HOW TO TRICK YOURSELF INTO SAVING MORE MONEY

How to trick yourself into saving more money | Voya.com

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Pour one out for your old spend-thrift self. In 2022, you're finally going to grow into a money-saving superstar.

Let's be real: Saving money is never going to be as fun as spending it. But you can make things easier by employing a few tricks of the behavioral economics trade.

The biggest one? Automating your savings.

Setting up automatic deposits into various savings vehicles (like mutual funds and old-fashioned savings accounts) eliminates what behavioral scientists call "friction" — obstacles that can stop you from completing the desired task, says Margaret Bolton, a senior behavioral science researcher at Duke University's Common Cents Lab. In the case of saving money, automating the process with deposits tied to when you’re paid means you don’t have to actively think about how much to save each month.

“We all live really busy lives, and automating savings just removes that cognitive burden of putting aside money for the future,” Bolton says.

The new year is an ideal time to hop on the automated savings train, thanks to something called the “fresh start effect,” Bolton says. We tend to view calendar landmarks like birthdays and the start of a new year as a separation between our past, imperfect selves from our new, improved selves.

Everyone knows that it’s hard to maintain the momentum of New Year’s resolutions as January winds down. But that’s another genius side effect of automating savings: Since you’ve already done it, there are no further steps to take.

“When you have that motivation, a boost from the fresh start effect, that’s the time to make one decision, one change that’s going to have a lasting impact for the entire year,” Bolton says.

If you have a workplace plan, retirement savings is easily designed for automated savings. Start by putting enough into your workplace retirement plan to qualify for a company match.

Next, set up automatic deposits into an emergency savings account. You’ll eventually want to build that up to three to six months’ worth of expenses, but if you’ve never saved before, try a more manageable starting point — maybe $2,000 or 10% of your income.

After emergency savings, flip your focus back to increasing your deposits into a workplace or personals retirement plan. Your goal is to work up to saving 20% of your income for the future. You can also automate deposits into a health savings account (HSA) if your insurance plan offers one, or schedule transfers into different savings accounts for upcoming big purchases like a new car or a wedding.

Round out your savings makeover out by separating your money into different pots with unique names. Some of that assignment happens naturally with long-term savings via retirement accounts or college savings accounts, for example.

But you can do it even in a basic savings account. One option is setting up individual savings accounts for broad buckets; say, necessary bills, discretionary spending and short-term savings. Or you can go much more granular, naming accounts for your emergency savings, new home fund, dream vacation and so on. Some banks allow you to separate your money into buckets or goals within a single savings account.

This naming exercise makes it easy to see where you stand on various goals. But it helps in another way: As studies have shown, once we label money for a specific purpose, it makes it harder to spend it on something else.

And after you've paid yourself first, you can spend guilt-free from whatever money is left over. No temptation necessary.

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