Maastricht University

UM Behavioral Insights Center

School of Business and Economics

Practice Brief

A Guaranteed Immediate Payout Reduces Impatience of Financially Constrained Individuals

Anouk Festjens and Caroline Goukens

Based on a library full of empirical evidence, researchers have until now mostly believed that financially limited individuals struggle to forego immediate rewards. The logical reasoning is that financial constraints narrow one's mental bandwidth to the present, while people who are financially unconstraint can afford to wait and are able to consider the long-term benefits more clearly. It has thus been argued that people in poverty suffer from myopia. However, what if the story was not as clear? That is the question we tried to solve in our paper. In two studies and a field experiment, we tested the common research setting—offering participants smaller but sooner monetary payoffs ($100) or a larger but delayed monetary payoffs ($200 later)—against a new alternative that offers people a guaranteed immediate payment next to both choice options. Can this small change in experimental setup lead to any changes in the way individuals make financial decisions?

MAIN FINDINGS

Compared to the prevalent scenario of forcing a choice between exclusively `all now or all later´ payoffs, the new research design does indeed significantly affect the way individuals choose a monetary reward—mostly for financially constraint persons. In fact, after receiving a guaranteed payment, there is virtually no difference in patience among less and more wealthy individuals; an attribute the financially strained ones did not exercise in the classic intertemporal choice. Moreover, we could show that this effect does not only hold for objective financial pressure, but also when manipulating feelings of financial strain. So the effect is not driven by individuals' actual level of liquidity nor by any arbitrage possibilities. In fact, we identified that the current notion—financial pressure causes more present focused decision-making—is effectively only the consequential result of the classic intertemporal choice task, but not a universal truth. Instead, changing the setup in a way such that the larger delayed option is complemented by a small immediate payout, virtually eradicates the previously significant differences between financially constrained individuals and their counterparts.

IMPLICATIONS FOR POLICY AND PRACTICE

Our findings provide an important addition into our understanding of how individuals make financial decisions. Specifically, it challenges the assumption that financially limited individuals are not able to think long-term. Quite on the contrary, they care just as much as people with sufficient financial provision—as long as they can make their ends met via an immediate payment. The slight adaptation in our approach was of such significance that it raises the question to what extent the specificities of the traditional measurement methods accounts for the results. One consequence might be that the myopic effects of financially constraint participants demonstrated in the traditional choice paradigm do not capture their true time preferences. Certainly, though, our findings do illustrate a relevant point; financial decision-making is not a fixed mindset but rather a mechanism that can be affected by external stimuli. In this context, we stress the potential of intervention mechanisms for poorer people to foster long-term decision-making by providing them an immediate guaranteed payoff.

Reference: Kimberley van der Heijden, Anouk Festjens, Caroline Goukens, Tom Meyvis, 2022, A Guaranteed Immediate Payout Reduces Impatience of Financially Constrained Individuals, *Proceedings of the National Academy of Sciences*, available at [Link].