*Money In, Money Out, Money Set Aside*

# BUILDING WEALTH FOR RETIREMENT: A THREE-PRONGED CHALLENGE

**By David Gould,** *Staff Editor*


In partnership with the financial advisory group WealthWave, Proponent has launched a new effort aimed at member education in the art and science of wealth management. At our recent Summit, WealthWave representative Matt Luckey gave a presentation about building a retirement fund that will yield adequate income once the prime wage-earning years are over. This article builds on concepts and principles Luckey shared and adds additional background.

According to statistics quoted in the WealthWave presentation, financial education in the U.S. is sorely lacking. “Sex education is required in 17 U.S. states,” Luckey reported, “but only four states have a meaningful course in finance that’s requisite for high schoolers.” As a result, tests of financial literacy administered to U.S. adults reveal a true knowledge gap—and that comes home to roost. “In a United Nations study of which countries have the happiest citizens and which have the most financially literate citizens, those two characteristics match up consistently,” said Matt. The U.S. came out ranked 14th in both categories, regrettably to say.

This means the likelihood of an American proceeding down the established path of wealth accumulation isn’t very high. In brief, that path is comprised of living within one’s means, saving at least a little bit habitually (enduring at first the tiny interest rates banks currently offer), establishing an emergency fund (equal to 3-6 months’ average spending) then moving into a 401(k) or Roth IRA plan that you fund and manage through the years according to smart and steady habits.

Making your way toward that enviable scenario of a well-financed retirement is really three separate challenges—developing the means, learning how to save and learning how to invest.

So, yes, it all starts with generating income that is consistently far above the U.S. median of about $58,000—virtually no one builds a healthy retirement nest egg if their income is just average or slightly above. A survey from several years back drove home this point in dramatic fashion. It asked people to choose which of four categories best described them: I can’t even afford the basics; I can barely afford the basics and nothing else; I can afford the basics plus some

## Checking the Credit-History Box

Anyone who checks their official credit score and sees a high number—somewhere north of 750 on the range of 300 to 850—can rest assured they would have no credit-related problem should they go to borrow money. But a high credit score (often called a FICO score) is also important because it suggests you are managing your finances well—paying off your credit card balance each month, not opening new accounts on a frequent basis, and so forth. Of course, avoiding credit cards altogether means you’ll have no credit history, which means you can’t establish a FICO score at all—not a wise path to follow.

You're entitled to one free copy of your credit report every 12 months from each of the three nationwide credit reporting companies. Online, the website to use is annualcreditreport.com. You can also call toll-free at 1-877-322-8228.

Some card companies, for example American Express, provide cardholders with a button on their online account pages that clicks ahead to a free check of their credit rating anytime they want.

extras; and I can afford the basics, the extras, and I'm able to save too.

It was only at the $150,000 level that the survey found the vast majority of consumers, 88 percent, saying they could buy what they need, afford some extras, and still be able to save a bit. As for the rest, more than half of Americans felt they could just afford the basics, and many with six-figure incomes still felt they were scraping by. The report said 18 percent of American households earning between $100,000 and $150,000 could only afford the basics, with another 10 percent saying they sometimes can't even afford those.


As for learning how to save, this may be the most complex and potentially confusing part of the equation. Psychologists have been discovering that, to a certain degree, someone's tendency to be a spender or a saver is based on how their brains are wired. Scanning what you might think of as a "responsibility center" in the brain called the insula, researchers noticed that all acts of financial restraint and responsibility brought a powerful rush of pleasure to the insula region in the brains of some people—the ones who turn out to be your classic savers. Spenders, meanwhile, don't exhibit much insula-region activity at all.

For the spender, brain activity connected to the acquisition of something desirable centers on the nucleus accumbens, the region responsible for the release of dopamine, which drives feelings of pleasure. Once this original series of experiments was reported, further research began to show that, be they a saver or a spender, a person's "money brain" is particularly subject to extremes. We end up with lots of true shopaholics and lots of people who are obsessively frugal and prone to self-denial. As one of these reports concluded, "We tend to skew to extremes, such that spenders often end up with financial trouble later in life, and savers can end up with great regrets."

These patterns are important for a single person to understand and possibly more vital for a married couple to grasp. Not surprisingly, there are research studies to help you do that, all of which highlight the saver personality as the most attractive marital candidate for a fellow saver type. Among spender types, the males aren't particularly attracted to female savers, whereas the female spenders are disproportionately attracted to males who save rather than spend.

According to Greenpath Financial Wellness, a non-profit financial counseling organization, it could actually be a good thing if you and your spouse are on different ends of the savings/spending spectrum. "If there is open communication, in a healthy relationship, this could be a really good system of checks and balances," says financial wellness expert Kathryn Bossler. "The saver will make sure there are savings while the spender will make sure there is a quality of life." Not surprisingly, according to the research, where things tend to get volatile is when two spenders marry. Interestingly, aversion to piling up debt is found to be unusually strong among Millennials—the Proponent Group member you find in the Associate category currently. The reason often given is high levels of student loan debt, which makes them loathe to pile up more.

An over-the-top move causes an outside-to-in swing path that yields undesirable face-to-path angles and a consistent miss to the right. Skilled golf coaches know this, just as they know a hundred other cause-effect patterns affecting ball flight. As for behaviors and tendencies that create financial well-being in the near term and long term, those can also be studied within a logical cause-effect framework. It's an effort well worth getting started on, and sticking to, for any Proponent member desiring to get the most happiness out of their life and career.

*For more information or to schedule a time to review your retirement game plan, visit wealthwave.com/mattluckey.* PG

## The Takeaway:

- *U.S. adults are relatively weak in financial literacy—ranked 14th in a global study.*
- *To fund a proper retirement you probably must earn three times the U.S. median of $58,000.*
- *The habit of saving comes easy to some people—brain studies prove this. Others must compensate.*
- *How you marry also affects the save-and-invest effort: Spenders who marry other spenders face a particularly difficult challenge.*
- *Your credit score doesn't just show you how hard or difficult it would be for you to borrow—it's also a valuable readout on how responsible a money manager you are.*