

YOUR MONEY

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MARKETS | YOUR MONEY

Want to Reach Your Savings Goal in 2020? Here's What the Research Says Will Help

Whether it's retirement or a down payment, New Year's is one of the best times to make a financial plan, behavioral economists say. Here are some of their tips and strategies.



PHOTO: KIERSTEN ESSENPREIS

By Anne Tergesen

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New Year's is when many people feel motivated to make a savings or financial plan, and research shows that it's a good time to do so.

A recent survey from Fidelity Investments found that 67% of Americans are considering a New Year's resolution that relates to their finances. More than half of the 3,012 respondents said they want to save more for goals including retirement.

But success is far from assured. Fidelity says about half the people who made financial resolutions for 2019 failed to keep them.

For those who want to boost the odds of success, behavioral economists have some strategies to consider.

Set retirement goals in January (or on your birthday)

Academic research shows both New Year's Day and birthdays are good times to initiate change. Because both mark the start of a new year, they help us "wipe the slate clean," said Katherine Milkman, a professor at the University of Pennsylvania's Wharton School.

"We rationalize that it was 'the old me' who failed, but this year will be different," Prof. Milkman said. This boosts self-confidence, a key to success.

In a forthcoming study by economists including Prof. Milkman, researchers invited about 8,600 employees to start saving for retirement or increase their contributions. Those prompted around their birthdays saved more over the following eight months than those urged to take action around dates that aren't generally associated with new beginnings, such as Thanksgiving or Valentine's Day.

Set specific, realistic goals

People often set themselves up for failure by choosing goals that are too vague or extreme—for example, to “save more” or “retire by 40.”

If a goal requires you to eliminate things you enjoy, you may feel deprived and lose the ability to stick with it, said Dan Egan, managing director of behavioral finance and investing at Betterment LLC.

The key is to make your goals as specific and realistic as possible. For example, “I will increase my savings rate from 5% to 15% in two percentage point increments over each of the next five years.”

Make a detailed plan

The next step is to break your goal down into smaller steps and tackle one at a time.

“Nobody tries to run a marathon on the first day,” said Mr. Egan. “You need a plan to get there.”

WHAT'S YOUR 2020S GOAL?

Which financial experience in the past decade is shaping the way you look to the next decade? Share your story and some of the lessons you've learned with us at voices@wsj.com.

Another benefit of this approach: Small wins often “create feelings of success and progress,” said Prof. Milkman.

Someone saving 5% of pay who wants to get to 15% can implement that plan in one step, by enrolling in automatic escalation, a program many 401(k) plans offer that allows individuals to commit to raising their savings rate gradually over time. The increases often coincide with pay raises.

Some goals, such as financial planning, involve numerous steps that may take months to complete. Mr. Egan recommends starting by simply linking your credit card, loan, bank and 401(k) accounts to an aggregation service, such as those maintained by Intuit Inc.'s Mint or Personal Capital Corp. The next step, he said, is to set monthly calendar reminders to look at that data to gain a better understanding of your spending patterns.

If you decide to hire a financial planner, set aside time to research the type that would work best for you. Options range from an independent adviser to a fully or partially automated service, such as those offered by Betterment and Wealthfront Corp., which often charge less. Hourly planners, including those in the Garret Planning Network, are another option.

THE NEW RULES OF MONEY

Read more of the Journal's coverage of the financial challenges facing young adults.

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nt adviser who will act as a fiduciary, in your best interest. To minimize conflicts, they are typically paid a fee by clients and avoid annuities and other products that offer them sales incentives. (Those with conflicts of interest are required to disclose them in Form ADV, filed with the Securities and Exchange Commission, so check the fine print.)

By contrast, brokers, also known as registered representatives, are allowed to recommend products that pay them the most in commissions and other incentives as long as the product suits the client's needs. Starting in July, the SEC will require brokers to act in a customer's best interest. But they won't always be required to recommend the lowest-cost products, said Barbara Roper director of investor protection at the nonprofit Consumer Federation of America, who said it's unclear how the SEC will enforce the new standard.

Stress test your plan

Behavioral economists recommend an exercise called mental contrasting, in which people think about a desired outcome and why it matters. (For example, "I am saving 15% a year so I can retire by 65.")

Then they consider potential obstacles to success, such as an unexpected car repair or the temptations of one-click shopping.

The goal is to brainstorm solutions—such as starting an emergency fund or disabling the one-click feature.

That way, "when we get trapped in a moment of temptation we have thought through how to deal with it," said Sarah Newcomb, a behavioral economist at Morningstar Inc. "A lot of us decide to make changes but we don't have strategies in place for when it gets hard."

Prof. Milkman suggests writing out your plan because research shows people are less likely to break a resolution if it feels like a contract.

Use the behavioral strategies that work for you

Individuals should automate their savings. Many also need to learn to be patient with themselves. "There will be setbacks. They are part of the journey," said Mr. Egan. "Give yourself credit for successes even if there is some backsliding."

Here are some other behavioral strategies to consider as you personalize your plan:

1. Make “if-then” plans: Link a cue to a desired action. For example, if your goal is to stop buying coffee, your “if-then” plan might be, “If it is a weekday, I will bring coffee from home, using my favorite ingredients.”

2. Reward yourself for wins: “We are programmed to respond to instant gratification,” said Prof. Milkman. When you hit your monthly savings goal, channel a fraction of those savings—say 10%—into a separate bucket for splurges.

3. Use temptation bundling: Combine a guilty pleasure with something you lack motivation to do. In a 2013 study, Prof. Milkman and two other researchers found participants were more likely to exercise when given the chance to simultaneously listen to popular audio books. “Make it fun rather than resenting it,” she said. The financial equivalent? Pair a treat, such as a glass of wine, with the tedious task of linking your accounts to an aggregation website or app.

4. Use behavior therapy: Identify triggers of bad behavior and substitute alternative rewards. Ms. Newcomb said she used to go to Starbucks around 4 p.m. daily. She stopped when she realized the splurge was less about a desire for caffeine than a need for “a break from the office and some natural beauty.” Now she takes her afternoon break “by a stream in a little park.”

5. Use mental accounting: This involves saving separately for different goals and labeling each pot of money—ideally, with a photo—in a personally meaningful way. (For example, “save for George’s college fund” or “save for my dream beach home in retirement.”) In a 2011 study, households in rural India invited to set aside a portion of pay using two envelopes saved more over 14 weeks than those with just one envelope. Some banks offer a way to subdivide savings.

6. Set occasional high-impact goals: The idea is to push yourself “to see what you are capable of,” said Mr. Egan. With exercise, this may involve high-intensity interval training. With money, the challenge could be to save as much as possible in a month. “It’s easy to have spending creep up a little each month,” he said. “Think of it as recalibrating.”

Write to Anne Tergesen at anne.tergesen@wsj.com

SHARE YOUR TIPS

What are your savings strategies and how do you make sure you stick to them? Join the conversation below.

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