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# Rethinking Financial Health

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Oct. 17, 2018

# Intro



**Hetty Green, 1835-1916**

Source: Library of Congress Prints and  
Photographs Division



**The Vanderbilt Mansion, Newport, RI**

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# Intro



## **MC Hammer – Riches to Rags**

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# Agenda

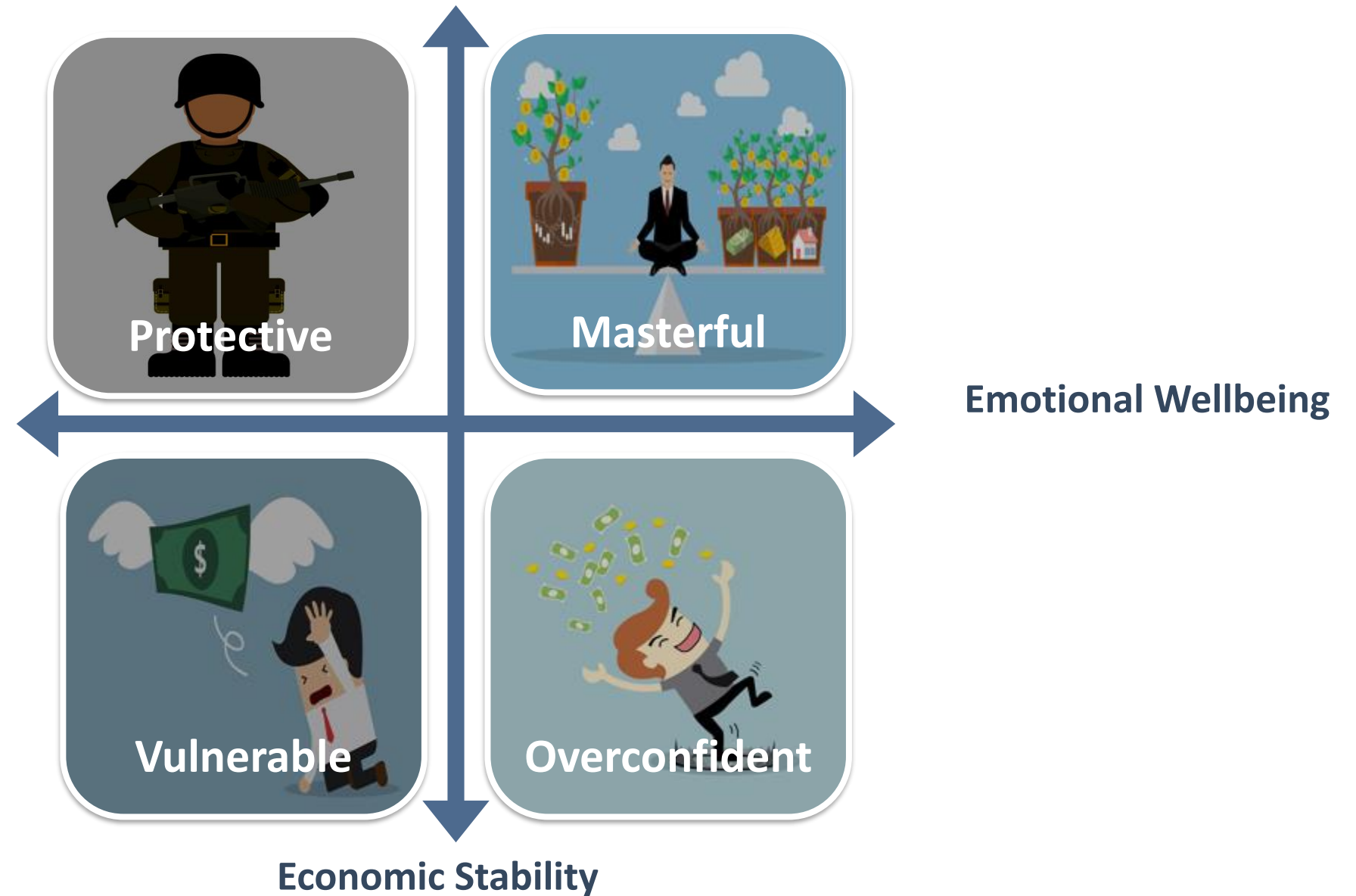
- **What is Financial Health?**
  - Definitions
  - Drivers
  - Solutions

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# Agenda

- **What is Financial Health?**
  - Definitions
  - Drivers
  - Solutions

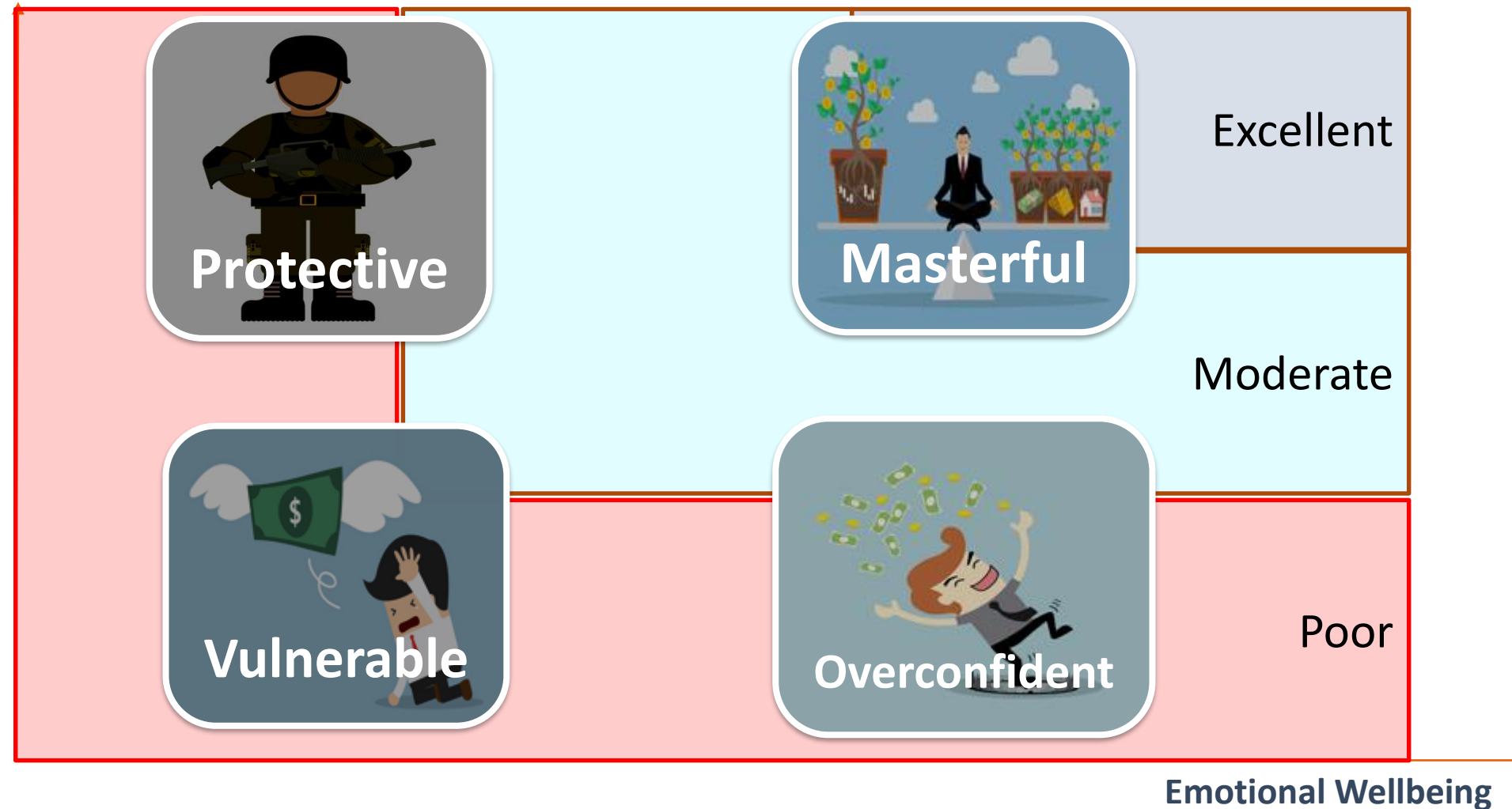
# Financial Health: Definitions



# Financial Health: Definitions

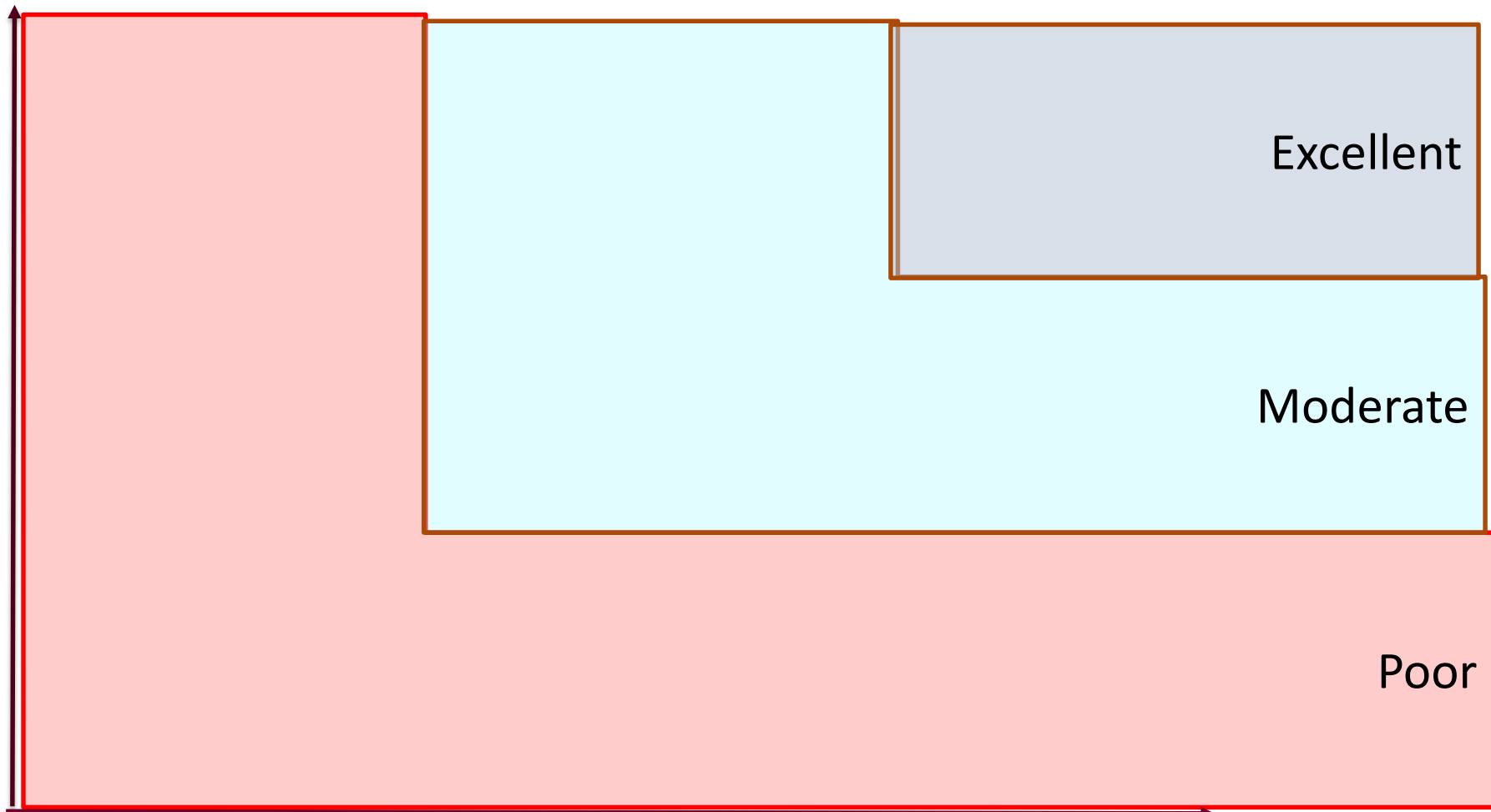
## Economic Stability

- How **FAR AHEAD** we think in time
- How **CLEAR** our picture of the future is.



- How We Think About **POWER** in our financial lives
- How we think we **COMPARE** to our peers

Financial  
Stability



Excellent

Moderate

Poor

Emotional Wellbeing



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# Agenda

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  - Solutions

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## Financial Health: Diagnosing risk factors

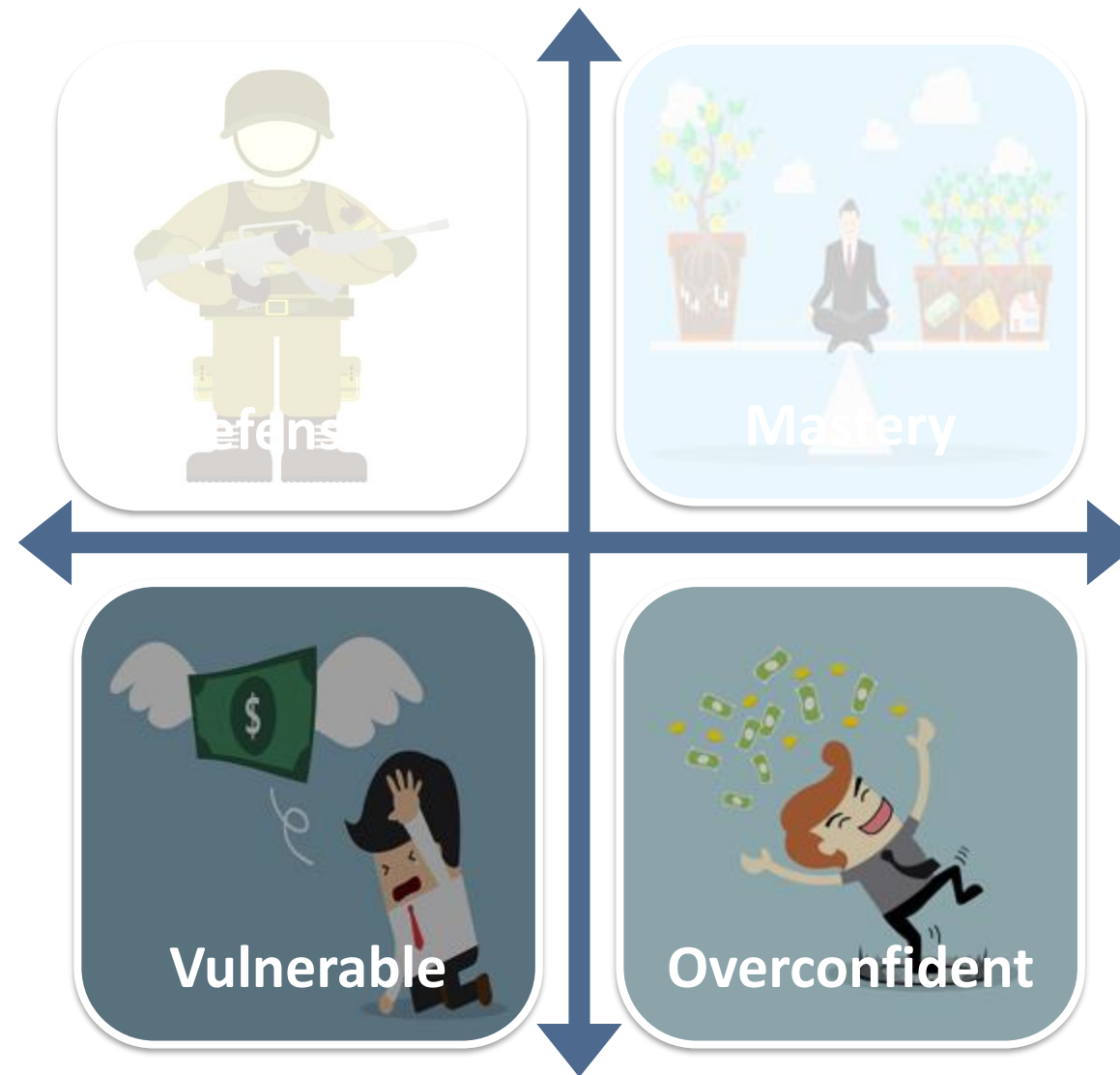
**When you think about your money, how far ahead do you tend to think and plan?**

**When you think about your life in 10 years, how Clear and detailed is your mental picture?**

**How often do you compare yourself to other people, financially?**

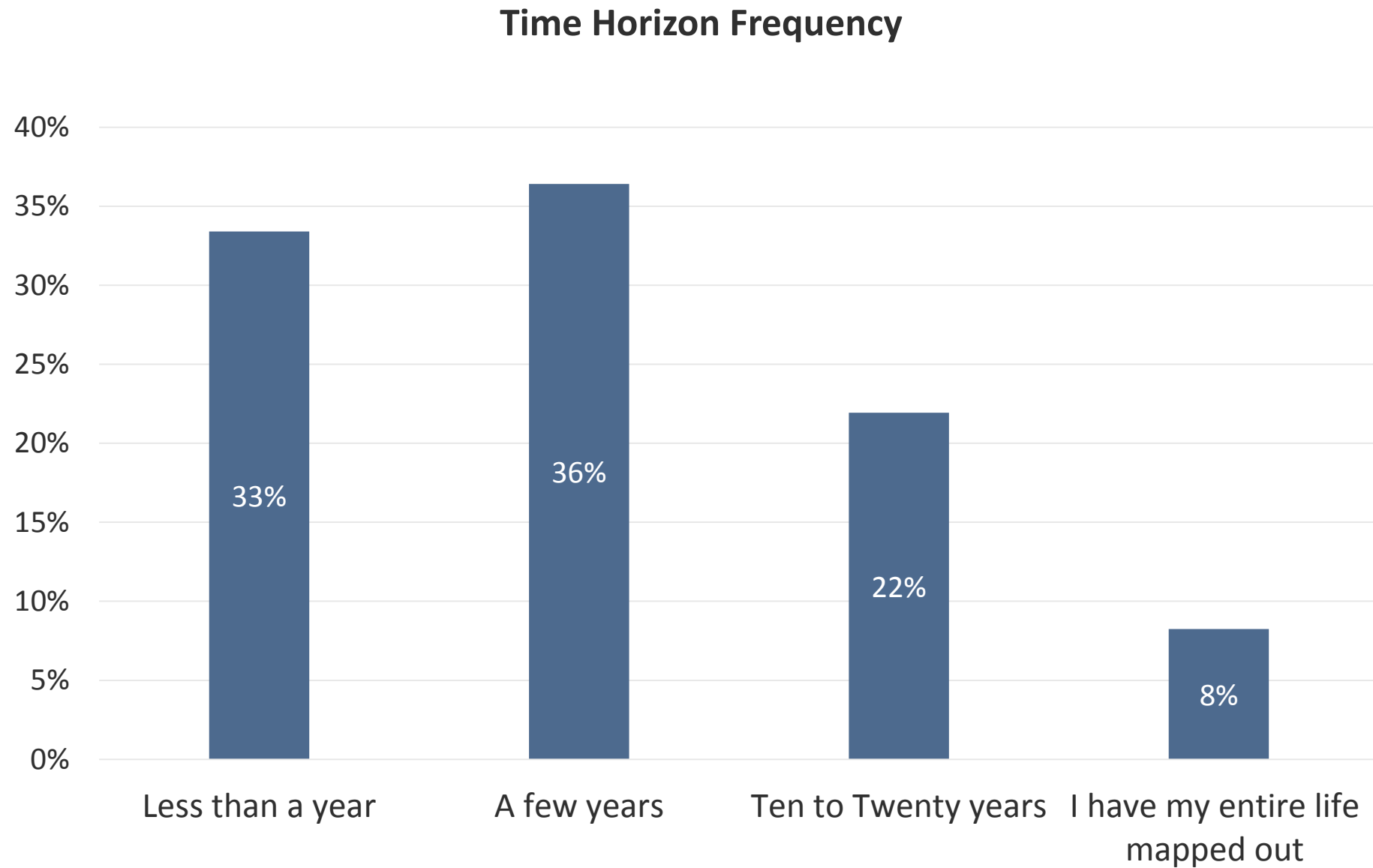
**Do you control your financial destiny, or do external factors play a larger role?**

# Financial Health: Diagnosing risk factors

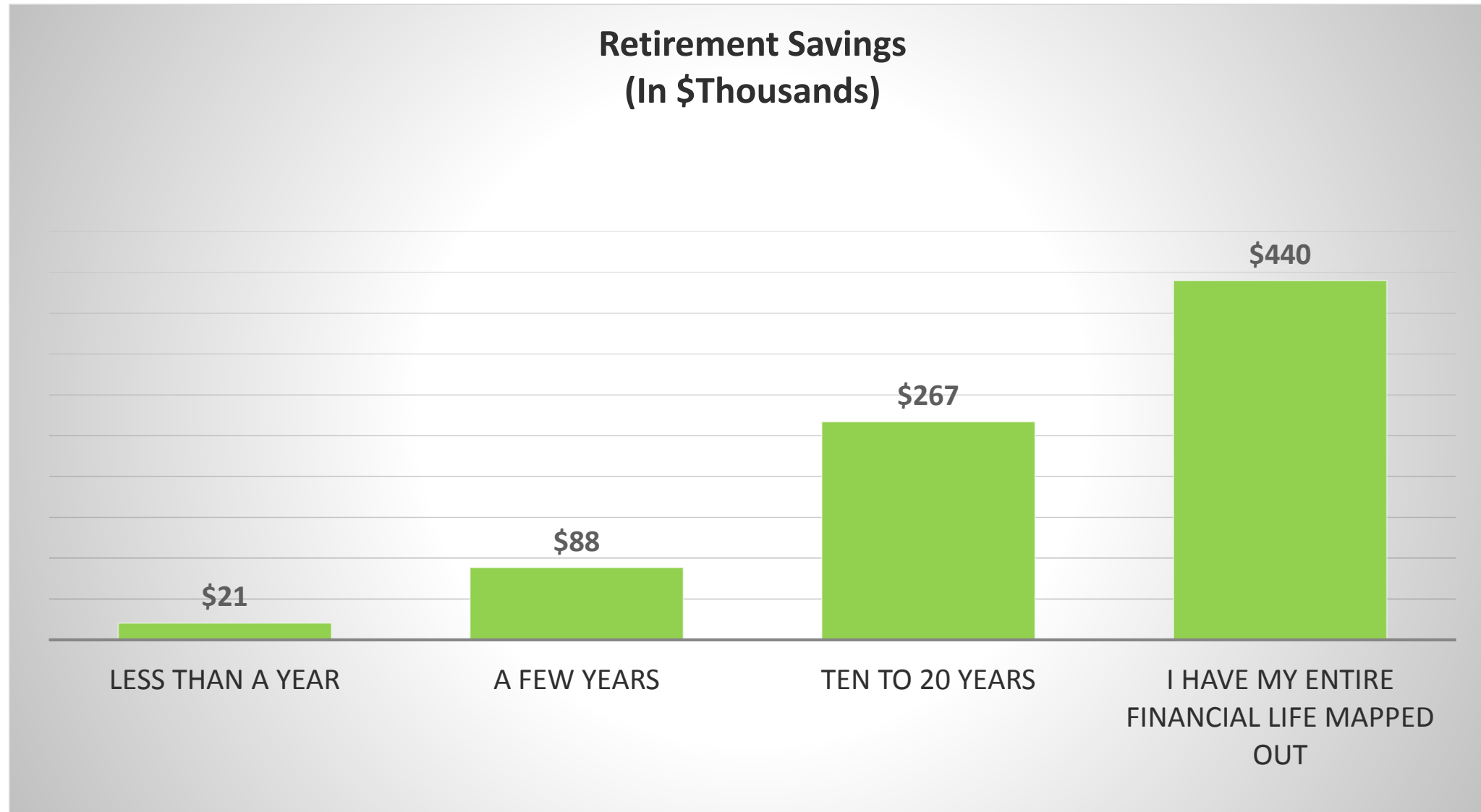


MENTAL TIME and CLARITY

# Financial Health: Diagnosing risk factors

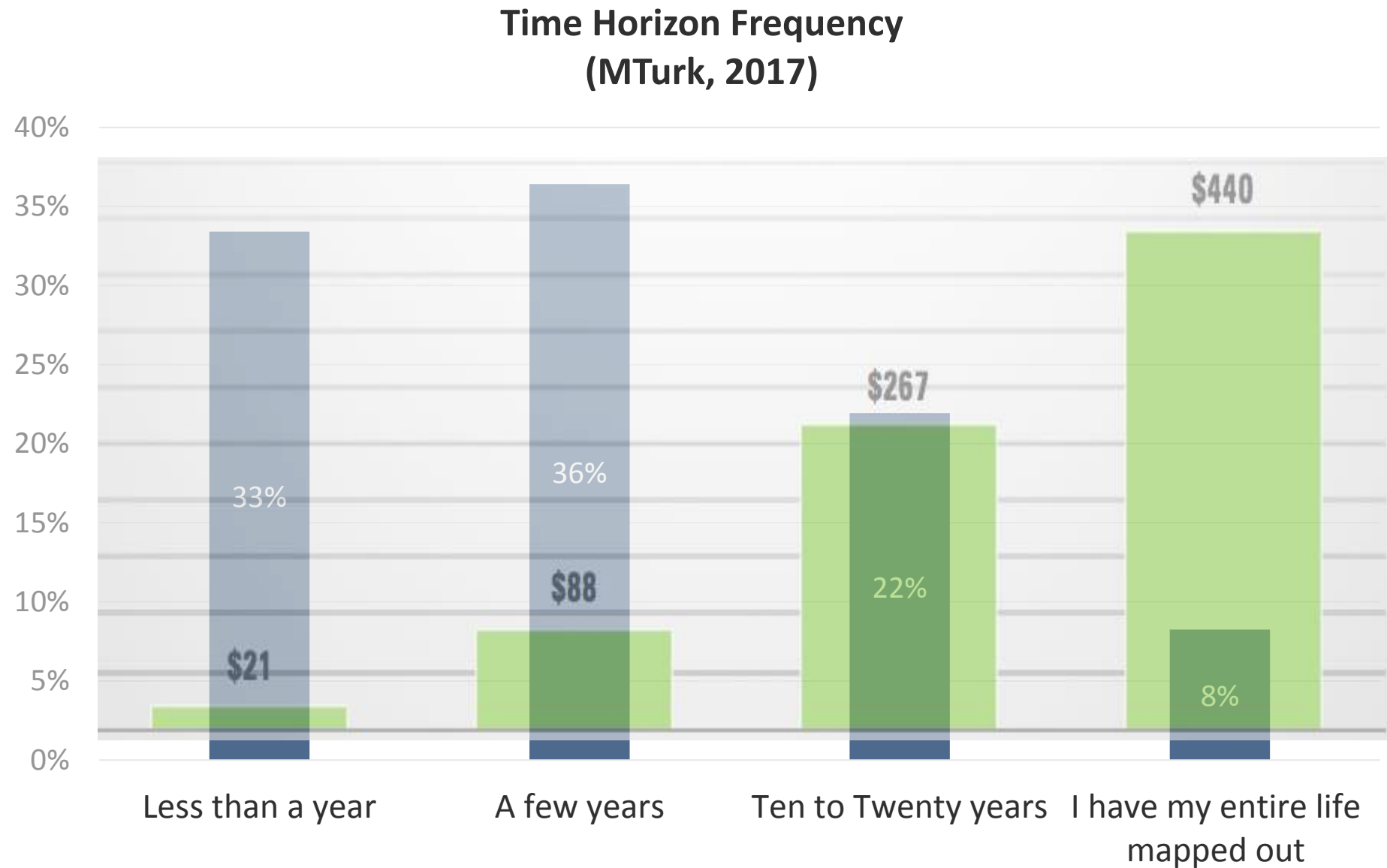


## Financial Health: Diagnosing risk factors



Source: Morningstar

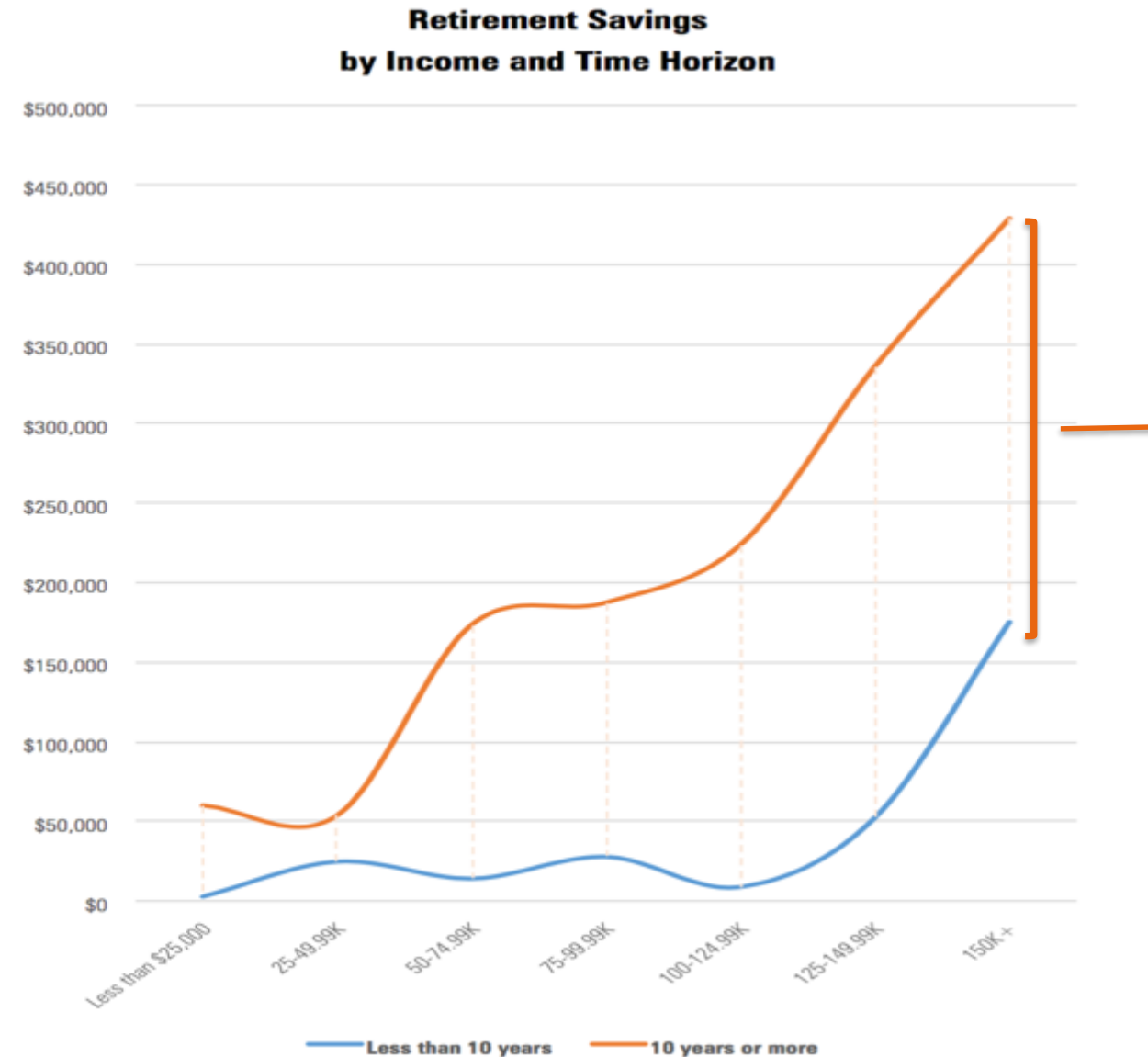
# Financial Health: Diagnosing risk factors



Source: Morningstar

# Financial Health: Diagnosing risk factors

The relationship between **TIME HORIZON** and **SAVINGS BEHAVIOR** remains significant even when we control for: **age, income, education, and gender.**



Advisor  
Alpha  
(Gamma)

Source: Morningstar

## Financial Health: Diagnosing risk factors

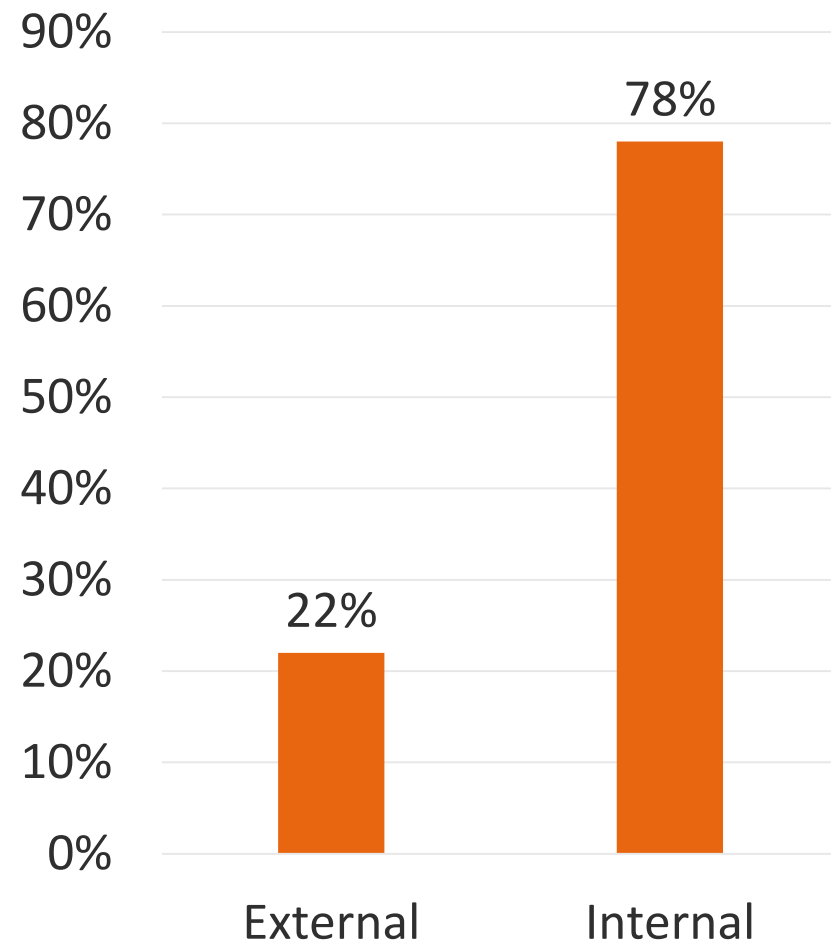
The way we think about  
**POWER & POSITION**



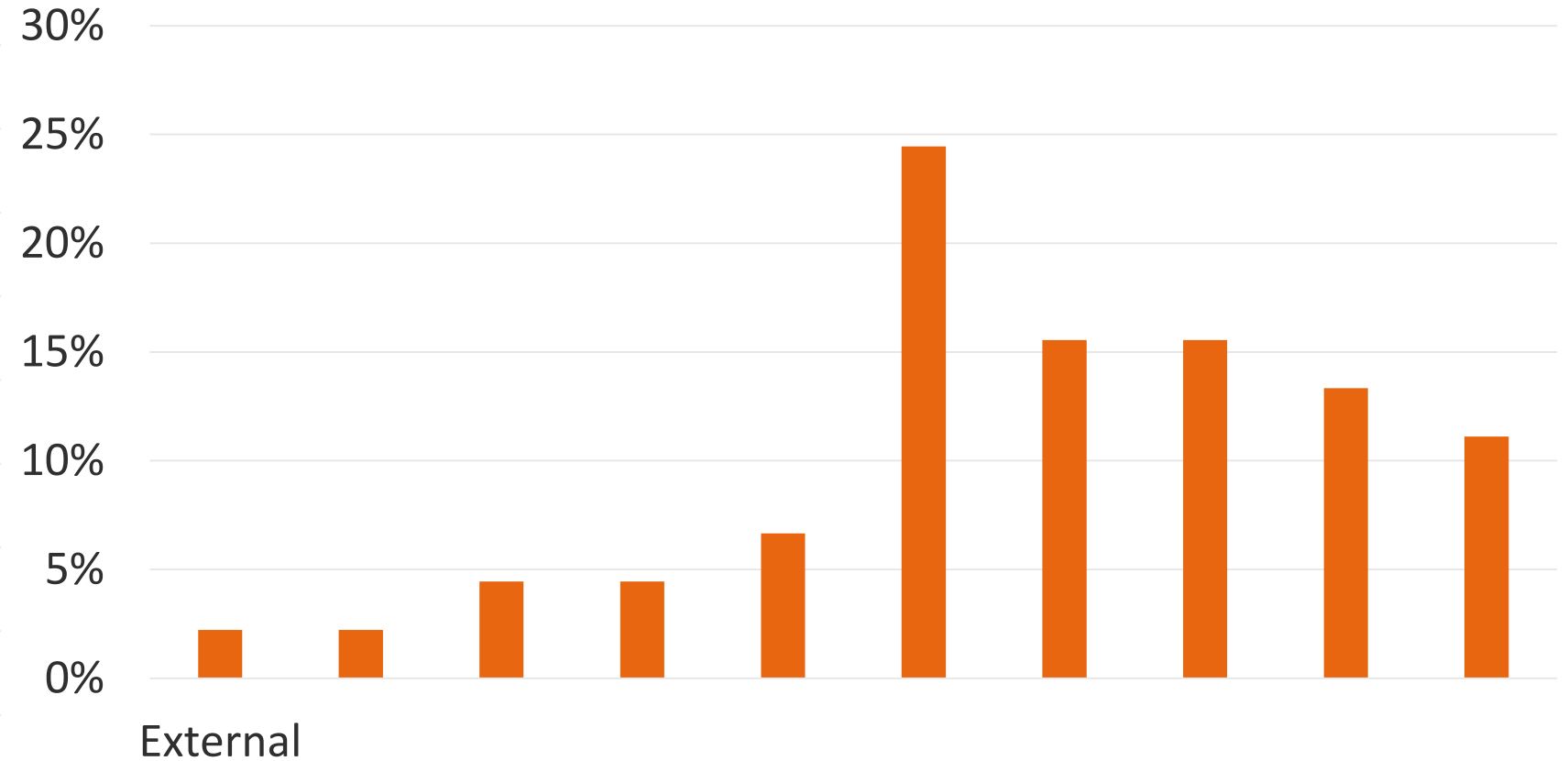


# Financial Health: Diagnosing risk factors

Perceptions of Control

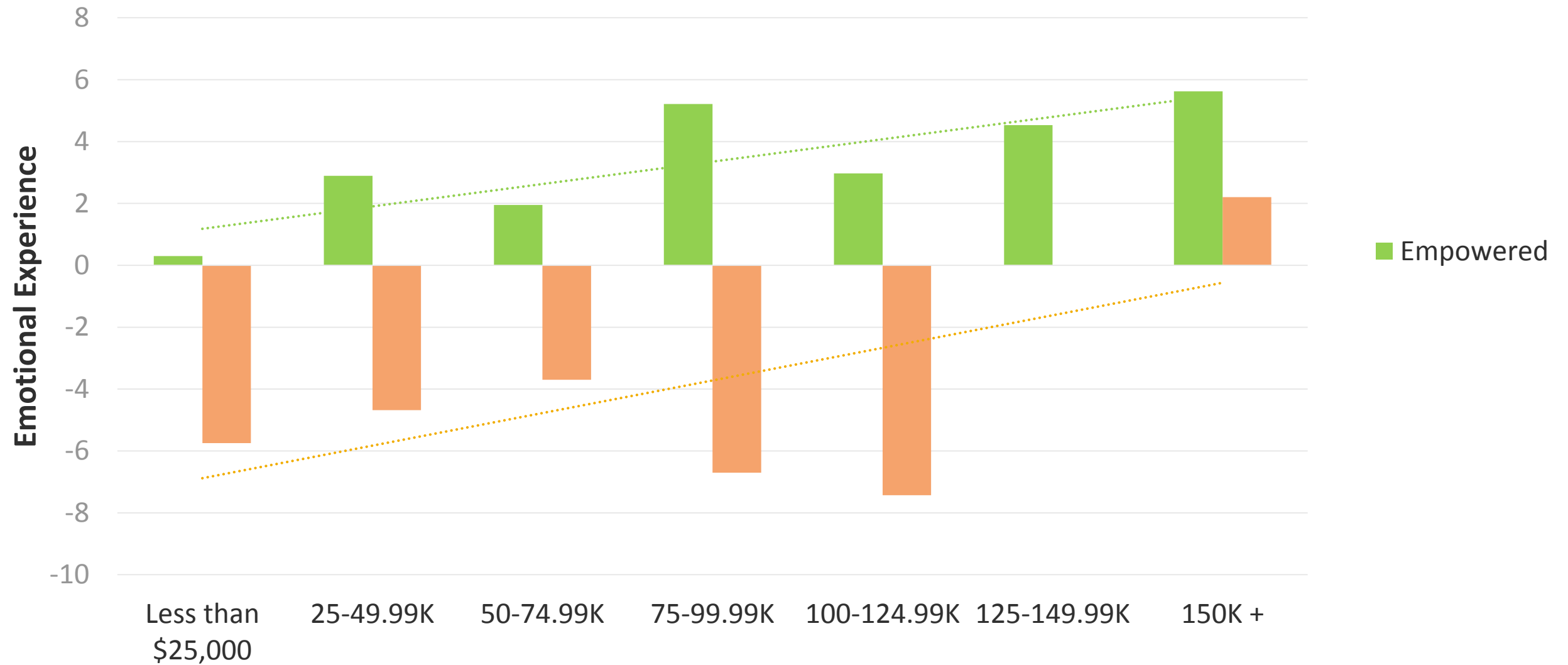


Perceptions of Control



# Financial Health: Diagnosing risk factors

## Emotions by Income and Perceive Power



Source: Morningstar

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## Financial Health: Diagnosing risk factors

People who compare **UP...**

Save less

Spend more

Carry more debt & are more likely to be overwhelmed by their debt

Are less likely to have an emergency fund

Have more \$\$\$ stress

Have lower \$\$\$ satisfaction

Are far less likely to feel proud about their finances

Source: Morningstar

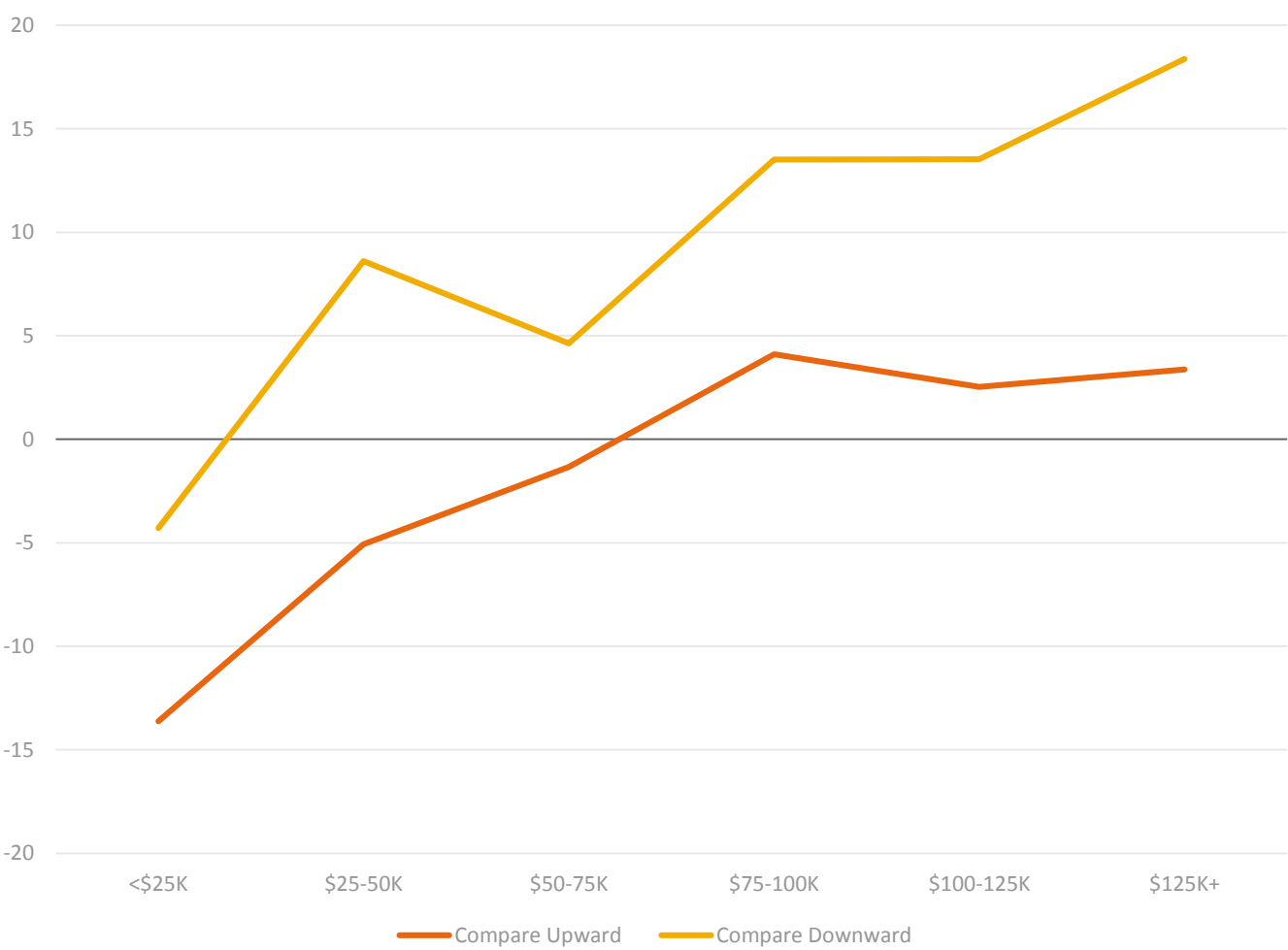
# Financial Health: Diagnosing risk factors

\$ Emotions over the past 6 months

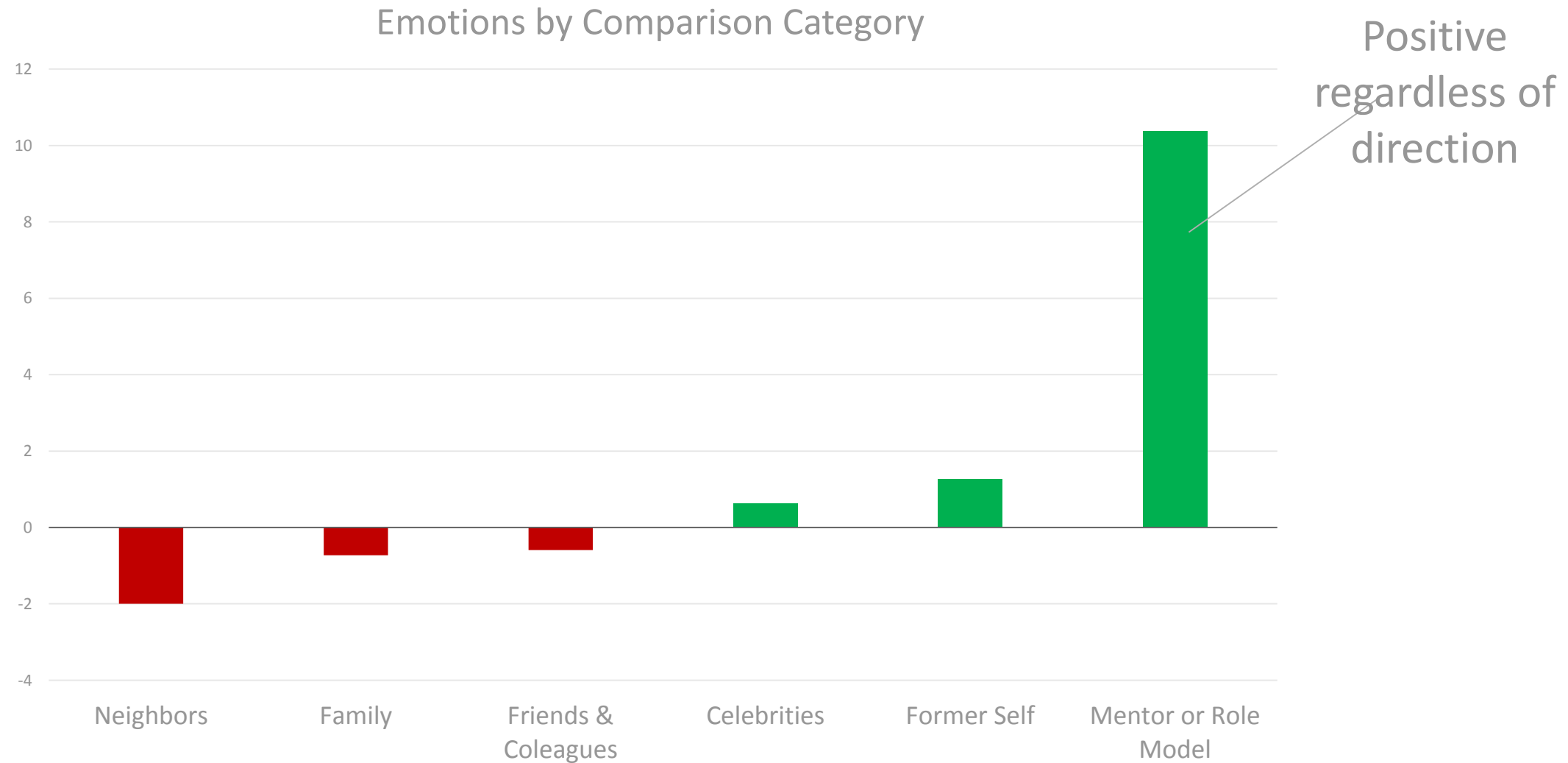
Joy  
Peace  
Satisfaction  
Pride

Anger  
Helplessness  
Sadness  
Fear

Emotional Experience by Income & Direction of Comparison



# Financial Health: Diagnosing risk factors



# Diagnosing Risk Factors of Financial Health - Takeaways

- A few simple questions can light the way
  - Are you in control?
  - Do you measure up?
  - What's your time line?
  - How clear is your vision?



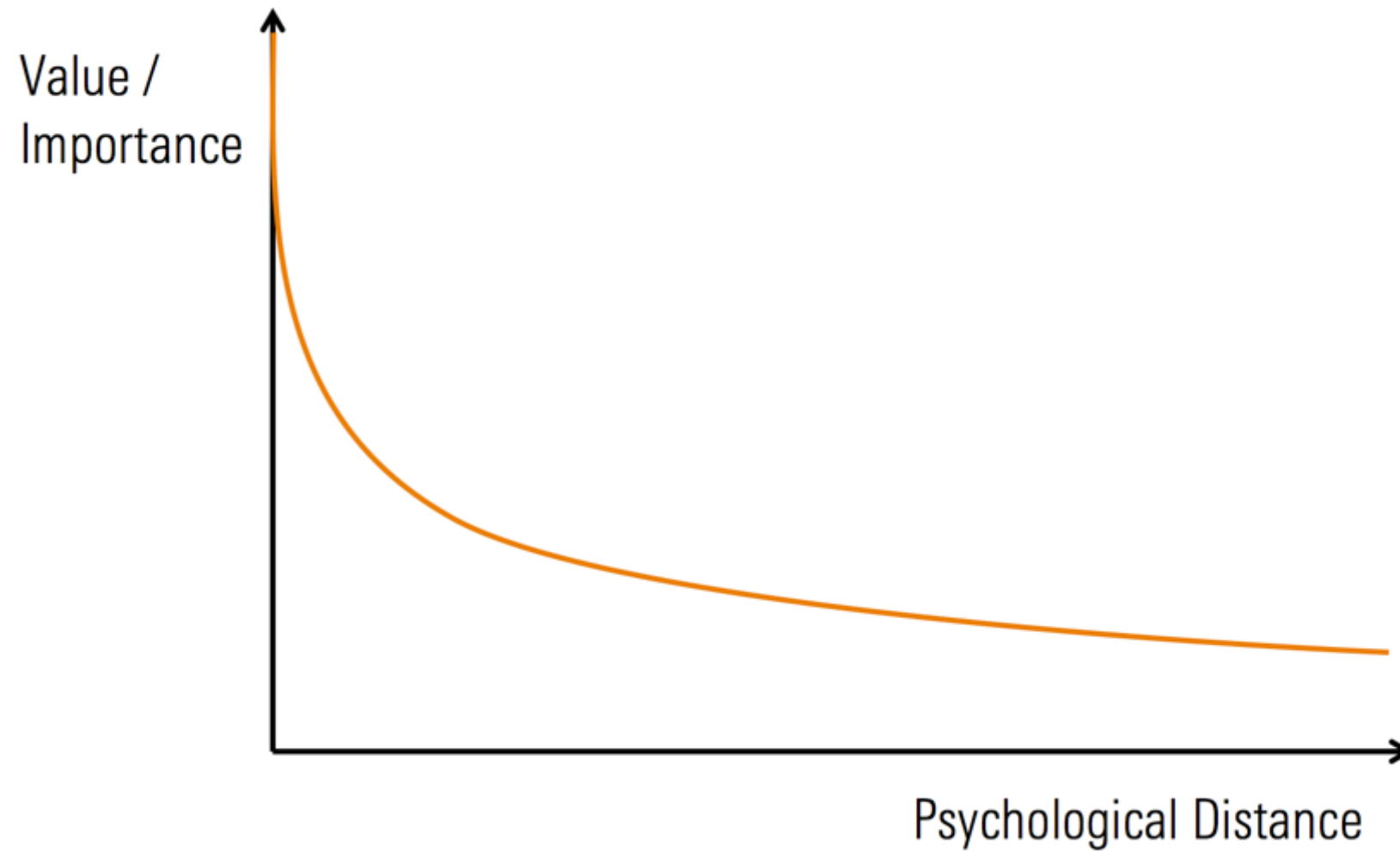
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# Agenda

- What is Financial Health?
  - Definitions
  - Diagnosing risk factors
- **Coaching the Financially Unwell**
- Summary & Ongoing work

# Behavioral Coaching for **Short-Term Thinkers**

## Discounting





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## Behavioral Coaching for **Short-Term Thinkers**

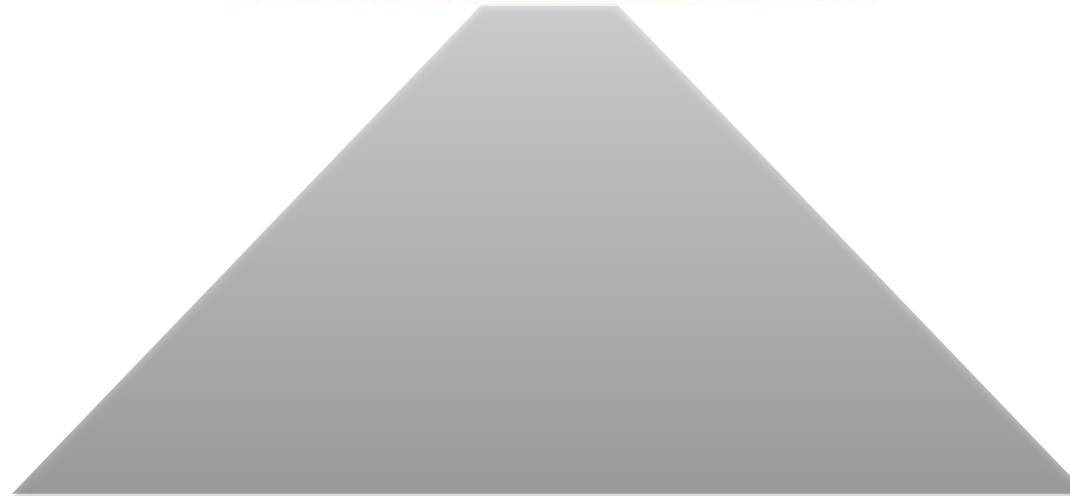
### Psychologically Distant:

There  
Later  
Stranger  
Unlikely



### Imagery & Emotion:

Vague  
Unformed/abstract  
Unemotional



### Psychologically Close:

Here  
Now  
Me  
Guaranteed



### Imagery & Emotion:

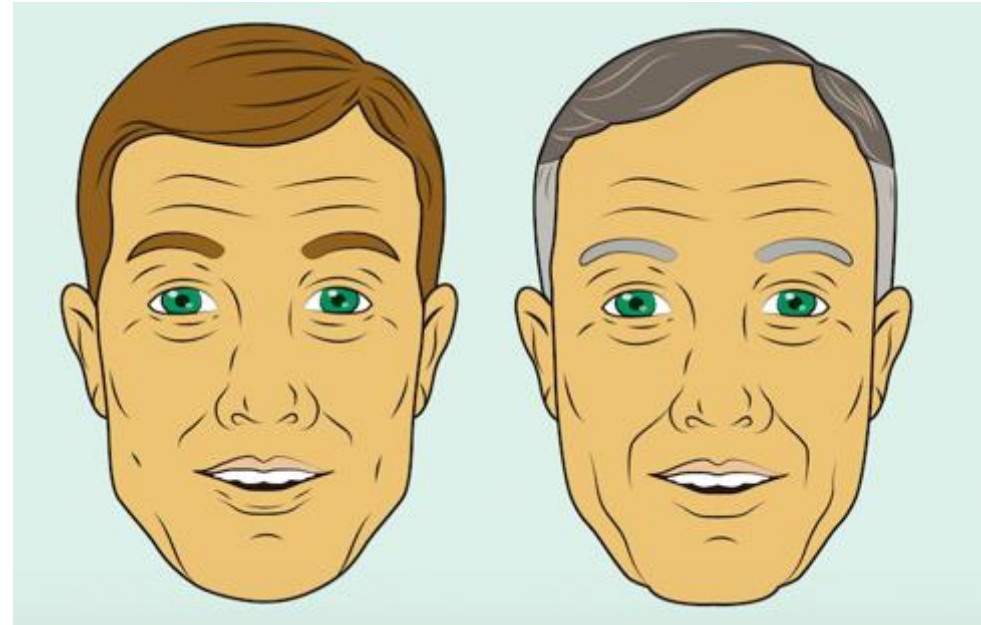
Clear  
Intense  
Highly emotional

# Behavioral Coaching for **Short-Term Thinkers**



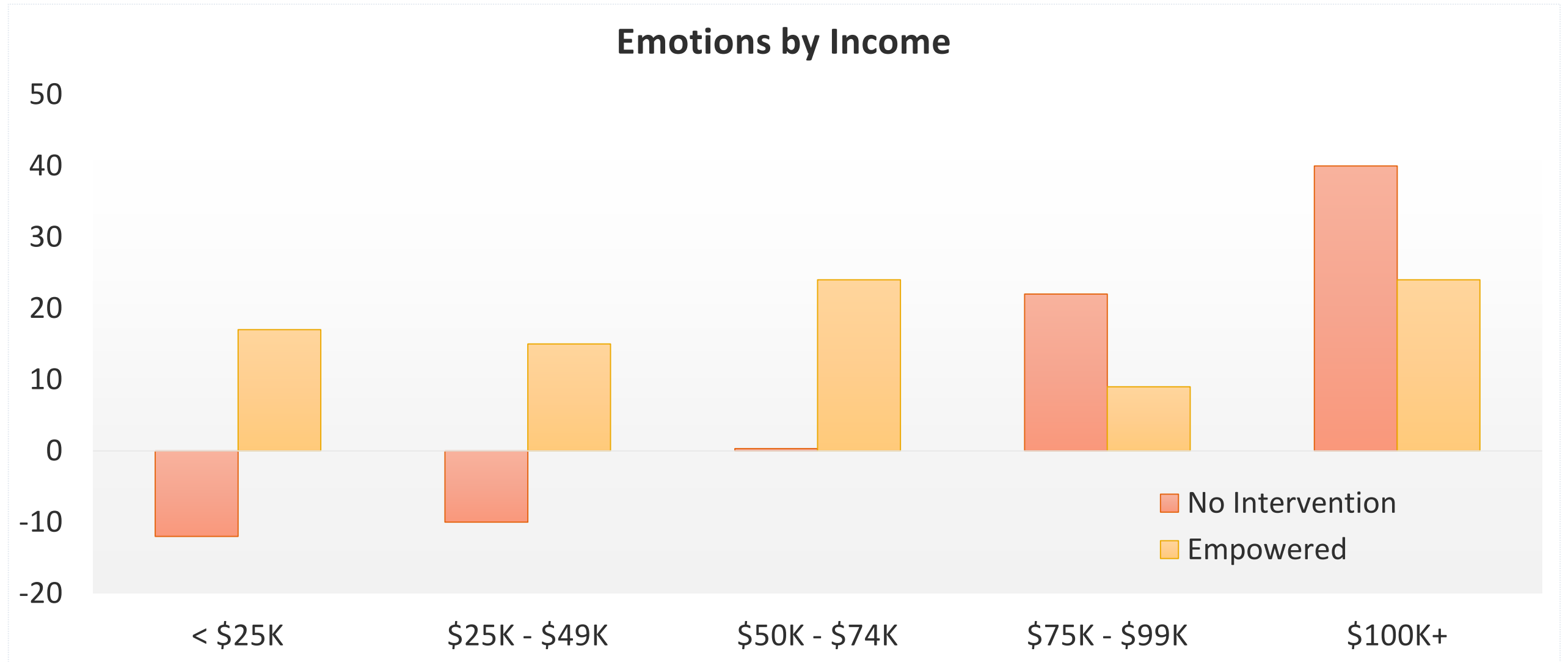
Hal Hershfield  
UCLA

**Gabriele Oettingen**  
New York University and  
the University of  
Hamburg



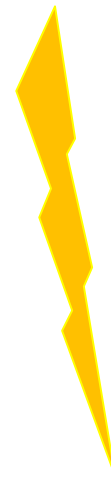
Tell me about a time when you felt completely **in control**, financially. What were the circumstances, and how did you feel?

# Behavioral Coaching for The **Disempowered**



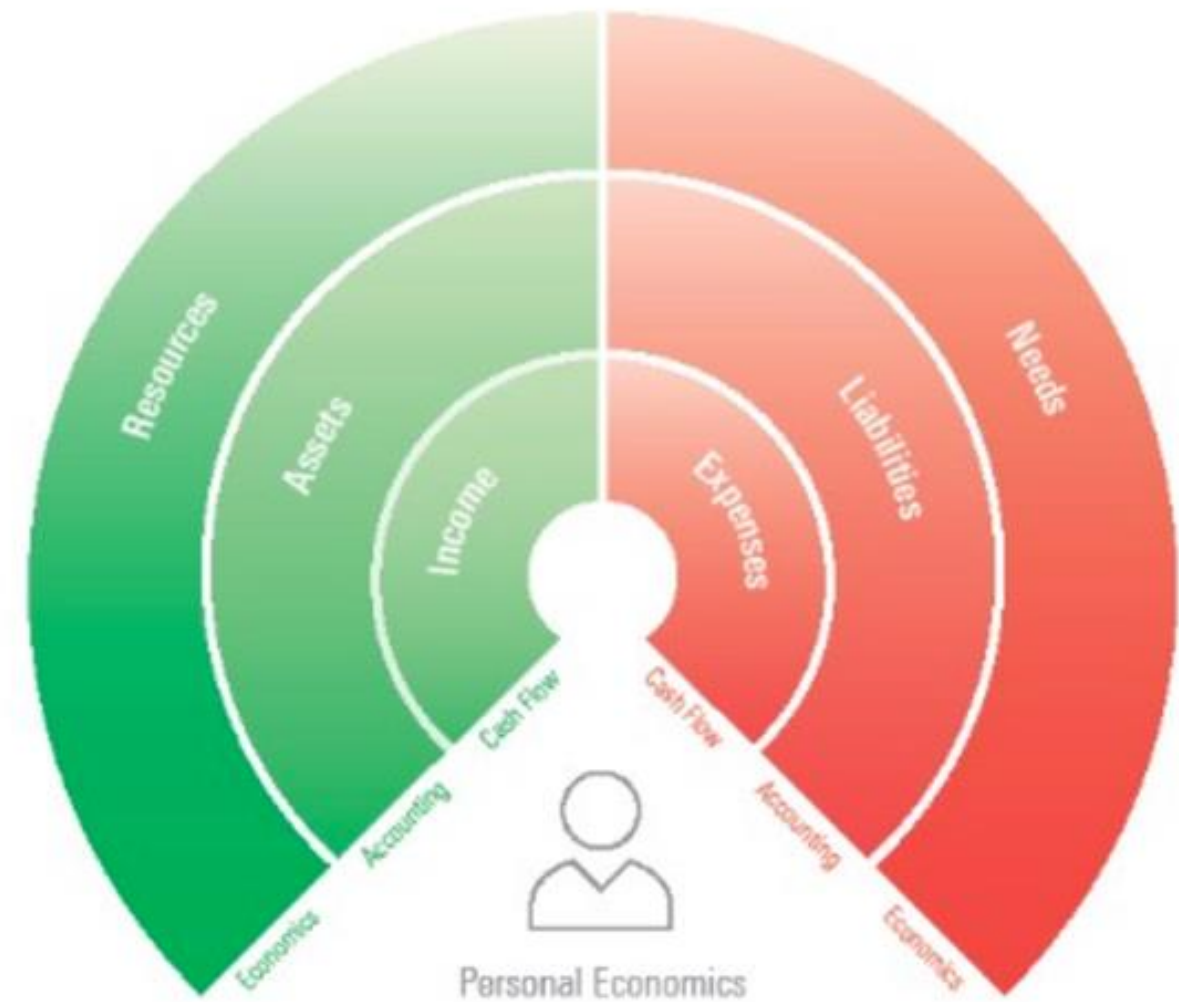
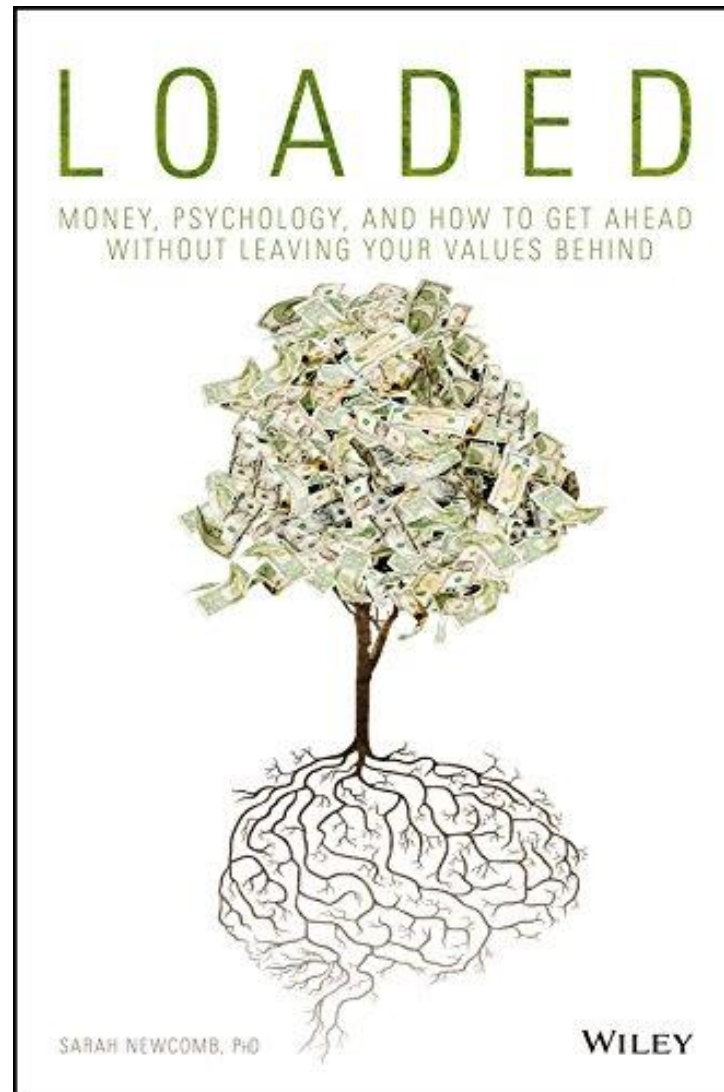
Source: Morningstar

# Behavioral Coaching for The **Disempowered**

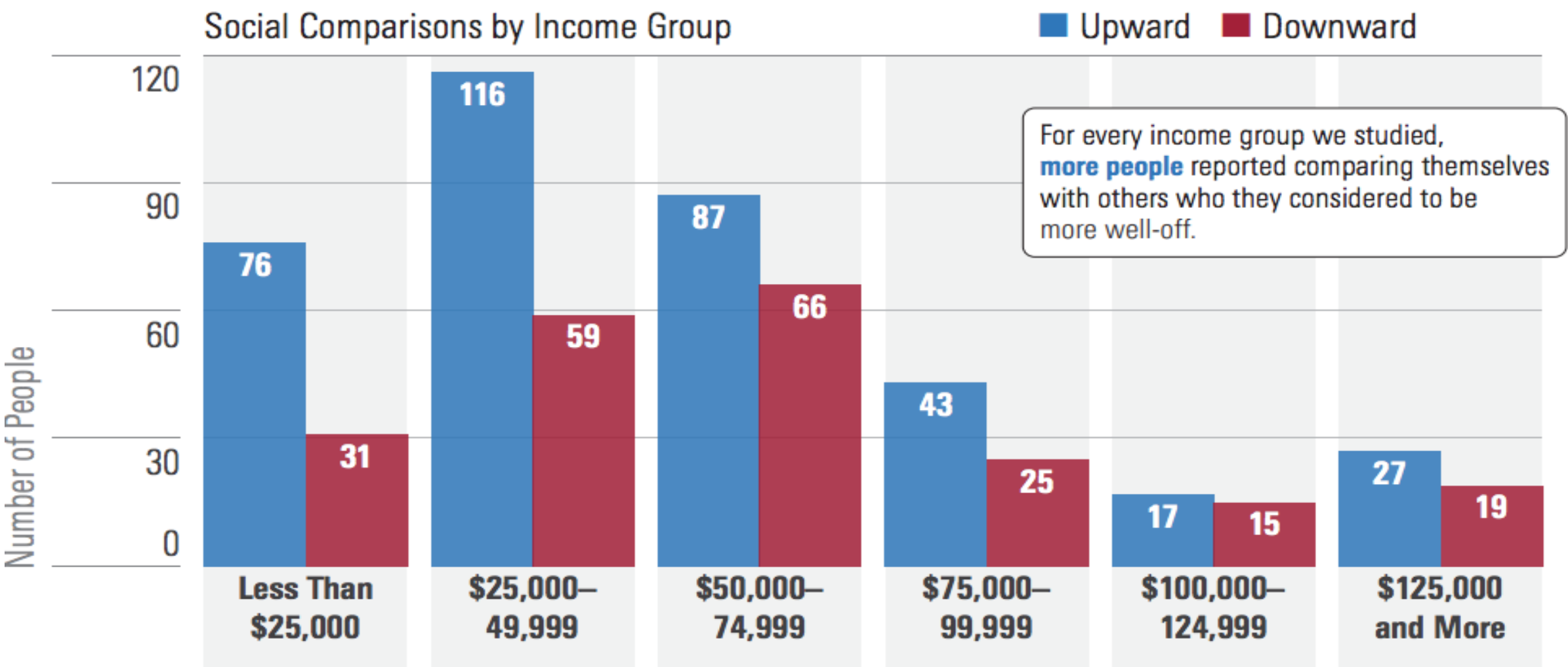


- Learned they had control.
  - When charge was removed, they left the box.
- 
- Learned they had NO control.
  - When charge was removed, they stayed in the box.
  - People needed to PHYSICALLY MOVE THEIR LEGS to show them they had control..

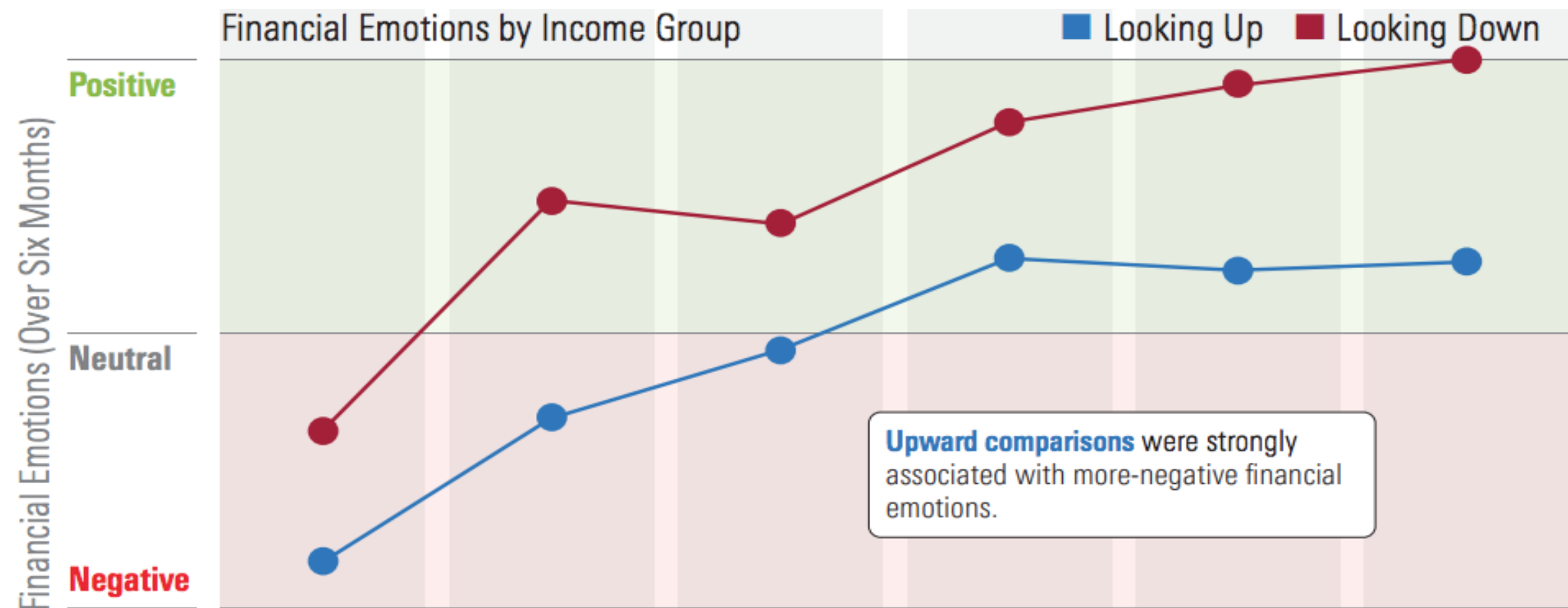
# Behavioral Coaching for The **Disempowered**



# How comparisons affect financial health

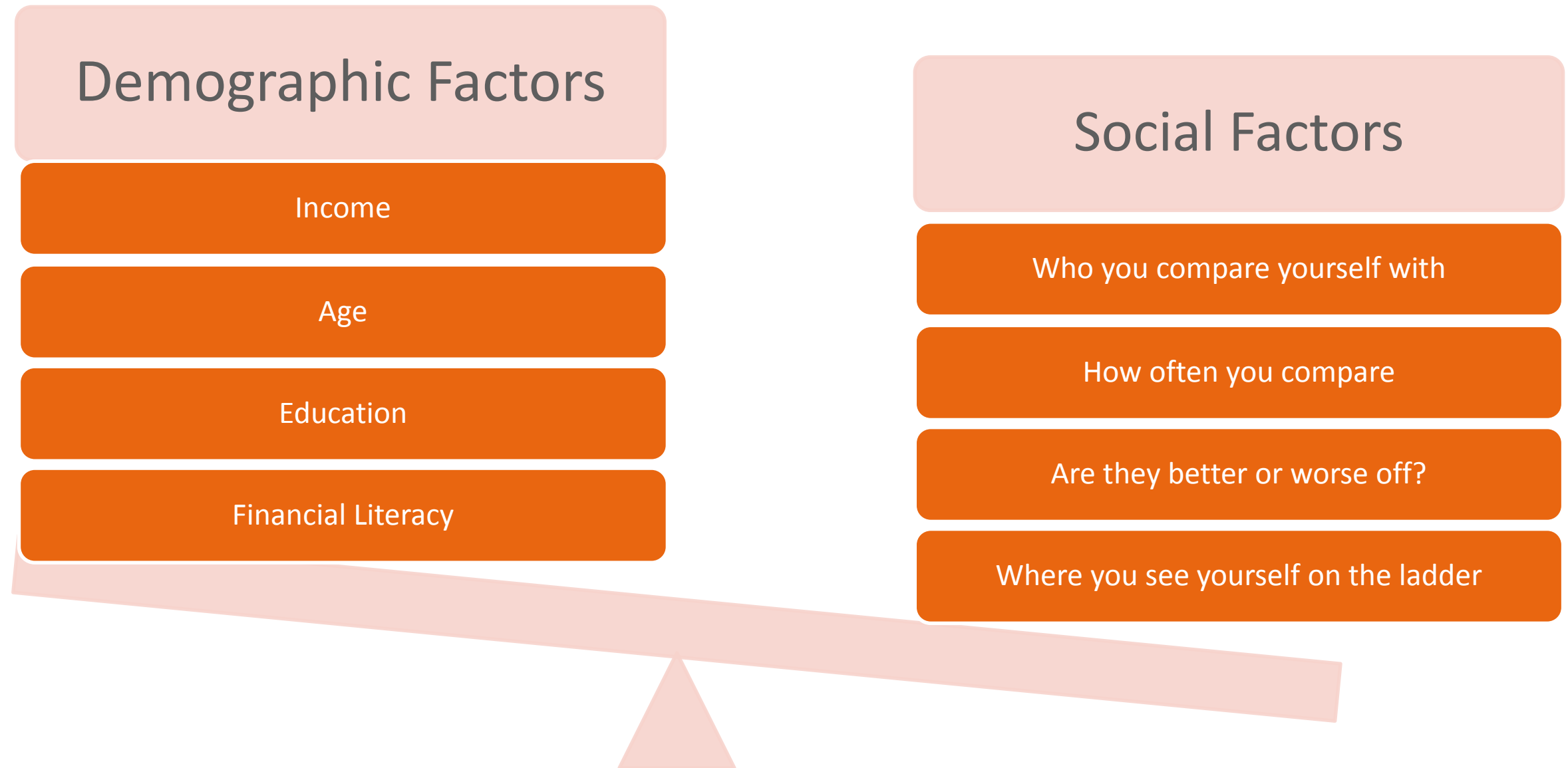


# How comparisons affect financial health

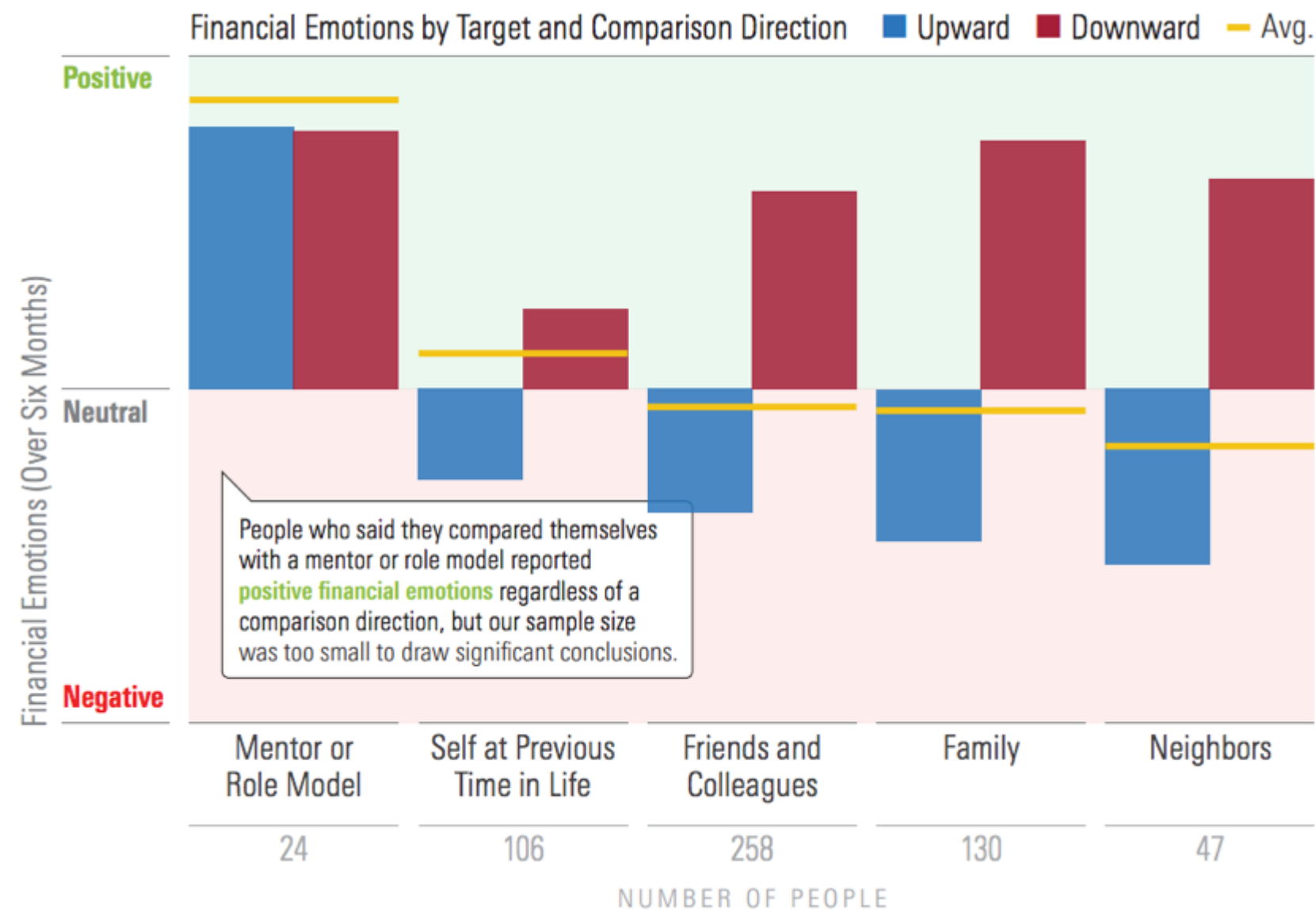




## How comparisons affect financial health

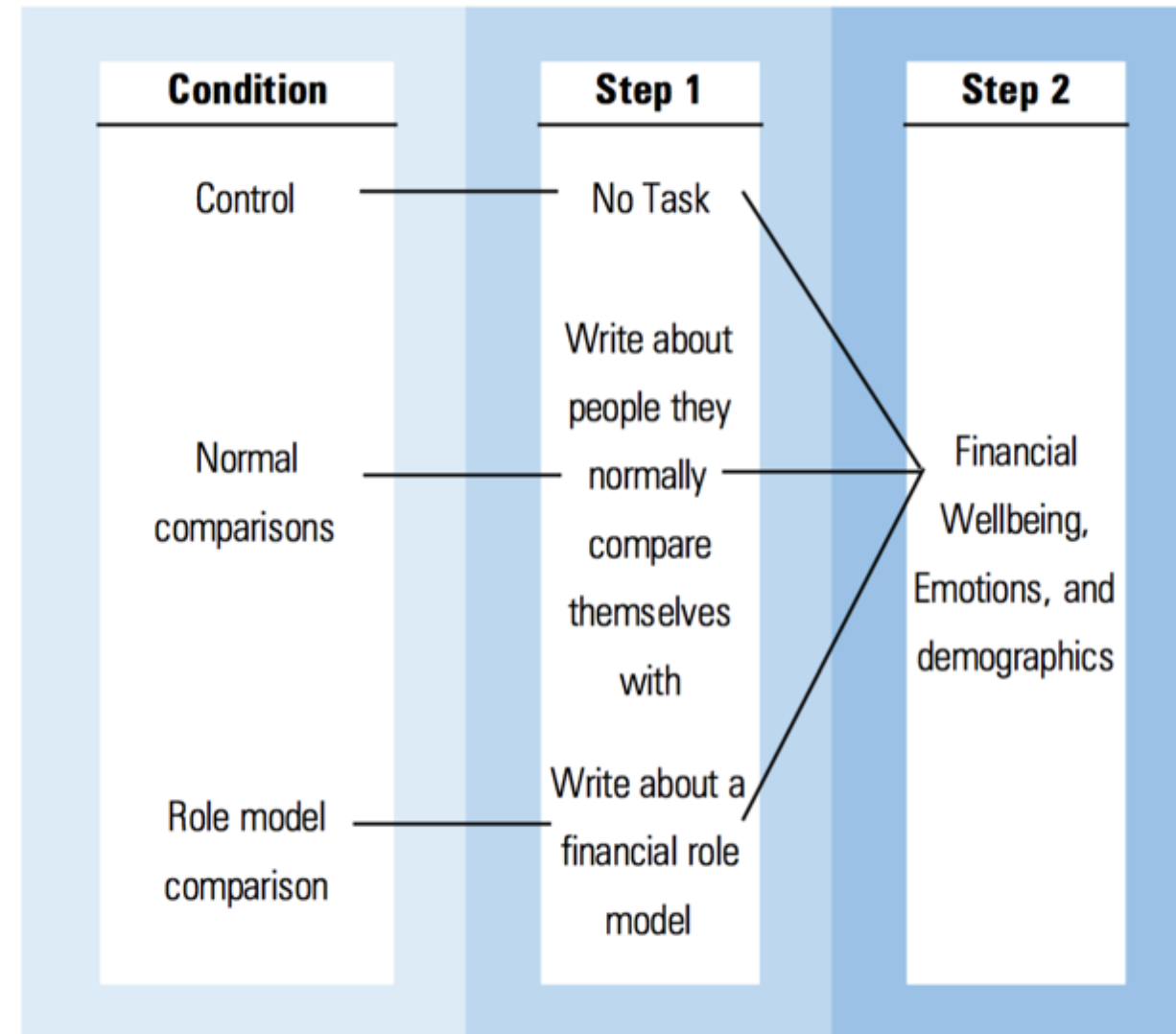


# Behavioral coaching for the **Social Striver**



## A better way

N = 691



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## A better way

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People who did the  
role model exercise

Greater confidence in their ability to reach  
their financial goals

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Greater sense of personal control over their  
financial future

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## MORNINGSTAR FINANCIAL HEALTH REPORT

### Your Financial Health Report

Based on your transaction history, as well as your personal profile, your financial health is rated in **MODERATE** condition.

### Economic Stability

Your economic stability score is based on the following factors:

- Payment and credit history
- Net worth
- Retirement readiness
- Ability to absorb a mild, moderate, and major economic shock.

### Emotional Wellbeing

Your emotional wellbeing score is based on the following factors:

- Financial anxiety levels
- Personal financial satisfaction

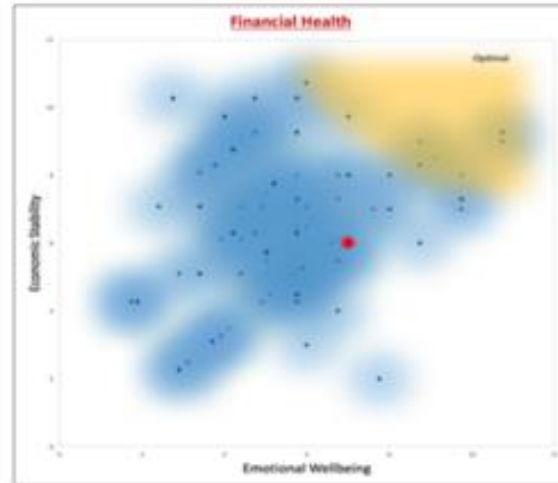
### Suggested Areas of Focus

According to your responses, we suggest that you focus on the following items to improve your overall financial health: Locus of Financial Control, Future Concept, and Social Comparisons.

**Locus of Financial Control** – People who feel a sense of personal power in their financial lives have significantly more positive experiences with their money, regardless of their income. People who feel empowered with their money not only report more joy, peace, satisfaction and pride in their financial lives, but they also tend to save more and acquire more assets than their peers in the same income group.

According to your responses, you could benefit from **increasing your sense of personal power** in your financial life. Research shows that the following actions can, at least temporarily, improve your sense of personal financial power.

1. Take two minutes to write a few sentences about a time when you felt fully in control of your money. What were the circumstances? How did you feel?
2. Take stock of the ways in which you have influence over your own future. DO you have the power to ask for a raise, promotion, or to enroll in courses that will increase your earning power over time? Do you participate in financial decisions



## MORNINGSTAR FINANCIAL HEALTH REPORT

such as how money is spent or saved in your home? Think about where your choices have consequences in your financial life.

3. Watch out for Learned Helplessness. If your sense of powerlessness comes from lived experience, it can be hard to overcome this obstacle. Psychologists have long known about the phenomenon of learned helplessness – a condition in which those who were once in a situation without power continue to feel powerless even when their circumstances have changed. Take a look at where there may previously have been barriers to your success that are no longer there. Are you able to do today what you could not do ten years ago? Because of its traumatic impact, learned helplessness often requires professional help to overcome. If you feel that this condition describes you, we strongly encourage you to talk with your advisor and seek out a psychologist who is knowledgeable about the condition.

### Future Conceptualization –

How far you think into the future, and how clear and detailed your mental picture of that future is, have a significant relationship to saving and asset accumulation rates. People who think 20+ years ahead tend, on average, to have 20 times more saved for retirement than those who think only a year ahead. This relationship remains significant when controlling for age, income, and education levels.

According to your responses, you are at **high risk** for an unsustainable debt-to-income ratio. People with similar future conceptualization scores often have trouble limiting their spending, leading to the misuse of credit cards, and high financial stress levels. The following actions can help you reduce your risk for unsustainable debt, and improve your motivation to save:

1. Extend your time horizon. You said that you tend to think and plan **one year ahead**. Work with your advisor, spouse, or on your own to create a vision for your financial life **two years** from now. Set specific goals that are concrete and realistic. Rather than say, "I'd like to be more financially secure," it is more useful to say, "I want to pay off the two credit cards that have the highest income rates by this time two years from now."
2. Mental Contrasting. Picture an obstacle to reaching your goals. Make sure this obstacle is *within your power to overcome*. Then, envision one thing that you can do to remove or work around that obstacle in the next 12 months. This technique has been linked with higher goal achievement in clinical studies.
3. Add detail and clarity. Your advisor can help you to think through the specific lifestyle and day-to-day activities you would like to enjoy in your retirement years. Based on that vision, they will work backwards to calculate the financial requirements you need to meet in order to live that lifestyle. The clearer and more detailed your picture of this future, the better. Thinking ahead is only part of the picture. Those with a very clear vision that is both satisfying and also realistic are more likely to reach those goals.

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## Summary & Ongoing Work

1. Behavioral Coaching can take several forms
  1. Nudges & Automation
  2. Rules of thumb
  3. High-touch interventions
2. Financial Health includes both **economic** and **emotional** dimensions

### ***Time and Clarity***

**Long-term planners are better savers** Coach short-term thinkers through visualization and extending mental time horizon

### ***Power and Social Standing***

**Empowered people are financially happier** Coach the disempowered through focus on personal control and LOADED techniques

Money mentors can make a difference. Channel natural comparisons toward a role model.

# Disclosure

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