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GIVE WITH A WARM HAND

The Silver Lining of COVID-19

By Meir Statman, PhD

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A few years ago, I was speaking at an Investments & Wealth Institute conference about the mental obstacles underlying the "consumption gap" and how financial advisors can help clients overcome them. The consumption gap lies between people's actual spending and potential spending made possible by their wealth.

A number of advisors approached me after my presentation, telling me about widows who splurge irresponsibly soon after their husbands die, and the dangers of giving adult children money without asking them to pay it back. One advisor stood aside, waiting until all the others have left.

"I burst out crying when you said, 'It is better to give with a warm hand than with a cold one,'" she said. Indeed, she had tears in her eyes when she spoke to me. It turned out that she lent her son some $27,000 for college tuition and now demanded that he pay her by the agreed schedule. She reasoned that paying by schedule would benefit her son, teaching him financial responsibility. But the son was financially squeezed now, at the beginning of his career, lacking even money to buy his girlfriend an engagement ring, and his mother's demand soured their relationship. The mother had more than enough to forgive the loan without imposing any hardship on herself, giving with a warm hand rather than with a cold one.

COVID-19 is a very dark cloud but it has a silver lining, reminding us of the joy of giving with a warm hand. A neighbor set a pantry outside her home and stocked it with food for those who need it. Another modified a "little free library," adding homemade masks to the usual assortment of books. I hope that we keep that silver lining long after the dark cloud is gone.

A few months after my Investments & Wealth Institute presentation, I wrote an article in the *Wall Street Journal* about the mental obstacles facing us as we transition from saving to spending (Statman 2017). I have learned much from people who posted comments or emailed me. These lessons can help advisors improve their practices, benefitting their clients and themselves.

Here is a story of a so-called "splurging" widow:

> *My husband was reared by extremely thrifty parents who survived the Great Depression and World War II and through hard work and frugality bordering on stinginess (all Christmas gifts came from the Salvation Army) accumulated a very comfortable nest egg. They passed on to him their fiscal philosophies and my husband absorbed them like a sponge.*
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> *My husband handled our finances. Once he died and I took over the finances, I was amazed at how much money we had. I shall have to work very hard to spend all of it, but I plan to give it my best effort. In the two and a half years since my husband died, I have been to Africa and made three trips to Europe. I have already booked trips to see lowland gorillas in Rwanda and Uganda, snow monkeys in Japan, penguins in Antarctica, and ride a horse across the Mongolian steppes. These trips were booked after my doctor told me that based on her patients, 80 is the age at which people lose their energy and enthusiasm for traveling. I am attempting to get in as many trips as I can before hitting that mile marker.*
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> *I have also made many donations to local charities and plan to set up a trust fund for a friend's grandchild who has Down syndrome and would otherwise become a ward of the state when his hand-to-mouth existence parents die.*
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> *My husband never reaped any benefits from his saving habits and only received three months of Social Security before dying. May others escape his fate.*

Is it possible that advisors empathize too much with miserly husbands and too little with women set free by widowhood?

MENTAL TOOLS TO MANAGE SAVING AND SPENDING

We tackle the saving and spending task with the mental tools of framing, mental accounting, and self-control. We frame our money into distinct mental accounts, mainly "capital" and "income," and set self-control rules of saving and spending. Income includes salaries, pensions, interest, and dividends, among other income sources. Capital includes houses, bonds, stocks, and other investments. Self-control tools include automatic transfers from income such as salary to capital such as individual retirement accounts and 401(k) accounts, and automatic reinvestment of interest and dividends into mutual fund accounts, and the rule of "spend income but don't dip into capital."

People who are fortunate to earn good incomes during their working years and employ these mental tools successfully accumulate substantial savings. But these useful mental tools can turn into obstacles in retirement when income diminishes and it is time to dip into capital. One extremely wealthy man, a retired insurance company executive, wrote in response to my *Wall Street Journal* article: "I've struggled with boundary issues between income and capital. I've actually taken on a couple of board of director assignments so that I feel justified spending for what I consider extravagant."

SELF-CONTROL HELPS

Self-control is not easy to muster and some fail to muster it at all. Wants for spending it all today overwhelm wants for saving for tomorrow when self-control is weak. National Football League (NFL) players enjoy very large income spikes that amount to substantial wealth, but wants for spending today often overwhelm wants for saving for tomorrow. Bankruptcy filings of many NFL players begin soon after the end of their careers (Carlson et al. 2015).

Circumstances, especially poverty, can undermine self-control, breeding scarcity and narrowing options. These overload people's cognitive and emotional resources and hamper saving, job performance, and decision-making. Poverty is regularly exploited. The most profitable American credit card consumers are those on the verge of bankruptcy (Freeman 2013).

Some people are savers by nature and nurture. The "big-five" personality traits psychologists discuss are conscientiousness, neuroticism, extraversion, agreeableness, and openness. Conscientiousness is the trait most closely associated with self-control. The retired insurance executive went on to write: "The points on conscientious saving hit the nail on the head. I grew up as one of nine children of Depression-era parents. They always stressed education, achievement, savings, and marital happiness over satisfying urges for material things."

EXCESSIVE SELF-CONTROL HARMS

Self-control can be excessive. Indeed, excessive self-control is as prevalent as insufficient self-control. Excessive self-control is evident in the tendency to spend less today than our ideal level of spending, driving tightwads to extremes beyond frugality. The prospect of spending money inflicts emotional pain on tightwads even when it might otherwise be in their interest to spend.

The interplay between emotion and cognition is evident in functional magnetic resonance imaging of people who see a product followed by its price and then are asked to decide whether to buy it or not. Seeing the price activates the insula, the region of the brain stimulated by painful sensations such as social exclusion and disgusting odors, and it leads to a stronger response among people who decide not to buy the product than among people who decide to buy (Knutson et al. 2007).

Another reader wrote, "What if the enjoyment is in the saving, and the pain is in the spending?" And another shared: "Every so often there are articles of people who have accumulated vast wealth relative to their lifetime income, and when they pass at an old age and people find out they feel sad for them that they lived frugally and never spent it on anything. I sometimes think they are missing the point. The total enjoyment for that person was in the saving and living miserly and frugally and well below one's means. To a certain degree, I am that person."

Moreover, excessive self-control can induce people into a mindset where spending is what irresponsible people do, reflected in this reader statement: "I'm saving now because good, admirable, upstanding people sacrifice their current standard of living to save, save, save for the future."

WE SPEND LESS AS WE AGE AND DIE SOONER THAN WE HOPE

Concern about running out of money is regularly exaggerated in inflated estimates of life-expectancy. Social Security tables indicate that, on average, only one in 10 of today's 65-year-old men will live to age 95. Yet one reader wrote: "With discoveries in biotech rolling out of labs in droves, we may have reached a technological tipping point as regards life expectancy. I think todays' 60-somethings will live to be 100 easy, maybe 110, and their children will probably make it to 150." Reality, however, is still some distance away from the labs. The oldest-in-the-world woman, Jeanne Calment, who was French, died in 1997 at age 122. The oldest-in-the-world man, Jiroemon Kimura, who was Japanese, died at age 116 in 2013.

Moreover, older people spend less, in large part because physical limitations make them less able to spend and because they are less inclined to spend for personal reasons. Spending at age 84, adjusted for inflation, is 23-percent less than it was at age 62 among college-educated American couples. Spending on movies, theatre, opera, and concerts declines by more than 50 percent between the ages of 60 and 80. Spending on hearing aids, nursing homes, and funeral expenses increases by more than 50 percent (Vettese 2016).

One reader wrote:

> *Lots of people lose a spouse and do not travel or vacation much because they are by themselves. They have enough money but just do not go anywhere or do much. They have lost their best friend and have not found a second life after losing their spouse. So they sort of mope around and just do not do much. It is really sad. I know a few people in this situation and have tried to help, but there does not seem to be much you can do.*
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> *We lose not only spouses, but friends; couples we used to dine or travel with. Same-sex individual friends we used to golf or shop with. Suddenly we're left to do those things alone, or not do them. Balance, while we have the resources to seek balance, is important to a fulfilling retirement.*

SPEND YOUR SAVINGS ON YOURSELF, YOUR FAMILY, AND THE NEEDY

We need not feel guilty about spending our hard-earned savings on ourselves. As one reader wrote:

> *During my career I was a very conscientious saver and investor. I always maxed out my 401(k) contribution and put a large percentage of my salary and bonus into a deferred compensation program. I have had a difficult time changing my mindset from a saver to a spender. This article helped me make that mental transition. The first thing I did was to go out and get fitted for a new set of Ping golf clubs and I didn't feel guilty about it!*

Some people derive no pleasure from spending on themselves. Another reader wrote: "If one has never derived pleasure from material things, why would that change in retirement? A cup of coffee and a walk on the beach at dawn and I'm happy. The psychic income from being over-saved has value."

I empathize with this reader. I, too, like a cup of coffee and a walk on the beach, even if not at dawn. But why not share "over-saved" money with family and the needy? One reader who has learned the lesson wrote: "I learned from my mom that the greatest joy in life is giving to your family. She would give something to all her six children, their spouses, the grandchildren, the great grandchildren, and all their spouses on their birthdays, anniversaries, St. Patrick's Day, Valentine's Day, and no reason at all. If you want the closest thing to eternal life, try this."

Another wrote about balancing spending on himself, his family, and the needy:

> *I am deriving pleasure from assuming the strategy of 'I am through saving. Now I am spending.' Judiciously, to be sure, but nevertheless with a view to obtaining satisfaction. Thus, my wife and I have made some long-desired renovations to our home, plan to schedule at least two major overseas vacations a year, supplement our children's financial needs at a time when they need it and when I can see the result. I devote more time and financial support to charitable work. I continue to spend time exercising at a local athletic club, now free thanks to Silver Sneakers. I read more, and indulge in my love of classical music. All of this gives me significant satisfaction.*

BETTER TO GIVE WITH A WARM HAND THAN A COLD ONE

One reader faulted me for failing to "address preserving capital for the next generation, which is a priority for some of us octogenarians." But why not give money to the next generation with a warm hand rather than with a cold one?

Indeed, why not expand the circle of giving to a community far beyond the next generation of our own family, as we do in the time of COVID-19, giving with a warm hand?

WHAT CAN ADVISORS DO?

Advisors can initiate conversations with their well-off clients about giving with a warm hand by noting the obvious, that we cannot take it with us—there are no pockets in the shroud. Next, advisors can calculate how much wealth clients are likely to leave behind if they continue to spend as they do or even increase their spending. Advisors also can make allowances for future expenses on the minds of clients, such as medical expenses in old age. Many well-off clients will see that they are likely to leave millions, perhaps many millions, when they are gone.

Clients are often concerned that if they give to their adult children with a warm hand at the beginning of their adult lives, they will spoil their children and diminish their ambitions. Some clients alleviate that concern by inducing their children, even pressuring them, to join the family business. Indeed, this is what some advisors suggested following my Investments & Wealth Institute presentation.

Several years ago, I was speaking at a meeting of wealthy clients, mostly business owners. One session was devoted to clients sharing family stories. Here are three stories.

A father talked about his beloved daughter, and his love was evident in his voice, beyond words. The daughter had no interest in joining her father's thriving financial company. Indeed, she had no interest in academic studies. But she had an interest in art. Earlier in the day a speaker described the many ways of investing in art. This gave the father an idea. He can establish an art gallery and have his daughter manage it. The gallery

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might make money or not. The father did not care. What he cared about was the well-being of his daughter.

A woman, scion of a wealthy family, found her vocation in medical research. She pleaded with her fellow wealthy people to encourage their children to develop vocations of their own, and use family wealth as support rather than as burden.

Two cousins described taking over the family business from their elders and working hard to maintain its success. They also described two other cousins, beneficiaries of that business, who used their ample money to do nothing but party. It is sad to know that children do not develop vocations, despite parents' urging and help. But it might be best to let go, thinking of these partying children as we think about disabled children.

"Shirtsleeves to shirtsleeves in three generations" is a proverb uttered in derision, as wealth created by one generation is dissipated by the third. But I find that proverb appealing. Wealth is not like antique china, to be handed intact from generation to generation. Wealth is for enhancing well-being, even if it is dissipated along the way.

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