Financial Wellness

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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.
FInancial
Satisfaction with current and future financial situations

## Financial Wellness

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
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<tbody>
<tr>
<td><strong>Security</strong></td>
<td>Control over your day-to-day, month-to-month finances</td>
<td>Capacity to handle a financial emergency</td>
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<tr>
<td><strong>Freedom of Choice</strong></td>
<td>Ability to make financial choices to enjoy life</td>
<td>On track to meet your financial goals</td>
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Languishing | Flourishing
Factors that Influence Financial Wellness

- **Social and economic environment**: What surrounds you in your family and community.
- **Personality and attitudes**: How you tend to think, feel, and act.
- **Decision context**: How a particular decision is presented.
- **Knowledge and skills**: What you know, and what you know how to do.
- **Available opportunities**: What options are open to you.
- **Behavior**: What you actually do.
- **Personal financial well-being**: How satisfied you are with your financial situation.

References:

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

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<td><em>Earn/gather enough money to cover my summer expenses</em></td>
<td><em>Have a savings account with three months of expenses</em></td>
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<td>Freedom of Choice</td>
<td>Ability to make financial choices to enjoy my life</td>
<td>On track to meet my financial goals</td>
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<td><em>Be able to treat a friend to dinner whenever I want</em></td>
<td><em>Stop working (not have a regular income) by 65</em></td>
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FINANCIAL CAPABILITY

Managing Money

Planning Ahead

Making Choices

Getting Help

Stanford Mind Over Money
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
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


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

**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.

**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.

**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.

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!
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...

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>Possible Interest Rate</th>
<th>Monthly Payment</th>
<th>Additional interest paid over the life of the loan:</th>
</tr>
</thead>
<tbody>
<tr>
<td>760-850</td>
<td>3.3%</td>
<td>$877</td>
<td>$66,343</td>
</tr>
<tr>
<td>620-640</td>
<td>4.9%</td>
<td>$1,061</td>
<td></td>
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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

\[ B = P \times A \times C \]

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

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

mindovermoney.stanford.edu
THANK YOU!

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