RETIREMENT SERVICES

Retirement and Investing:

Saving vs. Spending

Always Designing for People®

Did you ever wonder why you're more likely to save or spend "extra money"?

There's a good reason for this and it's called mental accounting. Simply put, it means that you classify and value your money differently based on where it comes from, where it's kept, and how it's spent. As a result, some dollars will have a lesser value and some you will spend without thinking twice.

Will you save, spend or splurge?

Below are two different situations in which you receive some extra money. In each situation, what would you do with your extra cash?

- Save that money for your retirement or something else, or
- Spend or splurge on something like a vacation, a car, or a remodel of your home

You receive an extra $250 a month in your paycheck

You receive a $3,000 tax refund you were not expecting at the end of the year

Research shows that most people say if they received an extra $250 a month in their pay, they would save the extra money rather than spend it. However, if they received a $3,000 tax refund, they are more likely to spend that money on a large purchase.

Why the difference? Because people tend to place a higher value on money earned as compared to "found money." Tax refunds are commonly viewed as "bonus money." In actuality, tax refunds are the return of the money you overpaid in taxes, so it's not technically bonus money.

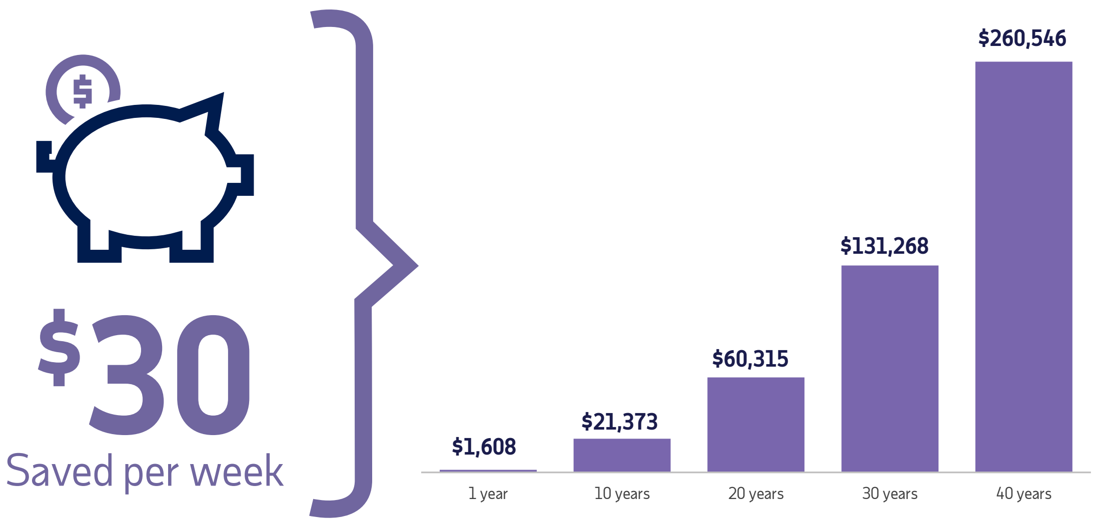
Something to think about

An extra $250 a month for a year equals $3,000. If you saved the $3,000 towards your retirement, in 30 years with a 6% average annual rate of return you would have 17,230! Based on this, would you now — save, spend or splurge?

Small changes can have big rewards

Let's look at another example of how changing your behavior can make a big difference. Saving $30 a week today by making small changes to your spending habits could mean an extra $60,000 in 20 years. And in 40 years it could be over $260,000.

Small changes can have big rewards. That's why changing the way you look at money can go a long way to help you get closer to meeting your retirement goals.



For illustrative purposes only. Assumes a $0 starting balance, a constant weekly contribution, an average annual rate of return of 6%, compounded daily with reinvestment of earnings, and no withdrawals or loans during the investment time. Results are not meant to represent the performance of any specific investment vehicle. Investment return and principal value will fluctuate and when redeemed the investment may be worth more or less than its original cost.

Warning signs of mental accounting

1. You don't think you are a reckless spender, but you have problems saving (more)
2. You are more likely to splurge with a tax refund than savings
3. You seem to spend more when you use credit cards than with cash
4. You have a savings account AND revolving balances on a credit card

Tips to fight against mental accounting and save more

- **Credit vs Cash** – Think about what you want to buy in terms of paying for it with cash vs. with your credit card. If you had to use just cash, would you or could you still purchase that item?
- **Divide and conquer.** You can find money to save by dividing your take home pay over 13 months rather than 12. Then divide that amount by the number of pay periods at your company. The difference between the two amounts is your savings. You will be surprised at how quickly you can adjust and how much you will be saving.
- **Hurry up and wait.** We all tend to treat "found money" differently. So, try this trick the next time you get a bonus, tax refund, inheritance, etc. Tell yourself you can spend the money any way you like, but only after you wait 3 or even 6 months. In the meantime, put the money into savings. At the end of that time, there is a good chance you will see that money differently.
- **Imagine all income is earned income.** Before spending ask yourself how long it would take you to earn any "found money," especially after you have paid taxes.
- **Increase your contributions out of "found money"**. It's easy for us to become too conservative with our "earned" money. One way to overcome this is to tie contribution increases to the time most closely associated to when you receive your merit increase and bonus. Linking the increase to money you have not received makes it significantly easier to increase your contributions over time.

Planning tools and resources

ADP provides you with access to planning tools and resources to help you improve your financial well-being. Take some time to explore each by clicking on the linked site or by scanning the QR code with your phone.

ADP Financial Wellness

Library of planning tools for all stages life.

ADP Engagement Hub

ADP's retirement planning website; links to our Spanish education site and account access are available here too.

ADP Mobile Solutions App

The app allows you to quickly access planning tools and manage you account.

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Ready to increase your contribution today?

Click here to log into your account or scan the QR code to increase your retirement plan contribution.

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