

SWIMMING WITH SHARKS

Is our fear of sharks causing us to undersave?

By Lois Hoyal

How likely is a fatal shark attack? Pretty likely, it seems, if you ask the opinion of someone young. The old – probably born before a giant, man-eating, great white shark hit cinema screens in 1975 – aren't overly concerned about being gnawed to death by a deadly sea predator.

Reassuringly, sharks kill on average only one person per year in the US, regardless of age. Cows, meanwhile, kill about 20. Again, if you're worried about being trampled to death by a killer bovine, you're likely to be young: the young are overly pessimistic about their personal survival rates. It's not that the old are particularly brave or foolhardy, or cow whisperers. Rather that the old appear to be overly positive when it comes to estimating their own life expectancy.

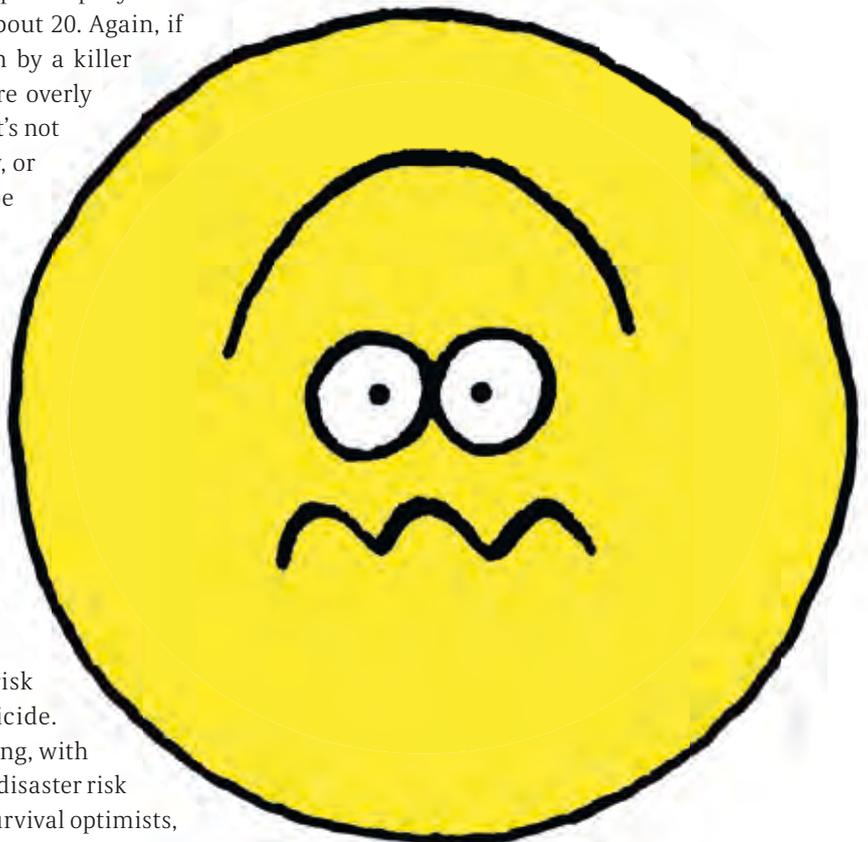
As part of their research, "YOLO: Mortality Beliefs and Household Finance Puzzles," Raphael Schoenle, associate professor of economics at Brandeis University, together with Rawley Heimer, research economist, Cleveland Federal Reserve Bank, and Kristian Myrseth, associate professor in behavioral science and marketing, Trinity College, Dublin, surveyed 5,000 people in the US, asking them to weight natural risk factors, such as the natural course of life, aging and medical conditions.

They also asked them to weight disaster risk factors, such as shark attacks or homicide. Significantly, the research showed that the young, with their pessimistic survival beliefs, over-weighted disaster risk factors, such as shark attacks. The old, who are survival optimists, placed more weight on natural risk factors.

There is no clear explanation why. Youth pessimism may be fueled by media coverage of freak external events, such as plane crashes, which are increasingly grabbing the headlines. As people age, these rare events take a cognitive backseat to thoughts of health and natural aging that are more salient to them.

WHAT IS YOLO?

It stands for You Only Live Once and originates from American slang. There is also a very difficult snowboarding move called YOLO. The young yolo too much, and the old too little, according to the research model and data



Why do young people think there's a shark lurking round every corner?

» IF WE THINK WE WON'T BE AROUND TOMORROW, THEN RATIONALLY, WE SHOULD HAVE A BIG PARTY TODAY. IF WE THINK WE WILL BE AROUND TOMORROW, THEN WE SHOULD SAVE SOME OF OUR CASH TODAY – SO WE CAN CONSUME TOMORROW «

RAPHAEL SCHOENLE

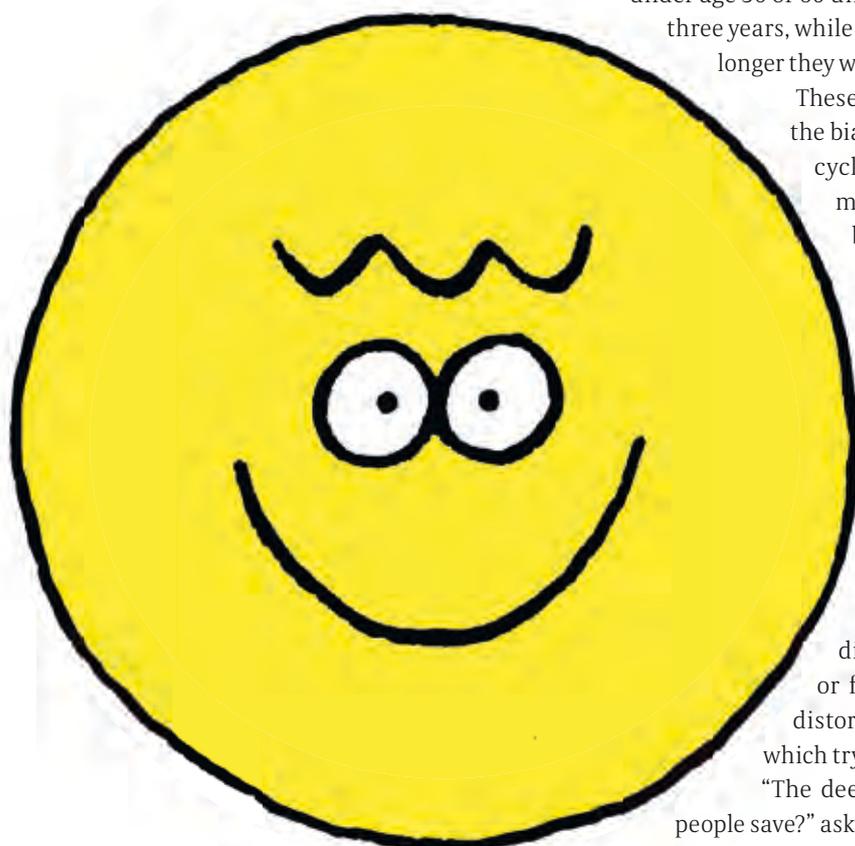
SHINY, HAPPY RETIREES

What is interesting is the moment of transition. The pivotal point when people's survival beliefs change tends to be around retirement. At this time, people switch from pessimism to optimism regarding their subjective mortality, says Schoenle. For example, the average person under age 50 or 60 underestimates their survival by between two and three years, while the average post-retiree overestimates how much longer they will live by up to five years.

These belief distortions have economic repercussions: the biases affect saving patterns at both ends of the life cycle, which can compound into large financial mistakes. The young, with their pessimistic survival beliefs, tend to spend more than they earn, live hand-to-mouth and rely heavily on credit cards.

Conversely, the more optimistic you are, the more likely you are to save: the optimistic old tend to consume too little and save too much, with wealth sometimes even increasing during retirement. More precisely, Schoenle's research includes actuarial transition probabilities showing that the young under-save by 30%, while retirees consume about 15% less during retirement relative to an optimal, actuarial benchmark. And these patterns don't disappear when factors such as education, income or financial literacy are taken into account. This distortion may provoke problems for retirement plans, which try to make retirees draw down their assets.

"The deep, motivating question for me is: what makes people save?" asks Schoenle. "We know that the decision how much to save is tied to many factors, such as risk aversion and bequest motives. But quite crucially, these decisions are also connected to the beliefs we have that we'll be around tomorrow. If we think we will not be around tomorrow, then rationally, we should have a big party today. If we think we will be around tomorrow, then we should save some of our cash today – so we can consume tomorrow."



**The older you get,
the more optimistic
you become.
And then you die**