

# Why the Marshmallow Effect Could Derail Your Retirement Plans

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“One must learn to give up momentary, uncertain, and destructive pleasure for delayed, restrained, dependable pleasure.” (Sigmund Freud)

## What is the marshmallow test?

The test was devised by Walter Mischel, a Stanford University psychology professor, in the 1960s. While the test has undergone many tweaks over the years, at its essence it is exceedingly simple. Mischel would put a marshmallow in front of a four-year-old and promise them a second marshmallow if they could resist eating the first one for 15 minutes. He would then leave the room and observe what went down.

## The prosperity principle

In financial planning, delayed gratification means resisting the temptation to spend money immediately and instead saving or investing for future benefits. It's about harmonising today's desires with tomorrow's needs, like saving money for retirement rather than spending it on non-essential items. Delayed gratification involves self-control and long-term planning.

In our experience as financial planners, one of the most prominent tests investors face is balancing short- and long-term investments. Even the highly educated can find it challenging to align short-term investment decisions with long-term goals such as having enough retirement capital. It takes a lot of discipline to get the balance right.

## Warren Buffett's Wimpy lunch

It's no coincidence that many successful businesspeople delay gratification and live frugally, even when they can afford not to. Years ago, a couple flew to Pretoria for an

appointment at the Australian Embassy. En route to the meeting, they saw Warren Buffett of all people eating with colleagues in a Wimpy restaurant! If Warren Buffett can eat at the Wimpy, you can resist the temptation to buy a new BMW...

## **The long shadow of instant gratification**

The long-term consequence of caving to the need for instant gratification is financial stress – one of the worst stresses around. A failure to delay gratification can quite easily result in being unable to retire comfortably and independently.

The adult equivalent of eating that marshmallow as soon as the professor walks out the door can take many forms. It could mean buying a big house to keep up with the Joneses, splurging on an expensive car, or buying a new iPhone whenever a new version becomes available.

## **The measure of delayed gratification**

There's a very simple way of quantifying your ability to delay gratification: check your credit score. The better your financial record, the higher your score will be. If you've missed account payments or defaulted on a loan, for example, your score will be lower. You can check your credit score online on the Debt Busters website.

Your credit score can influence many things, and knowing where you stand is worthwhile. Your credit score can influence:

- Loan approvals and interest rates
- Credit limits on credit cards and loan amounts
- The ability to rent a property
- Employment opportunities

## **Give your credit score a revamp**

Luckily, your credit score can be overhauled. Here are a few suggestions on how to improve it:

1. Always pay your accounts and outstanding debts on time every month.
2. Don't use your entire credit limit. Try to stay below 65% of what you are allowed. For instance, if your credit card limit is R20,000, your outstanding balance shouldn't be more than R 13,000.
3. Don't apply for loads of loans at the same time. If a credit bureau sees that you are asking a lot of different banks for a personal loan, they might assume that

you are under financial stress. (The exception is if you are applying for a home loan from different banks for the same property to gain the best mortgage rate.)

## **Minimalism is the new black**

Embracing a minimalist lifestyle often starts with decluttering, keeping only what is necessary or brings joy. In fashion, minimalism means having a versatile wardrobe of durable and timeless clothing that can be mixed and matched. The same applies to tech: there's no point in having multiple gadgets that do the same thing – your phone can double as a scanner, for example. Minimalism can also be as simple as making your morning coffee at home rather than buying an expensive latte on the way to work. Of course, there is a time and a place for instant gratification, but you don't want to make a habit of it ... Especially if it means missing out on the fluffy, pink marshmallow at the end of the retirement rainbow.

**Please get in touch with us if you think you might need to change your financial habits to secure your future.**

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