PNC Bank does not warrant, endorse, represent the materials to be accurate nor assume responsibility for the content.

©2015 The PNC Financial Services Group, Inc. All rights reserved. PNC Bank, National Association. **Member FDIC**