

People have two sets of preferences. When forming the first type of preference, we are in a cool calm state of mind, and in this condition, we make good decisions. For instance, we may aim to eat only fruits and vegetables for lunch for the remainder of the year. We form our second type of preferences at the time of the decision – in the heat of the moment. These preferences lead us to decisions that we soon regret. When we follow this second type of preference, we eat cake for lunch rather than fruit. People hear these conflicting voices in their heads all of the time. One says you should exercise at 6 AM, the other says you should sleep in. Many people do not have the will power to eat the fruit and exercise early, leaving them overweight, out of shape, and disappointed in their own decisions.

When it comes to saving for retirement, in a calm forward-looking state, people plan to save 15% of their salaries for retirement. However, when it comes time to put money away each month, people get caught up in their immediate desires and they buy new televisions or upgrade their iPhones instead. Their failure to consistently save, leads to tragic results. These people reach retirement age with insufficient money to actually retire. They must keep working to support themselves and they most likely spend a lot of time regretting their decision to ignore the calm voice in their head that urged them to save for retirement.

Attempting to exert more willpower is not a good solution to this dilemma. It usually fails. Instead, the solution is to remove your temptation so that you are not faced with a monthly decision of whether to save for retirement. Instead, make one decision in your calm state of mind to constrain your future behavior. Specifically, have your retirement savings automatically taken out of your paycheck. Now your immediate passions will not influence your retirement savings. You do not get a chance to spend the money directed to your retirement account because it never goes into your checking account.

Most of us will benefit from stepping back and examining our lives in an effort to identify the decisions that we make frequently and that require willpower. If we can set up an automatic process so we never face reoccurring decisions, we will make better decisions, ones that are less likely to cause us regret. For example, if you have children, you may want to set up a 529 account, which is a college savings account. Next, talk to your employer's payroll department about having your contributions automatically deducted from your check. Eliminating your ability to make certain decisions in the future is an approach that can even help you avoid the chocolate cake. When I am at Kroger, I think about buying chocolate cake for my kids. However, I know that once the cake is in the house, I will end up eating most of it. At the store, in my rational state of mind, I buy a lot of fruit and no cake, so I am not faced with the temptation to eat cake once I get home. As a result, I end of eating the fruit that I purchased in large quantities.

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