



# Commitment Device

Dear Dr. Per Cap:

*How can I convince my dad he needs to save for retirement? He just spends and spends while saying “live in the now”.*

*Signed,*

*Worried About Daddy*

Dear Worried

You're an awesome daughter to show concern for your dad's financial future. The percentage of folks not saving enough for retirement is staggering. It's a huge problem not only in Indian Country but all over the U.S. and keeps economists and policy makers from sleeping at night. Or at least I hope it does.

Would you believe my seven-year-old daughter has the answer? Let me start by saying it has to do with what's known in behavioral economics (the study of emotional, psychological, and social factors that influence financial decisions) as a *commitment device*. No, I'm not talking about how my uncle's favorite snag finally convinced him to walk down the aisle. Trust me. He made Peter Pan look like Ward Cleaver before my aunt came along.

A commitment device is something that makes it harder to stray . . . (ok, enough about my uncle!) or difficult to take an adverse financial action. Like a restricted savings account that charges penalties for early withdrawals, a joint checking account that requires two signatures, or an investing club in which members must explain and defend their trades to other club members before executing them.

Now back to my daughter. A while back I showed her an age progression photo app on my phone. One of those quirky little time sucks that takes a photo and ages the subject by 20, 50, or even 80 years. Her favorite pic has me looking more like an extra from *Zombieland: Double Tap* than a middle aged Native dude with a dad bod.

Well turns out some people use the apps to try to save more for retirement by viewing their age progression photos. The idea being that people who have a hard time coming to terms with their impending age affluence might snap if they see a photo of what they'll look like when they're ready to collect social security.

This is just one example of a commitment device that can keep your dad focused on the future. It's all about creating a barrier, either physical or emotional, to avoid spending today at the expense of tomorrow.

Commitment devices work best when they make people think rather than fear because experts warn you can't scare someone into a solution. However, you can inspire them to critically think they're way into one.

***Ask Dr. Per Cap*** is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit [www.firstnations.org](http://www.firstnations.org). To send a question to Dr. Per Cap, email [askdrpercap@firstnations.org](mailto:askdrpercap@firstnations.org).