

FLInancial Wellness

Angela Amarillas, '97, '01

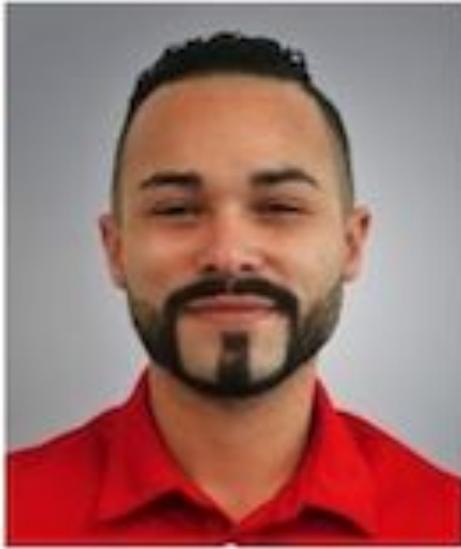
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With
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Achieving Your Financial Aspirations

1

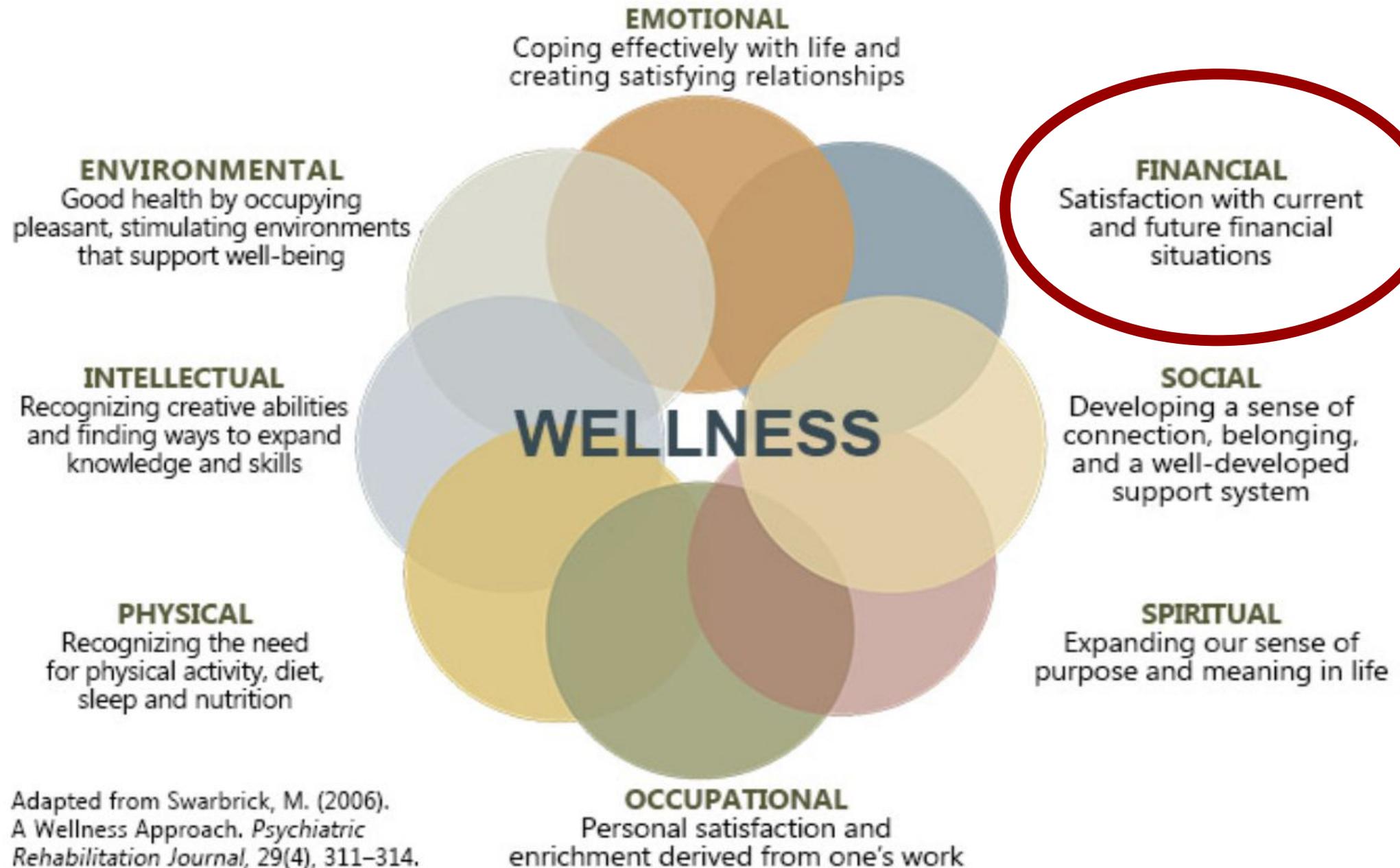
Define an aspiration to increase your financial wellness.

2

Identify your next steps in building healthy financial habits.

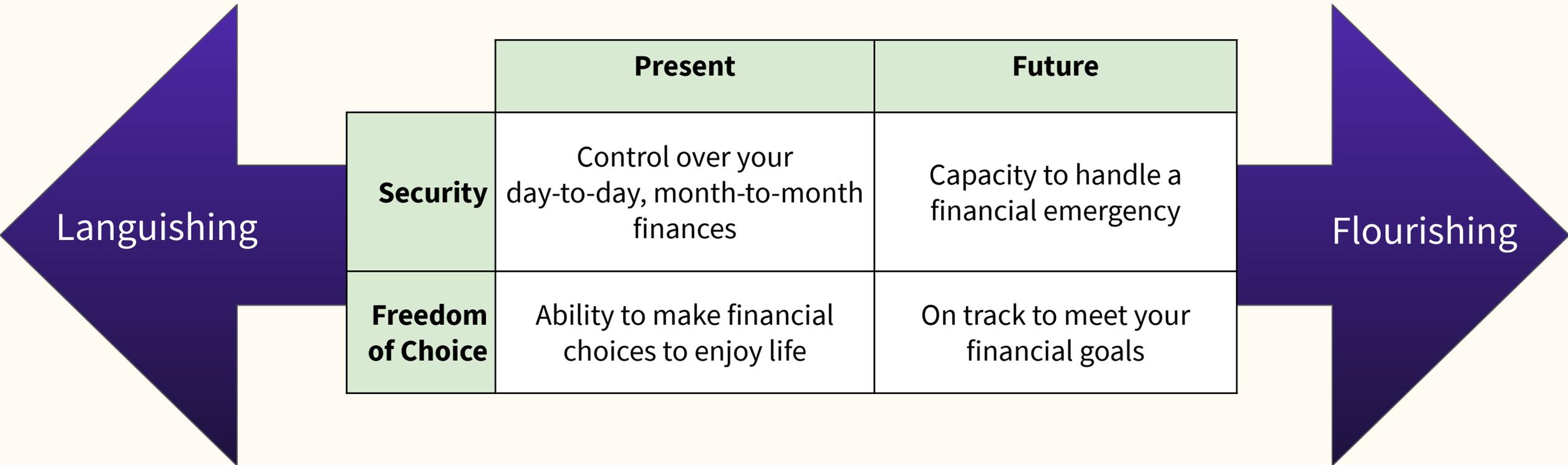
3

Access Mind Over Money resources.

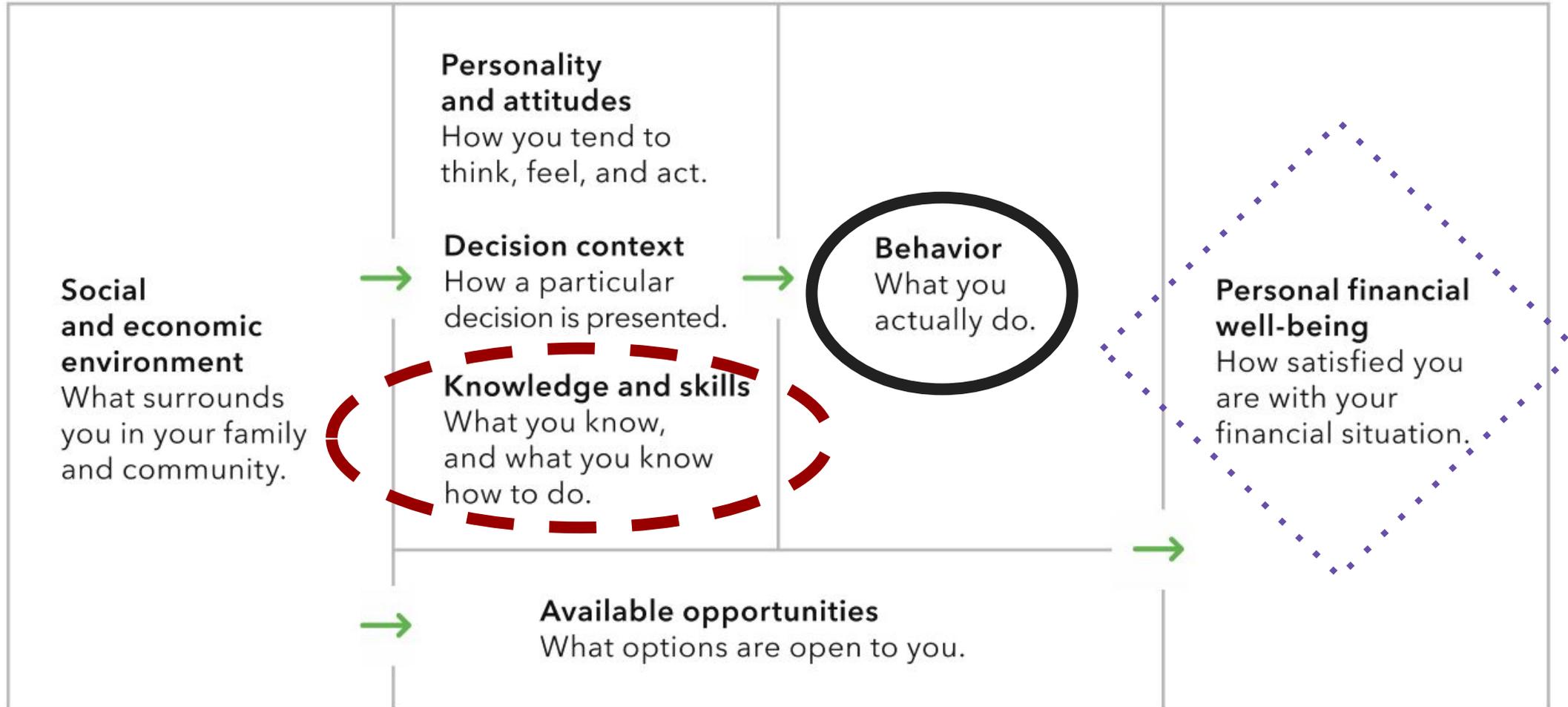


Adapted from Swarbrick, M. (2006).
A Wellness Approach. *Psychiatric
Rehabilitation Journal*, 29(4), 311-314.

Financial Wellness



Factors that Influence Financial Wellness



Financial well-being: The goal of financial education. (2015). Consumer Financial Protection Bureau (CFPB).

What does financial wellness
mean to me?

What are my financial aspirations
now and for the future?

What do I need to *know* and *know
how to do* to achieve my
aspirations?



Financial Behavior Design

Financial Behavior Design Guidebook

<https://tinyurl.com/financial-behavior-guidebook>

STEP 1 - Define Your Financial Aspirations

STEP 2 - Get Clear about Your Aspirations

STEP 3 - Match Your Aspirations to Actions

STEP 4 - Design Your Environment for Action

NEXT STEPS: Putting Your Plan in Place

	Present	Future
Security	Control over my day-to-day, month-to-month finances <i>Earn/gather enough money to cover my summer expenses</i>	Capacity to handle a financial emergency <i>Have a savings account with three months of expenses</i>
Freedom of Choice	Ability to make financial choices to enjoy my life <i>Be able to treat a friend to dinner whenever I want</i>	On track to meet my financial goals <i>Stop working (not have a regular income) by 65</i>

FINANCIAL CAPABILITY

Managing
Money



Planning
Ahead



Getting Help



Making Choices



Managing Money



~~Spend Less, Earn More~~

Spend Mindfully, Earn Enough

Develop sound habits and make conscious adjustments
in day-to-day money management

Managing Money - Psychological Pitfalls and Solutions

The Pleasure/Pain Paradox

Swipe a Debit or Credit Card to buy something you really want today



Inability to pay off that purchase or do something you really wanted to.



Skipping a spring break trip with friends to save toward graduate school.



Graduating with your MBA, MD, MS, or PhD



Managing Money - Psychological Pitfalls and Solutions

The Pleasure/Pain Paradox

Flip the Paradox. Make spending painful and savings pleasurable!

- Automate your savings/investing so you can set it up and forget about it.
- Every time you spend money (or when you review your budget) ask yourself if that was an investment or a cost and whether you are satisfied or maybe want to create a strategy around those kinds of purchases.
- Pay yourself first (put money in your savings account(s)) and live off of what is left
- Remind yourself daily or weekly of your long term financial aspirations to keep them top of mind.

Managing Money - Psychological Pitfalls

Hyperbolic Discounting

We prefer a payout today over a bigger payout in the future.

The future is uncertain. We discount rewards in the future compared to rewards today because we are not guaranteed to see the future.

When we are in uncertain environments or experience uncertainty or instability we increase their preference for rewards in the present and require much larger benefits in the future to change our decisions.

Managing Money - Psychological Solutions

Hyperbolic Discounting

- Create a stable vision of your future.
- Think about your future self and aspirations often.
- Automate your finances so you reduce the amount of times you are choosing between what you spend on today vs. save for tomorrow.

Making Choices



Knowledge and skills related to making choices about financial products (e.g., checking and savings accounts, investment vehicles) and services (e.g., financial planning)

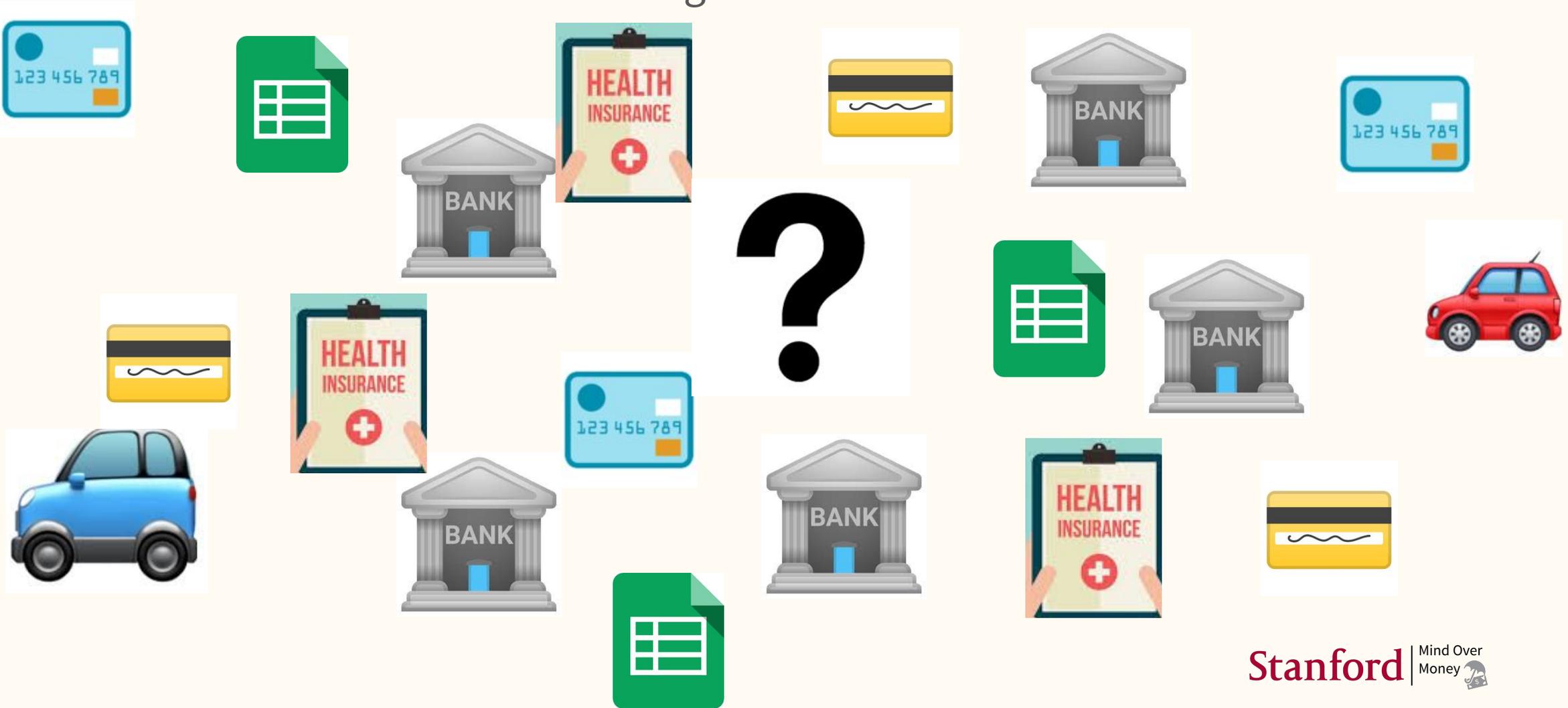
Making Choices - Psychological Pitfalls & Solutions

Agonizing Over Decisions

- Which credit card is the best one for me?
- Am I making enough interest on my savings accounts?
- Did I pick the perfect investment broker or insurance?
- Do your research, pick one, and get started. You can always change later
- Set a calendar reminder to check in on the product 3, 6, 12 months from now.
- Focus on the core function (and less on the peripheral benefits)

Making Choices - Psychological Pitfalls

Cognitive Burden



Making Choices - Psychological Solutions

New & Changing Products

- Keep a running list of products, programs, and services somewhere where you can review them.
- Try to review current products at least 1x/year and look at what new products exist.
- Give yourself the OK to be in a less than optimal product for a period of time. If it is really bad, you will likely have the motivation to change it.
- Start with the most expensive products/products that would have the most impact on your long term financial wellbeing.

Making Choices - Psychological Pitfalls

Social Pressure



Making Choices - Psychological Solutions

Social Pressure

- Remember that you are paying for the product and should be treated like a customer
- Know that the focus of most interactions is to sell you a product or service or keep you as a customer - you can negotiate.
- Set the expectation with yourself ahead of time not to commit to anything in the moment (extra points if you convey that to the other person at the outset as well)

Increase Your Financial Knowledge about Managing Money and Making Choices

Learn about financial institutions and financial products like checking accounts, savings accounts, money market accounts, and certificates of deposit:

<http://mindovermoneymodules.stanford.edu/education/topic/spending/section/banking>

Learn about making a spending and saving plan (aka, budget):

<http://mindovermoneymodules.stanford.edu/education/topic/spending/section/budgeting>

Knowledge to Action

Financial Behavior Matching Tool <https://tinyurl.com/fin-beh-match>

Match perceived **efficacy** of certain actions with your assessment of **likelihood to do** actions that build financial capability

Choose from three “aspiration” categories in the tool:

- *Manage my money and make healthy financial choices*
- *Plan ahead and build credit*
- *Invest in my future*

Financial Behavior Matching Tool <https://tinyurl.com/fin-beh-match>

STEP 1: EFFECTIVE

I want to:
Start Investing and Get Help

Rank each action from “not very effective” to “very effective” for achieving your aspiration.



SIMPLE TIP

Move the vertical slider up if the action will be effective or down if it isn't effective.



Start Sorting

STEP 2: LIKELY TO DO

I want to:
Start Investing and Get Help

Rank each action from “not likely to do” to “likely to do”.



SIMPLE TIP

Move the horizontal slider right if you are likely to do the action and left if you are not likely to do the action.



Start Sorting

STEP 3: WANT TO DO

I want to:
Start Investing and Get Help

Pick up to **3 actions** you want to do.



SIMPLE TIP

Pick up to 3 actions you might try in the next 24 hours or the upcoming week.



Pick Behaviors to Try



Get Started:

Save these actions by sending them to your email.

[Send behaviors to my email](#)

[Complete this tool for another aspiration](#)

Planning Ahead



Plan for your current you
and your future you



Planning Ahead for Security and Freedom for the Future

Planning for...

- “lumpy” expenses that don’t happen every month (e.g., gifts, travel, tuition)
- unexpected expenses (e.g., broken laptop/phone, flat tire, health interventions)
- decrease of income (e.g., building up a savings account with 3-6 months of expenses while you get a job after graduation or in between jobs in the future)
- future expenses (e.g., buying a car or a house, throwing a big party like a wedding, having a family)
- retirement!

A Plan for Current and Future Security and Freedom

<https://tinyurl.com/spendingflowchart>

Step 0: Budget for current expenses

Step 1: Build an emergency fund

Step 2: Employer-sponsored matching funds (401k/403b)

Step 3: Pay down high/moderate interest debts

Step 4: Invest for retirement in an IRA

Step 5: Invest more for retirement

Step 6: Save for other goals

Planning Ahead - Psychological Pitfalls & Solutions

Better Than Average Bias

73% of drivers state that they are better than average

Despite the fact that **90%** of accidents are caused by human error.



Thinking that emergencies or unexpected events will not happen to us prevents us from being prepared for when those things happen.

Planning Ahead - Psychological Pitfalls & Solutions

Saving for Retirement vs. Investing in Your Future

Saving for
Retirement



Investing In
your Future



Reframe it to increase your motivation!

Planning Ahead: Building Credit



Question: Why is building credit included in the financial capability of planning ahead?

Answer: Good credit management = higher credit score = lower cost to borrow, saving significant \$\$ in the future

Consider a \$200,000 30-year mortgage...

Credit Score	Possible Interest Rate	Monthly Payment	
760-850	3.3%	\$877	
620-640	4.9%	\$1,061	Additional interest paid over the life of the loan: \$66,343

Ideal Credit Card Management

- Build healthy credit habits
 - Pay on time
 - Don't carry a balance
 - Seek features valuable to YOU

- Check your credit report annually



Credit Score vs Credit Report



(~ GPA)

CREDIT SCORE

- 350 to 850
- Rates your credit risk at one point in time



(~ transcript)

CREDIT REPORT

- Personal Information
- Payment history
- Inquiries
- Public Record and Collections Information

TransUnion

Experian

Equifax

- Credit reports can vary
- 1 free annual report per bureau
- Check for mistakes
- Check for fraud

Free credit **reports** annually at Federally-backed site annualcreditreport.com

(not to be confused with freecreditreport.com, which is not free)

Credit Score Calculation



Most impactful factors:

- Paying in full and on time
- Low utilization (<30% of total)

Other countries have different reporting and scoring systems but generally the same factors apply.

Increase Your Financial Knowledge

Learn more about building credit:

<http://mindovermoneymodules.stanford.edu/education/topic/spending/section/creditcard>

Learn more about investing in general:

<http://mindovermoneymodules.stanford.edu/education/topic/investing/section/investing>

Learn more about retirement investing:

<http://mindovermoneymodules.stanford.edu/education/topic/investing/section/retirement>

Getting Help



Get help, early and often
Get help with HOW, as well as with WHAT
Ask: “are you a fiduciary?”

Transform the Action into a Behavior

BJ Fogg's P.A.C. Model



Person doing an action within a context

WHO -- IS DOING WHAT -- WHEN -- WHERE -- FOR HOW LONG -- WITH WHAT RESOURCES

What is your next step?

- ★ Save your Financial Behavior Design Guidebook somewhere you can refer to it and use it!
<https://tinyurl.com/financial-behavior-guidebook>
- ★ Peruse a Mind Over Money Learning Module or two
- ★ Schedule a session with a Mind Over Money 1:1 financial coach
- ★ Learn more about how the FLI Office can help you!
<https://fli.stanford.edu>



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THANK YOU!



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