

# Time Horizons Vary Between Financial Decisions

Wändi Bruine de Bruin<sup>1,2</sup>, Alycia Chin<sup>2</sup>, David Zimmerman<sup>2,\*</sup>, and Wilbert van der Klaauw<sup>3</sup>



## Abstract

Time horizons are central to financial decisions. People with longer time horizons tend to have higher incomes, lower inflation expectations, are more likely to think they have enough to retire and are more likely to use financial advisors.

**Most studies treat time horizons as if they are the same across financial decisions. For example, they ask about time horizons for spending, saving, their combination, or retirement planning.**

In secondary analyses of two nationally representative surveys, we show that time horizons for spending and saving are not the same (Study 1) and differ from time horizons for retirement planning (Study 2). Shorter time horizons, such as for spending, show stronger correlations with outcomes.

## Time Horizon Question

“In deciding how much of their family income to spend, people are likely to think about different financial planning periods. In planning your family [financial decision], which of the following time periods is most important to you (and your spouse/partner)?”

## STUDY 1: TIME HORIZONS FOR SPENDING VS. SAVING

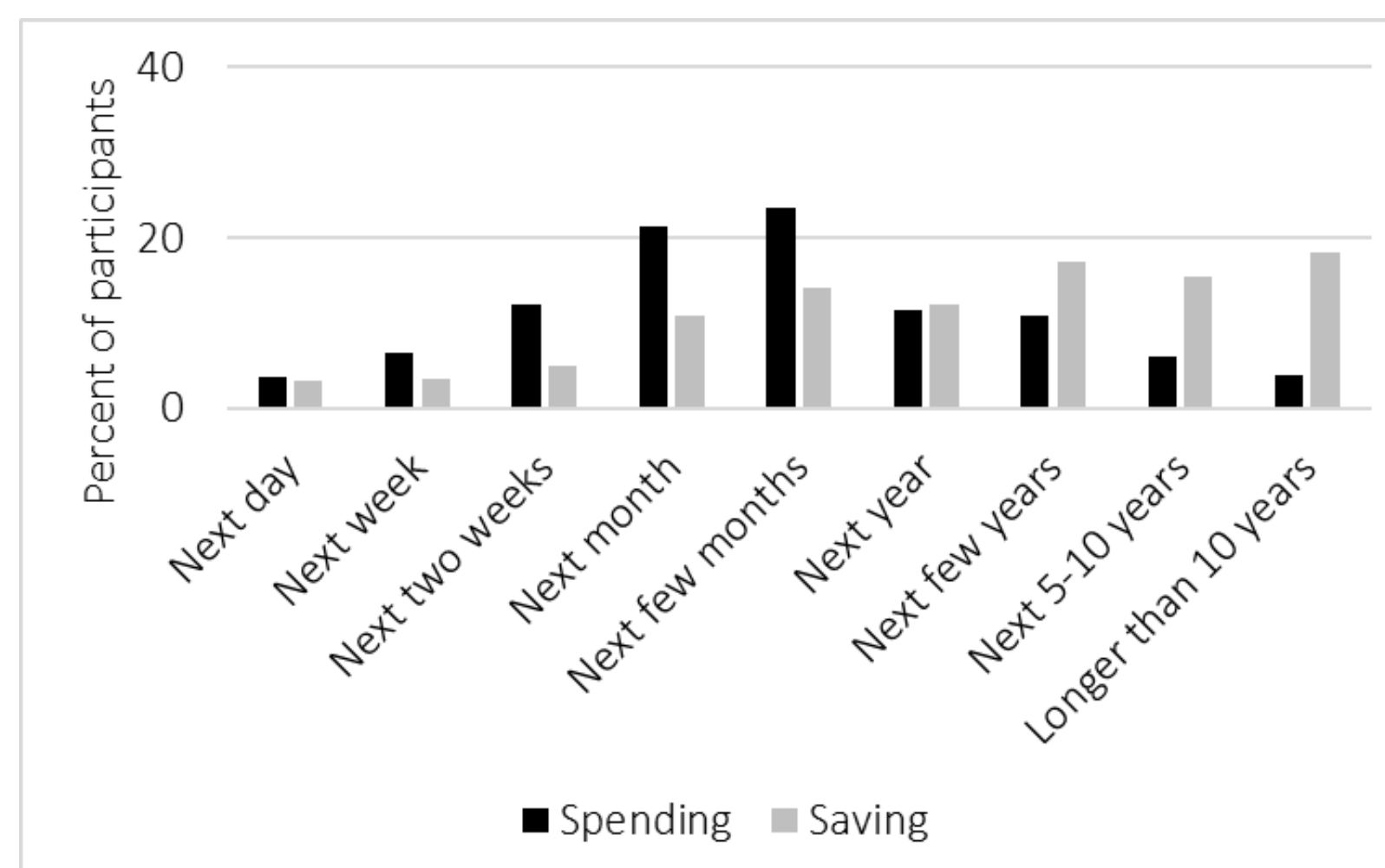
### Sample

609 participants of the nationally representative American Life Panel.

### Time horizons are shorter for spending than for saving

Median spending time horizon was “next few months.” For saving, it was “next few years.”

(Sign test:  $z = 15.44, p < 0.001$ )



### Time horizons for spending show stronger correlations with outcomes

	Spending	Saving
Income	.24***	.24***
Next year prices in general >5%	-.19**	-.13*

## STUDY 2: TIME HORIZONS FOR SAVING & SPENDING VS. RETIREMENT PLANNING

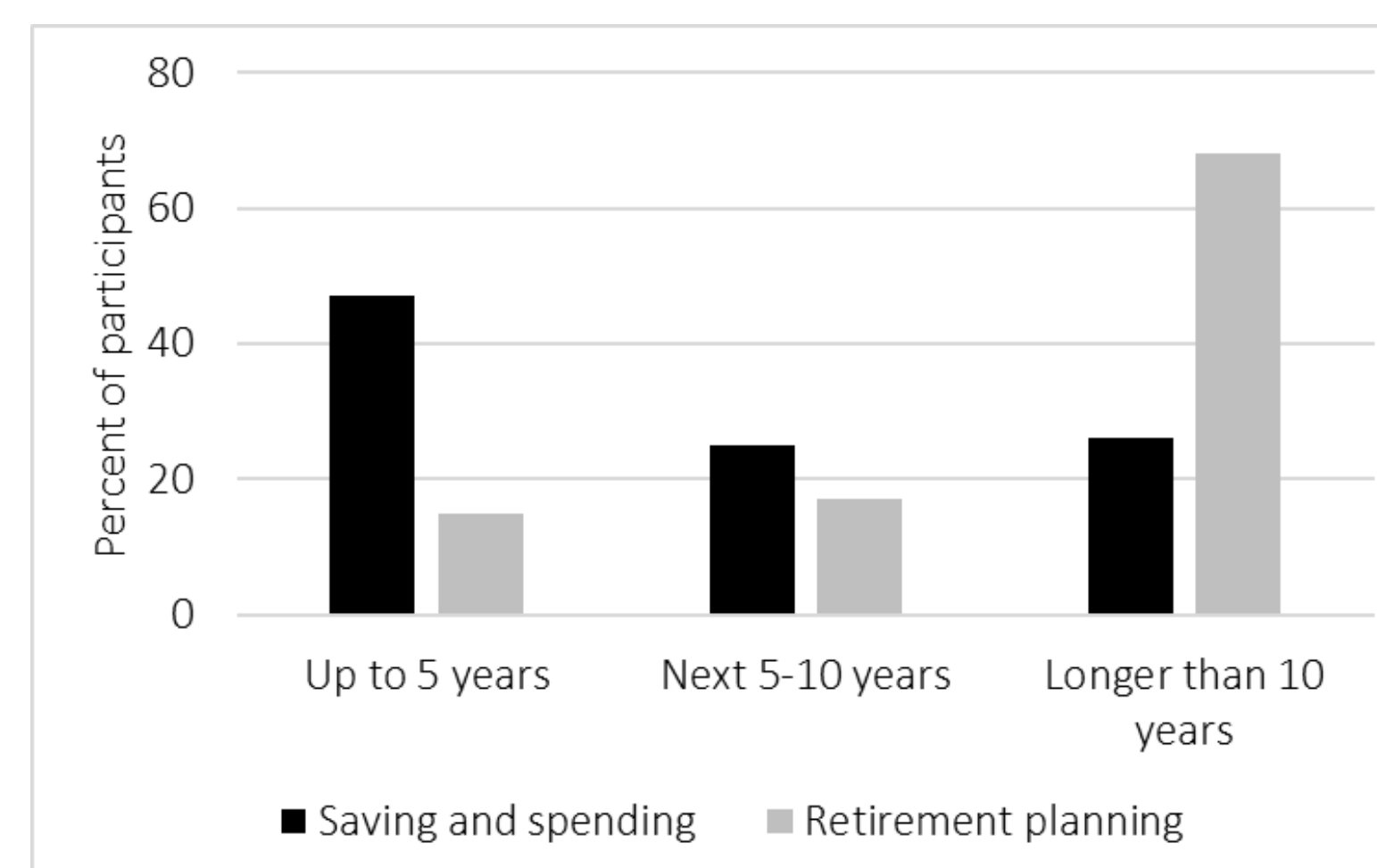
### Sample

1214 participants of the nationally representative Understanding America Study.

### Time horizons are shorter for saving & spending than for retirement planning

Median spending time horizon was “5-10 years.” For retirement savings, it was “more than 10 years.”

(Sign test:  $z = 21.36, p < 0.001$ )



## Time horizons for spending & saving show stronger correlations with outcomes

	Saving & Spending	Retirement planning
Income	.22***	.16***
Having enough to retire	.19***	.10
Using financial advisor	.21***	.16**

## Conclusion

- Time horizons vary between financial decisions and should not be treated as the same
- Shorter time horizons, such as for spending, are more strongly correlated to financial outcomes than longer time horizons
- We therefore recommend asking about shorter time horizons, such as for spending.

### Disclaimers

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