Brain hacks for smart money management

By Amy Chamberlain

Have you ever wondered why employers like the State of Texas automatically enroll new employees in a retirement plan? When an employer makes enrolling in a pension or 401(k) plan the default option, this boosts the retirement security for the average employee. When it's up to employees to enroll, however, research shows that fewer people do, even when the employer matches their retirement contribution.

We humans can be surprisingly – but predictably – irrational when it comes to saving and spending money. Here are just a few examples:

- We are more likely to drive an extra distance to save $25 on a $100 lamp than we are to save $25 on $1,775 dining room set.
- If we find $20 in the street, we are much more likely to spend that money more quickly than the $20 already sitting in our bank account. Similarly, if money comes to us in the form of a gift or bonus, we are more likely to spend it than we would a rebate on a purchase.
- When using a credit card instead of cash, a check or a debit card, we are more likely to make a purchase and spend more for that purchase.
- We sometimes justify spending in one area, because we recently saved in another – like spending $200 at an expensive restaurant, because our new car purchase cost $1,000 less than we expected.

These examples show common types of mental accounting that de-value money in certain situations. When we do this, we tend to be more reckless with our finances, which can take a toll on our health. Why? Money is the top cause of stress, according to the American Psychological Association.

Here are some mental strategies for spending smarter:

- When using a credit card to make a purchase, ask yourself what price you'd pay if you were using cash.
- When making a non-essential purchase, imagine how many hours it took (or will take) to earn enough to make that purchase. Then decide if it's worth it. Similarly, when you receive money you didn't earn, ask yourself how long it would take you to earn that amount of money after taxes.
- When it comes to receiving a cash gift, a bonus, or tax refund, tell yourself you can spend that money however you'd like after you deposit the money and wait three to six months, when you are more likely to value it more than you did when you first received it. (Parents: this same strategy can be used with kids when they receive money.)

That last strategy helps us override our preference to live for today rather than wait or plan for tomorrow. In behavioral economics, this preference is a cognitive bias known as "present bias," and is one that can work against us when it comes to saving and planning for retirement.

Knowing we have these biases, it can be helpful to bring your future self into the present by visualizing an older version of yourself who needs your financial support.
Now, ready to plan your retirement? You have resources available through the Texa$aver[SM] 401(k)/457 Program. New employees are automatically enrolled and automatically contribute 1% of their salary, which is invested in a target date index fund. As a participant in Texa$aver, you can meet with a Texa$aver retirement plan advisor who is a Certified Financial Planner at no cost to you. The very act of scheduling an appointment means you are well on your way!

This month we have resources to help you and your family gain insight on financial wellness including a webinar and Walk &Talk podcast episode featuring Marco Palma, Ph.D., Behavioral Economist at Texas A&M and webinars on Budgeting, Credit, and Buying a House featuring financial experts at the Office of Consumer Credit Commissioner.

Learn more and register for these events through the ERS Wellness Events Calendar and listen to the latest podcast episodes through the ERS Walk & Talk podcast site.

Sources: Belsky, G., & Gilovich, T. (1999). Why smart people make big money mistakes-and how to correct them.

Ariely, D. (2017). Dollars and Sense: How we misthink money and how to spend smarter.