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ECONOMIC VIEW; How Much Does It Cost Not to Go To the Gym?

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YOU belong to a health club but visit it only once or twice a month. Your wallet is filled with gift cards to Barnes & Noble and the Gap that you promise you will use soon. You exhausted your prepaid cellphone minutes last month and faced hefty charges when you continued to make calls, but you are sure it will not happen again.

You are, in the words of a new research study, an overconfident consumer.

Such irrational confidence in one's own behavior is hardly new. The flight of Icarus, the voyage of the Titanic and the bull market of the 1920's all attest to the timelessness of human hubris.

But the day-to-day economic consequences of this hubris have rarely been as large as they are now. As the economy has become more sophisticated and simple cash is involved in fewer and fewer transactions, people must plan ahead far more than they once did. They need to choose a health care plan and to estimate whether they are spending more money on their credit cards than they are earning in salary. Among a myriad of payment plans for long-distance phone service, Internet access and gym membership, they must decide which ones will cost least.

They -- we, that is -- rarely succeed, according to recent research by economists from Stanford to Harvard. The loss of income from these mistakes is quickly becoming significant for many households.

Health club memberships offer a particularly clear case study, probably because they offer two opportunities for excess optimism. First, people overestimate the number of times they will make the effort to get to the treadmill or the weight room. Then they congratulate themselves for seeming to save money by buying an expensive gym membership that rewards frequent visitors.

Stefano DellaVigna, an assistant professor of economics at the University of California at Berkeley, and Ulrike Malmendier, an assistant professor of finance at Stanford, recently collected data at three health clubs in New England. Like many others, the clubs offer three basic membership plans. People can pay about \$10 a visit, a monthly fee of about \$70 or an annual fee of roughly \$700.

Relatively few people pick the annual contract, leaving them with what seems like a fairly simple comparison. If they expect to go to the gym at least seven times a month -- or about twice a week -- the monthly package makes sense. Any less of a gym rat should pay \$10 each visit.

This seems a good place to pause, set aside feelings of financial superiority and ask yourself how often you go to the gym. The answer for this overconfident consumer, who pays a flat monthly fee at his gym, is about once a week.

In the study, monthly members go about as often and, as a result, pay the equivalent of about \$17 a visit. Only one in five members saved money by buying the monthly contract, the professors found when they studied the clubs' records. Over a six-month period, the average member would have saved more than \$150 by paying for each visit.

THE professors summarize their findings by quoting from one of the fictional diaries of Bridget Jones: "Monday 28 April. Gym visits 0, no. of gym visits so far this year 1, cost of gym membership per year £370."

Now extend this overconfidence across the consumer economy. People will spend more than \$40 billion this year on retail gift cards, the plastic successors to gift certificates. That is up from about \$13 billion five years ago, according to the consulting firm Bain & Company. A few pennies of every dollar on these cards will never be spent. Households will also rack up cellphone charges and credit-card interest fees because they made unrealistic assumptions about their own spending patterns.

Economists describe this as "time-inconsistent behavior." When the benefits of an action are far in the future and the costs are immediate, people do not give the benefits much weight. Tomorrow's buff body loses out to the dread of today's workout, and a reduced risk of cancer is obscured by the pleasure of a cigarette. When the costs are in the future and the benefits immediate, as when the purchase of a new BlackBerry requires only the flick of a credit card, the benefits eclipse the costs.

For Bally Total Fitness, Bank of America, Barnes & Noble and other companies, consumer overconfidence turns into millions of dollars of unexpected profits. For many households, it reduces income by hundreds of dollars a year.

At a time when wages are barely keeping pace with inflation, a little humility might be a valuable thing.