

AI-00925 Hyperbolic Discounting vs Neglect

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What is the concept of hyperbolic discounting (HD)?

What are the behavioral foundation of HD?

Is HD related to the concept of neglect in the context of an heir not being able to take care of properties left behind by retired parents such as a house, cars, business and lands? Explain and deep dive.

Hyperbolic Discounting (HD) Explained

Hyperbolic discounting (HD) is a cognitive bias that affects how we value rewards. It describes our tendency to **favor immediate rewards over those that are delayed, even if the delayed reward is objectively larger.**

Here's the breakdown:

- **Present bias:** We place a higher value on things we can have now compared to things we'll get later.
- **Steeper decline:** The value of a future reward seems to decrease more dramatically the further in the future it is.

Imagine you're offered \$100 today or \$150 in a month. HD predicts you might choose the \$100 now, even though \$150 is a better deal in the long run.

Behavioral Foundations of HD

The exact cause of HD is still debated, but some theories suggest:

- **Impulsivity:** We prioritize the immediate gratification of having something now.
- **Self-control depletion:** Making decisions uses mental resources. Choosing to wait for a larger reward can deplete these resources, making it harder to resist immediate gratification later.
- **Evolutionary roots:** Early humans might have prioritized securing immediate needs for survival over uncertain future benefits.

HD and Neglect: The Case of the Inherited Properties

Absolutely! HD can play a role in how an heir handles inherited properties. Here's how:

- **Maintenance neglect:** Upkeep on houses, cars, or businesses requires ongoing effort. HD might make the heir prioritize the short-term gratification of avoiding chores today over the long-term consequences of neglecting maintenance, leading to property deterioration.
- **Financial neglect:** Managing land or businesses requires planning and financial responsibility. HD could cause the heir to prioritize spending inherited money now over investing it for the property's future or their own long-term security.

Deep Dive: The Cycle and How to Overcome It

HD can create a cycle of neglect. Here's how it might unfold:

1. **Inheriting properties:** The heir receives a windfall and feels a sense of immediate financial security.
2. **Prioritizing short-term gratification:** HD kicks in, leading the heir to focus on spending or neglecting maintenance due to the perceived distance of future consequences.

3. **Property decline:** Without proper care, the properties deteriorate, potentially losing value or requiring expensive repairs.
4. **Financial strain:** The neglected properties might not generate income or require significant investment, creating financial strain for the heir.

Overcoming HD:

- **Awareness:** Recognizing HD's influence on your decision-making is the first step.
- **Long-term planning:** Set clear goals for the inherited properties and create a plan to manage them effectively.
- **Commitment devices:** Pre-commit to actions that counter HD. For example, schedule maintenance appointments in advance or set up automatic transfers for investment purposes.
- **Seek help:** If managing the properties feels overwhelming, consider hiring professionals for financial planning or property management.

By understanding HD and taking proactive steps, heirs can avoid the neglect trap and ensure the inherited properties remain valuable assets for themselves and future generations.

As for saving much to leave a legacy for the love ones we leave behind, if we know that our heirs most likely will fall into the "neglect trap" (NT), is it fair for us the empty nesters to not overthink of saving something for our birds because they usually does not care much of we left behind because they themselves has enough resources to go by?

You raise a very interesting point about balancing saving for a legacy with the potential for the "neglect trap" (NT) to affect your children. Here's how to consider it:

Understanding Your Children:

- **Communication:** Open communication is key. Talk to your children about your plans and concerns. Gauge their interest in and ability to manage any inheritance.
- **Financial Literacy:** Do your children have the financial literacy to manage larger sums? Consider helping them develop a budget or investment skills.

Alternatives to Large Inheritances:

- **Gradual Transfers:** Instead of a large lump sum, consider smaller, planned gifts throughout your life. This gives your children experience managing money and allows you to enjoy some of the benefits of your savings.
- **Experience Over Possessions:** Some value experiences more than material possessions. Consider funding family vacations or educational opportunities instead of large inheritances.
- **Charity in Their Name:** If your children are well-off, consider leaving a legacy through donations to charities they support. This can fulfill your desire to leave something meaningful while avoiding potential NT issues.

Reframing the "Fairness":

- **Security Blanket:** A well-managed inheritance can provide a safety net for your children in case of unforeseen circumstances. It might not be about spoiling them, but giving them peace of mind.
- **Building Generational Wealth:** Maybe your legacy isn't just for your immediate children, but for future generations. A well-managed inheritance can be passed down to grandchildren, fostering long-term family security.

Finding the Balance:

Ultimately, the decision of how much to save is personal. Weigh the potential for NT with your children's needs, communication level, and your desire to leave a lasting impact.

Here are some additional resources that might be helpful:

- **Estate Planning Attorney:** Discussing your concerns with an estate planning attorney can help you structure your financial legacy to minimize the risks of NT.
- **Financial Advisor:** Talking to a financial advisor can help you create a plan for managing your savings and assets effectively.

Remember, there's no one-size-fits-all answer. The goal is to find a balance that reflects your values, your children's needs, and minimizes the risk of the neglect trap.