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The Psychology of Saving

Saving money sounds simple. You set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve what you most want.

But in reality, saving is a little more complicated. Sometimes, our own minds work against us when it comes to setting aside some of the money we earn. A basic understanding of the psychology of saving can help you overcome roadblocks and achieve your goals.

Why It's Hard to Save

What is one of the biggest obstacles most people face when saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. One study found that most adults would prefer to have $50 today rather than $100 two years from now, for example (Source: *American Economic Review*, October 2013).

Part of the difficulty with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future.

Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more (Source: *Journal of Experimental Psychology*, November 2011). The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are a number of studies that suggest changing our mentality might allow us to set aside more money.

A recent study found that people

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Calendar of Events

Identity Theft
Mon, Feb 24th 6:00 pm | Clifty Falls Restaurant | 1550 Clifty Hollow Rd. Madison, IN *Dinner Provided

Optimizing Your Social Security Benefits
Thurs, Feb 27th 6:00 pm | Drury Inn | 9597 Brownsboro Rd, Louisville, KY *Catered by Ladyfingers
Mon, Mar 2nd 6:00 pm | Clifty Falls Restaurant | 1550 Clifty Hollow Rd. Madison, IN *Dinner Provided

Empowering Women Investors
Thurs, Mar 12th 6:00 pm | Drury Inn | 9597 Brownsboro Rd, Louisville, KY *Catered by Ladyfingers
Mon, Mar 16th 6:00 pm | Clifty Falls Restaurant | 1550 Clifty Hollow Rd. Madison, IN *Dinner Provided

2020 State of the Markets
Thurs, Mar 26th 6:00 pm | Drury Inn | 9597 Brownsboro Rd, Louisville, KY *Catered by Ladyfingers
Mon, Mar 30th 6:00 pm | Clifty Falls Restaurant | 1550 Clifty Hollow Rd. Madison, IN *Dinner Provided

The Psychology

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who adopted a cyclical mindset to saving, where they focused on making saving routine in the short term, saved more than people who set more ambitious longer-term goals (Source: *Psychological Science*, December 2013). Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.

The Psychological Advantage of Saving

Once you commit to savings, there's a good chance you'll see a psychological boost from doing so. In 2013, a survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account.

That same survey found that 82% of people reported saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences they considered meaningful.

While our mental quirks might make saving difficult, being aware of the obstacles our mind creates can help us conquer them. And that, in turn, may lead to greater savings and increased happiness overall.

Keep Track of Retirement Accounts

Most of us change jobs at least twice before retiring, leaving a trail of retirement nest eggs behind us. Now that defined-contribution plans are much more prevalent than defined-benefit plans, we have more responsibility for financing our retirement. So it's important to manage our retirement accounts actively. But how can you do that if your accounts aren't even located in one place? Here are a couple of tips:

- **Organize Your Records.** As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file — or even better, enter them all in a spreadsheet, tracking the combined balances and amounts in each type of investment.
- **Consolidate Your Accounts.** It's much easier to manage your assets if they're all in one place. Fill out the paperwork necessary for rolling them over into one account. That single consolidation account could be the plan you are currently contributing to if it permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there.
- **Reclaim Lost Accounts.** If you've lost track of one or more of your accounts with a former employer, contact your old employer and ask them to confirm that you participated in the plan and the steps you need to take to get a current statement of your account. Or, find an old statement and look for a contact phone number or address. As long as there are assets in the account, the financial institution can probably still account for them.

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5 Reasons to Start Saving

If you're interested in getting started with savings or want to save more, here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies — Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. Plus, the more debt you have, the more difficult it is to save. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll Be More Independent — With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge.

3. You'll Be Able to Reach Your Goals — We all have goals. Maybe you simply want to enjoy a comfortable retirement one day. Or perhaps you're dreaming of a second home by the lake, sending your kids to college, or starting your own business. Whatever your dreams, they likely have one thing in common — they probably require some money to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money — Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving. Because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier — Money isn't the only thing that can make us happy. But there's evidence that saving money, even in small amounts, can make us happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to unhappiness. ❍❍❍

Estate Planning for Blended Families

Every family has a unique culture which brings about unique challenges. In a blended family, determining what's "yours, mine, and ours," is an issue that is better addressed proactively, rather than reactively. Have these important talks with those who would be impacted in case of a death or disability. Doing so proactively helps to ensure that priorities and intentions are communicated before there is a misunderstanding or the loss of a loved one. Utilize this article as a blueprint or a checklist to help remove the emotion as you work through the myriad of issues that need to be reviewed when you blend a family.

Discovery

The first step in developing an estate plan in a blended family is for you and your spouse to have a very open conversation to discover:

✔ **Plans that you may have from previous marriages —** To understand how previous arrangements might impact your new plan, you will need to review any plans that you have in place from previous marriages, including wills, trusts, beneficiary designations, guardianship, etc. For example, your current spouse may not be entitled to a retirement account if it was part of a divorce settlement specifying that it goes to your previous spouse.

✔ **Goals and wishes —** Each of you needs to clearly define your goals for upholding previous obligations, how guardianship will be handled for both biological and stepchildren, and how you want your separate or combined assets distributed. This is extremely important, because how assets are owned determines how they will be distributed in the future. For example, imagine if your spouse passes away and unbeknownst to you, all assets were left to the children from a first marriage, while you don't have enough money to pay the monthly bills. Straightforward communication is the key to developing a blended estate plan.

✔ **Together or separate —** Commingling or keeping assets separate can depend on several factors a couple needs to decide. If one party brought in significant assets, you may decide to keep those separate while commingling assets that you build together. Children also play a major role in this decision. Maybe you already have college accounts or trusts established for your children from a previous marriage and those assets should remain separate. Many parents feel strongly about setting aside assets specifically for their children from a previous marriage. Again, forthright communication is key.

✔ **Review the marital property laws in your state —** Make sure you understand how your state laws govern the way you hold assets. For example, if you live in a community property state, any assets not identified as separate will be considered equally owned as community property of the couple, even if they were assets you intended to keep separate because they were acquired prior to the marriage.

Documentation

While you may feel it's overkill, you need to document every detail of your estate plan to avoid potential issues down the line, especially if you have children and former spouses. Also, this legal documentation will help avoid the expensive and potentially emotional issues involved with probate court.

✔ **Wills —** You should create a will that provides clear instructions on how all of your assets are to be distributed, guardianship for minor biological and stepchildren, healthcare directives, and any other wishes to be carried out should either of you become incapacitated or die.

✔ **Trusts —** Blended families should consider developing a trust, which holds the assets on behalf of and defines how and when the assets pass to the beneficiaries. A trust can also last for years, through the lifetimes of a surviving spouse, children, and even future generations. For blended families, certain types of properly established trusts can provide financial support for your spouse and still make sure something is left for your children.

✔ **Account titles —** Even if you have a will or trust, you will also want to make sure that accounts such as a retirement account have defined beneficiaries. Additionally, other accounts can be owned as joint tenants with right of survivorship or transfer on death, making the owner's intentions clear that the assets go directly to the party named on the account.

This is one of the most important ways we can provide resources for you. We're here to help. ❍❍❍

Buffalo Cauliflower Baked Mac & Cheese

Ingredients:

7 T Unsalted Butter
1 Medium Cauliflower Head, cut into florets (approx. 4 cups)
1 Lb. Elbow Macaroni
2 Celery Stalks, finely chopped
1 Small Yellow Onion, finely chopped
2 Cloves Garlic, minced
¾ C Hot Sauce, preferably Frank's Red Hot Buffalo Sauce
2 T All-Purpose Flour
2 t Dry Mustard
2 ½ C Half and Half
1 Lb. Sharp Cheddar Cheese cut into ½ inch cubes or shredded
8 oz. Pepper Jack Cheese, Shredded (approx. 2 cups)
2/3 C Sour Cream
1 C Panko Breadcrumbs
½ C Crumbled Blue Cheese
2 T Fresh Parsley, chopped

Directions:

Preheat the oven to 350 degrees. Butter 13x9 inch baking pan. Bring a large pot of salted water to a boil. Cook the Cauliflower until just tender, approx. 5 min. Use a slotted spoon to remove the Cauliflower and submerge into a large bowl filled with Ice Water. Bring the water you used for the Cauliflower back to a boil and cook the pasta until al dente. Drain Pasta and set aside. Once cooled, drain the Cauliflower.

Melt 3 T of Butter in a large skillet over med-heat. Add Celery and Onion. Cook until soft, approx. 5 min. Stir in the blanched Cauliflower and Garlic. Cook 2 minutes, then add ½ C Hot Sauce. Simmer until slightly thickened, approx. 1 min.

In a medium saucepan, melt 2 T butter over medium heat. Whisk in Flour and Dry Mustard until smooth. Whisk in Half and Half. Add remaining ¼ C Hot Sauce and stir until thick, approx. 2 min. Whisk in the cheeses until smooth. Whisk in Sour Cream until smooth.

Spread the pasta in the buttered baking dish and pour in half of the cheese sauce. Top with the Cauliflower mixture, then layer the remaining Macaroni. Pour the remaining Cheese Sauce on top of it all.

In a microwave safe bowl, melt the final 2 T of Butter, approx. 30 seconds. Stir the Panko, Blue Cheese and Parsley into the melted Butter. Sprinkle over the Macaroni, Cauliflower and Cheese Sauce in the baking dish. Bake until bubbly, approx. 30-40 min. Let cool 10 minutes, then serve with additional hot sauce on the side. ❍❍❍

Investment Answers News

With the turning of the decade, many important changes for inherited IRAs have gone into effect. As of January 1, 2020, the **SECURE Act (Setting Every Community Up for Retirement Act of 2019)** has gone into effect.

This Congressionally approved bill is intended to: 1) Help reduce the costs associated with setting up retirement plans for small employers, 2) Increase access to lifetime income options (annuities) inside of retirement accounts, 3) Make significant changes to the Required Minimum Distribution (RMD) requirements of IRAs, and 4) Make changes to the IRA contribution restrictions allowing for continued contributions beyond age 70 1/2.

This new law has the potential, according to the Congressional Research Service, to increase tax revenue by $15.7 billion dollars just in Federal tax revenue, not to mention State tax revenues for Inheritance and Income taxes.

Because this is the largest retirement planning bill since the Pension Act of 2006, we will be utilizing our presentations and published content as ways to get as much information to you as possible to help you better understand how these changes can impact your accounts, your beneficiaries, and the retirement planning adjustments you may need to make.

Please consider joining us for our State of the Markets events in March where this will be addressed in detail. We will also reference some key points from the SECURE Act during our February and March Social Security presentations and in our Empowering Women Investors events. ❍❍❍