Psychology & the Cashless Economy

The unchanging nature of personal economics

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Agenda

Part 1
• What’s Changing
  • The psychology of going cashless
• What’s Unchanging
  • Psychology
  • Economics
  • Personal Economics

Part 2
• Making it Personal
  • Your Personal Economy
  • Your stories
Agenda

Part 1
• What’s Changing
  • The psychology of going cashless
  • Who pays the price?
• What’s Unchanging
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What’s Changing

- Ease of paying
- Abstraction of money
- Speed of transactions
- Number of financial products
- Need to understand financial system

- Barriers to moving money
- Pain of paying
- Access for the unbanked
- Perceived power of the individual consumer?
Who Pays the Price?

Reduced Friction in Paying

- Easier to make purchases and transfers
  - Consumers get what they want faster and with less hassle
- Harder to control impulsive tendencies
  - Savers can transfer money easily and painlessly to savings and investment accounts
  - Fewer chances to change your mind
  - Easier to take money OUT of savings

Benefits the financially savvy and those with good habits

Hurts those with short-term mindsets and bad financial habits
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What’s Unchanging

Psychology

• Long & short-term mindsets
• Perceived power
• Simple rules of thumb
What’s Unchanging: Psychology

Money saved

Retirement Savings and Time Horizon (in $ Thousands)

<table>
<thead>
<tr>
<th>Time Horizon</th>
<th>Money Saved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than a year</td>
<td>$20</td>
</tr>
<tr>
<td>A few years</td>
<td>$88</td>
</tr>
<tr>
<td>Ten to 20 years</td>
<td>$267</td>
</tr>
<tr>
<td>I have my entire financial life mapped out to the very end</td>
<td>$440</td>
</tr>
</tbody>
</table>

How far ahead do you think?
What’s Unchanging: Psychology
What’s Unchanging: Psychology

![Graph showing emotions by income and perceived power. The graph compares the emotional experience of individuals who feel empowered versus those who feel unempowered across different income brackets. The x-axis represents income levels ranging from less than $25,000 to $150K+, while the y-axis measures emotional experience on a scale ranging from -10 to 8.]
What’s Unchanging: Psychology

Financial Emotions by Income Group

- **Positive**
  - Looking Up
  - Looking Down

- **Neutral**
  - Upward comparisons were strongly associated with more-negative financial emotions.

- **Negative**
What's Unchanging: Psychology

- **Time horizon**
  - Short-term thinkers

- **Social comparisons**
  - Compare to those better off
  - No specific mentor/role model

- **Locus of control**
  - Feel disempowered
What’s Unchanging: Psychology

Group 1
Basic business accounting course

Group 2
Rules of thumb for business accounting

The next year...

Group 1
No change in accounting practices

Group 2
Significant improvement in accounting practices
What’s Unchanging: Economics

Factors of Production
- Labor
- Land
- Capital

Financial Freedom
- Land
- Capital

(-) Labor
Blending Psychology with Economics

Economics
- Factors of production
- Financial freedom

Psychology
- Long-term focus
- Empowerment
- Rules of thumb
- Specific models to follow

Personal Economics
Rules of Thumb for Personal Economics

Income Sources
- Labor
  - Salary
  - Side hustles
  - Social Security
  - Child support
- Land
  - Rents
  - Appreciation
  - Development
- Capital
  - Interest
  - Appreciation
  - Dividends
  - Rents/sales

Expense Categories
- Past
  - Loans
  - Credit cards
  - Payment plans
- Present
  - Fixed
  - Discretionary
- Future
  - Savings
  - Investments
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Total Income

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Morningstar®
Personal Economics – The path to freedom

Stage 1: Labor

Stage 2: Labor → Land → Capital

Stage 3: Land → Capital
Personal Economics – The path to freedom

Simple – easy to remember in 10, 20, 30 years

Short-term thinkers are forewarned by what STAGE they are in

Focuses on freedom, not retirement

Draws attention to debt and savings in a fresh way
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  • The factors of production
  • The path to financial freedom

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Part 2

Take Stock
- Your Income Streams
- Your expense categories
- What are your percentages?

Make a Plan
- $100 per month from a side gig
- How much future income can you generate 20 years from now?
- Use BOTH land and capital in your plan

Role Models
- Who do you know who has reached financial independence?
- How did they use land and capital to do it?