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left to right: Brenda C. Bolander, Joe Bowie, Randy Thurman, Chad Rudy, Carol Ringrose Alexander, and Andrew Flinton

Financial Briefs

JULY 2015

The Psychology of Saving

Saving money sounds simple, and in many ways, it is. You simply set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve the things you most want. But in reality, saving is a little more complicated. Sometimes, our own minds seem to work against us when it comes to setting aside some of the money we earn. That's why a basic understanding of the psychology of saving can help you overcome roadblocks and get closer to your goals.

Why It's Hard to Save

What is one of the biggest obstacles most people face when it comes to saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. For example, one study found that most adults would prefer to have \$50 today rather than \$100 two years from now.

Part of the difficulty people face with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future. Re-

searchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self rather than in terms of their basic self-interest would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to

save more.

In fact, there are a number of studies that suggest changing our mentality — either about the future or about saving in general — might allow us to set aside more money. A recent study found that people who adopted a cyclical mindset to saving that is focused on making saving a routine in the short term saved more than people who set more ambitious

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Teach Your Children to Save

Sharing information about how to handle money — including when to save, when to spend, and how best to do both — is one of the most valuable things a parent can teach their children. These money lessons will serve your children well throughout their lives. And the good news is that it's never too early to start teaching your children how to save. Depending on how old your children are and your parenting style, you may want to embrace one or several of the following tips.

Talk to Them about Money

Many parents avoid having conversations about money with their children because they're not sure how to go about doing it. But even if you're not talking to your children about money, they're still learning something. Your silence might be

teaching your kids that money is a topic to be avoided. Or they may be learning their lessons about money from somewhere else, and those may not be the lessons you'd like them to learn. Rather than staying tight-lipped, talk to your children about how you save and spend your money, and teach them how money you save can grow with the help of interest. By learning at a young age how money really works, they'll be better prepared to make smarter decisions about it when they are older.

Give Them an Allowance

Giving children an allowance is a way for them to learn on their own how money works. When you give children an allowance, they'll be able to make their own decisions and mistakes and will learn

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Psychology of Saving

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longer-term goals. Those with a traditional linear mindset saved about \$140 over two weeks, while those with a cyclical mindset saved \$223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.

The Psychological Advantage of Saving

Once you commit to savings, there's a good chance that you'll see a psychological boost from doing so. A 2013 survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account. That same survey found that 82% of people reported that saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences that they considered meaningful.

While our mental quirks might sometimes make saving difficult, being aware of the obstacles our mind presents can help us find our way around them. And in turn, that may lead to greater savings and increased happiness overall. ■■■

10 Ways to Boost Your Savings Today

By embracing some simple lifestyle changes or taking full advantage of savings incentives, you can easily boost the amount of cash you save. Here are some ideas to get you started.

- **Take advantage of savings perks:** If you contribute pretax earnings to a 401(k) plan or IRA, you're saving money beyond your actual contribution amounts. Another way to save? Make sure you're contributing enough to get your employer match, since this is a great way to increase your savings without actually shrinking your take-home pay.
 - **Get your benefits:** Your employer may offer benefits beyond a 401(k) plan that could save you money. Flexible spending accounts are common benefits that allow you to set aside pretax income for out-of-pocket medical expenses. Make sure to review benefits and take advantage of all that apply to you.
 - **Cut recurring expenses:** Monthly subscription boxes, streaming entertainment services, gym memberships you don't use — these regular costs can add up. While some may be worthwhile, trimming the fat in the area of recurring expenses can help you save more.
 - **Buy generic:** Do you always buy the name-brand version of a product? If so, you might be wasting money. In many cases, the generic version is just as good — if not identical to — the pricey, branded version.
 - **Make it automatic:** Not sure where your money goes each month? Automate your savings so you don't have to think about setting aside extra cash. Chances are you won't even miss that money.
 - **Be generous:** If you itemize your taxes, make sure you're keeping track of all charitable donations — from checks you write to the value of that box of gently used clothes you just dropped off at Goodwill.
 - **Cut one habit:** Do you indulge in daily soda or an expensive coffee drink? Cut the habit (or, if that's too hard, limit it to two or three times a week). Save the money you would have spent.
 - **Repair, don't replace:** It's easy to toss a slightly worn or damaged item and buy a new one to replace it. But many of the items we throw out can actually be repaired. Find a skilled shoe repair person, quality tailor, experienced upholsterer and furniture repair person, and other professionals to spruce up items that need a bit of repair. By purchasing quality items and taking good care of them, you'll likely save yourself money in the end.
 - **Use coupons:** Clipping coupons may seem distinctly old-school. Fortunately, you can now take advantage of coupon savings without having to spend an entire Sunday morning sorting through newspaper inserts. When shopping online, always do a quick search for online promo codes and coupons before hitting buy. Or sign up for your favorite grocery store's rewards program.
 - **Review your insurance premiums:** Raising deductibles or bundling policies could save you money. Also, make sure you actually need the insurance you have. Finally, make sure you're getting all the discounts you qualify for, like car insurance premium reductions for being a safe driver or homeowners insurance discounts for having an alarm system.
- Please call for help analyzing your budget and identifying ways to cut your expenses and save more of what you earn. ■■■

Teach Your Children

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valuable lessons in the process. A seven-year-old who spends all his allowance the day he receives it and then doesn't have money a few days later will now know money is a limited resource that needs to be managed. If a child wants a toy that exceeds her weekly allowance, you can help encourage her to save it so eventually, she has enough to buy it herself. Or, you might institute a rule that says your children must save a certain portion of their money for the future.

Give Them a Piggy Bank

For young children, an old-fashioned piggy bank can be an excellent tool to encourage them to save. Kids will get excited about saving the quarters and dollars they earn from doing chores around the house or that people give them, especially if you explain that saving means they'll eventually be able to buy something they really want. Some people even recommend a clear piggy bank or jar since it helps kids see how much they've already saved.

Open a Bank Account

For slightly older children, a basic savings account may be the next logical step beyond a piggy bank. Many banks offer special savings accounts for children. Rather than just setting up the account for your child, make sure they are involved with the process of choosing and setting up the account. Even if you can set it up online, you may want to visit a bank branch in person for this task, just so your child can get used to interacting with financial professionals. Having their own bank account is one more way to help your children feel financially independent and in charge of their money.

Match Their Savings

One other way to encourage children to save is to match the money they set aside. Say your child wants to attend a special arts or sports camp one summer. The camp is expensive, so you might encour-

5 Surprising Facts about Saving in America

Most of us know that we as Americans just aren't saving enough. But do you really know the truth about savings in the U.S.? Here are five facts about the state of savings that may surprise you.

1. Many people have virtually nothing saved. Thirty-six percent of people have less than \$1,000 saved, according to a 2014 survey by the Employee Benefit Research Institute. The reasons for these low savings are many, including stagnant wage growth, inflation, and previous crises that have led people to deplete their savings. Of course, some people just have trouble setting aside money for tomorrow, even if they are financially able to do so. But whatever the reasons, the consequences of not having a financial cushion tend to be the same for most people, including more debt and greater financial insecurity.

2. Even high-earning Americans often have little in savings. Perhaps it's not totally surprising that the lowest-income Americans have little in savings. In fact, the bottom 20% of income earners have enough cash on hand to survive just nine days, according to 2015 research by The Pew Charitable Trusts. Yet what's more surprising is that even households with significant income are teetering on the edge of financial instability. The same Pew study found that even those households in the top 20% of income only have enough liquid savings to replace lost income for 52 days.

3. Americans are saving far less than they did in the past. Americans, on average, save less than 5% of their income today. The personal savings rate in the U.S. was just 4.9% as of December 2014, according

to data from the Federal Reserve Bank of St. Louis. Forty years ago, in December 1974, it was just under 14%. Not only are savings rates low across the board, but some people actually have negative savings, with 20% of Americans regularly spending more than they earn, according to data from the 2012 Financial Capability Study.

4. Americans want to live comfortably in retirement, but they aren't willing to sacrifice and save for it. Sixty-one percent of Americans admit they are not sacrificing a lot when it comes to saving for retirement. At the same time, 22% of middle-class Americans admit they'd rather die early than run out of the money they need to live comfortably in retirement. In fact, people are more likely to be saving for a vacation than retirement.

5. It's not just a lack of willpower that's keeping us from saving. Some people just live beyond their means, focusing on today's wants rather than their future. But low savings rates aren't just a product of greed or laziness. The recent recession, and the plunge in home values and job losses that came with it, led many people to draw from their savings to survive. Even those who didn't have to turn to their nest egg to get by are often dealing with lower incomes and higher fixed costs for housing and healthcare. The fact is, real wages for American workers haven't budged for decades, according to the Pew Research Center, and that may be making it difficult for many to save. ■■■

age them to help out with the cost by saving their allowance. Then, you can reward their efforts by matching however much they save. (This is similar to the way your employer matches your retirement contributions.) These incentive programs are a way to reward children

for their savings efforts.

Have questions about how you can teach your children to save their money? Please call for some tips about how you can prepare your children now for a lifetime of financial security. ■■■

News and Announcements

From the Alexander Household

You may have heard of the \$25,000 idea. In 1918, productivity expert Ivy Lee met with Charles Schwab, president of Bethlehem Steel. Lee said his idea could increase productivity by 50% in 20 minutes a day. His instructions were simple. He handed Schwab a blank piece of paper and said:

"Write down the six most important tasks you have to do tomorrow in order of their importance. The first thing tomorrow morning look at item one and start working on it until it is finished."

He continued: "Then tackle item two in the same way; and so on. Do this until quitting time. Don't be concerned if you have only finished one or two. Take care of emergencies, but then get back to working on the most important items. The others can wait. Make this a habit every working day. Pass it on. Try it as long as you like, then send me your check for what you think it's worth."

A few weeks later, Schwab sent a check for \$25,000, which is roughly equivalent to \$400,000 in 2015. After five years, this plan was largely responsible for turning Bethlehem Steel Company into the biggest independent steel producer.

I've tried writing down my top six daily priorities, but found it to be a little unwieldy. I've moved toward setting one priority for each day. In *The ONE Thing* by Gary Keller, he recommends asking, "What is the one thing I can do today so that by doing it everything else will be easier or unnecessary?" I find that utilizing this daily focus brings the weeks and months into alignment with my priorities and values.

Carol Ringrose Alexander,
CTP®, AIT®, CDFA™

From the Flinton Household

"There is nothing noble in being superior to your fellow man; true nobility is being superior to your former self."

~ Ernest Hemingway

Our first summer at our new home has been joyful, peaceful, and memorable. Enjoying coffee in the cool mornings and greeting the sun with a view of the trees and open air is reinvigorating my soul. I have very fond memories of growing up in Piedmont and feeling free from the hustle and bustle, at ease with a slower pace, and incredibly small in relation to the stars. I'm glad I can see them again.

Our daughters, Emerson and Samantha, are swimming like fish thanks to a wonderful group of swimming instructors, and it is great fun to watch

them play as only children can. We have made a concerted effort to slow down and do less this summer. For our family, we truly feel best and blessed when we share a large quantity of high-quality time together. There will be time enough for overscheduling our lives, but for now I will show my children there is no pride in being "busy." We are enjoying the upside of downtime. The fact that my three-year-old daughter will wake up in the morning and ask to cuddle, and my four-year-old will cry if I've left before coffee and breakfast together, lets me know we are moving in the right direction, at just the right velocity. I've been blessed to have the opportunity to be a parent and to be a spouse, and I pray for the wisdom daily to recognize what is truly important and to be the best parent and husband the Lord would have me be.

Make it a wonderful month!

Andrew Flinton, CFP®

From the Misialek Household

I recently went on a camping trip with my family to one of our many beautiful Oklahoma lakes. As I sat on the cabin porch one evening listening to the locusts sing their summer song, it triggered childhood memories like a flashback in a movie. The smells, sounds, and events of years past all came rushing back. It's funny how a sound or song can reawaken memories we thought were long gone.

I choose to believe we forget things because there is too much information going into our brains...not that we are getting old. How do you catalog your memories? Do you have photo albums or endless pictures on your phones, Facebook, or computer drives? How often do you go back to relive the events of your past by looking at your pictures? This July, take a moment or two to remember the good times.

Remember the holidays and the good times shared with family and friends. Think of all of the reasons you get up each day. Count your blessings and remember to say thank you to your coworkers. Call your parents. Hug your children, and cherish every moment. They are only gone too soon. Remember those who are serving our country and can't be with their families. But most of all, make the best of each day and continue to make wonderful memories.

Heather Misialek,
Senior Vice President