

FIRE Starter - More Wealth & Better Health: Why You Should Change Default Settings

You can find all of Zach's previous posts [here](#).

Today, Zach discusses the powerful effect of our default settings and how you can leverage this power to your advantage. It's amazing what a minor tweak like this can do for you. It's like the ole slogan from the infomercial trying to sell you the rotisserie oven that says: "set it and forget it."

I hope you enjoy Zach's latest **FIRE Starter** post below.

First, a Quick Reminder of Why I Started This Series

For the astute observer, you will notice that I have added three new series to the blog: [LateFIRE](#), [FIRE Starter](#), and [Chasing FIRE](#). Notice a theme? They all capitalize on the explosion - one might say the COMBUSTION - in the FIRE (financial independence retire early) movement. But let's set the record straight: on the GYFG blog, "FIRE" is defined in a slightly different way, meaning, as I see it, Financial Independence / Recreational Employment. That's because I am after **freedom**, rather than a typical retirement, and see myself working forever. But once I hit [my number](#), my employment will represent my recreational choice.

At 33, I find myself on the older end of the millenials' age range, which in 2018 is 22-37, [according to the Pew Research Center](#). Guys like Zach have got me thinking that there is a younger part of my generation that may not be able to relate to where I am in life personally. Thus the decision to bring on Zach as a regular GYFG contributor, to reach those younger millenials. He will be writing about earning, investing, and saving money in your 20s. At 24, with a net worth in excess of \$130,000 and an income approaching six figures, he is more than qualified. Believe me when I say there is always someone younger and better than you out there, and Zach is putting my own 24-year-old self to shame. I share that only to say that I wish I had been reading people like Zach when I was in my early 20s.

When I moved into my first apartment after college, I was eager to find a local YMCA.

For whatever reason, instead of using Google Maps, I asked the complex manager if he knew of any YMCA's nearby. He told me about one that was located ten minutes away.

Nice, I thought. That's closer than I expected.

Fast forward two months. I hopped on Google Maps to see if there was a shorter route from my apartment to the gym. I typed in "YMCA" and saw two red dots appear on the map.

One belonged to the location a few miles away that I had been driving to regularly. The other was almost directly on top of my apartment.

It turns out there is a different YMCA less than two minutes away from where I live.

Facepalm.

I had accepted the first YMCA recommendation as the default option and had failed to look for alternatives.

Fortunately, accepting the default in this situation didn't have a detrimental impact on my life. In some cases, though, the options we accept as "defaults" can have serious negative effects.

The Subtle Power of Default Settings

A prime example of the power of default settings comes from Steven Dubner, co-author of *Freakonomics*. In [this article](#), he explains why so many people fail to save money through a 401(k) plan:

"One of the reasons that some people don't contribute to their 401(k) plans is because they usually have to "opt in" to the plan — i.e., actively choose to open a

plan, select their contribution percentage, make allocation decisions, etc. Faced with these hassles, a lot of people simply choose not to open a plan.

*If, however, the default is switched to “opt-out” — if they are automatically signed up for the 401(k) when they start working for a company, with an option to cancel — **savings rates are significantly increased.**”*

This is the power of default settings. If employees are automatically enrolled, they'll save money. If not, they're likely to avoid going through the hassle of enrolling themselves.

Even for most people who do actively enroll, they're likely to choose the default funds that charges a 1 - 2% annual fee. Unfortunately, although these numbers sound small, they add up to hundreds or even thousands of dollars in fees over the long haul.

Granted, some of these default funds will perform better than most investors could do by themselves, but there are still low-fee alternatives to this default investment option that will likely lead to higher returns over time. By making just a small tweak, investors can reap huge rewards.

The Default Process for Paying Investment Fees

In [this interview](#), financial writer [Morgan Housel](#) explains how most investors get screwed because the default method for paying fees is through automatically having them deducted from your account:

*“Most investors don’t actually write a check for their fees. They’re deducted from your fund or investment account automatically. **When something is so out of sight, out of mind, you don’t pay rational attention to them in the same way you do, say, the price of a gallon of gasoline.**”*

The result is that investment fees may be one of the largest - if not the largest - annual expenses for upper-middle-class households. A couple nearing retirement with \$800,000 in mutual funds could easily pay 1% in fund fees, 1% to a financial advisor, and 0.5% in trading and other costs.

So, 2.5% in fees on \$800,000 is \$1,666 a month - an amount that is very real but for which the customer never actually sees or pays an actual bill. For perspective,

the average mortgage payment in America is about \$1,300 a month.”

Since fees are taken from investment accounts without sending investors a bill, most people have no clue how much they actually pay in fees each year. This default option of paying 2% + fees is a wealth killer and most people don't even realize it.

What Can You Do?

Most default settings are suboptimal. Fortunately, with a few simple tweaks, you can improve upon them.

Investing: Analyze how much you're paying in investment fees. Minimize them as much as possible. Reducing fees by even a small percentage can have a *massive* impact on your long-term ability to build wealth. The less you pay in fees, the more money you keep for yourself, and the more fuel you give to the compounding investment flywheel. ([check out Personal Capital's free fee analyzer](#))

Saving: Make sure your cash is in [a high-yield savings account](#). Don't let all your cash sit in an account earning zero interest. Fortunately, thanks to the internet it has become incredibly easy and pain-free to open high-yield savings accounts with many online banks.

Phone Bills: Search for cheaper phone plans. There's no excuse for paying outrageous monthly bills to the default major players like Verizon or AT&T. I personally use TING and usually pay less than \$25 per month. I have heard many finance bloggers recommend Republic Wireless as well.

Smartphone Addiction: I love smartphones as much as the next person, but they can be a real productivity killer. To make your phone less addicting, enable grayscale on your phone by going to Settings > General > Accessibility > Display Accommodations > Color Filters.

Seeing everything in black and white makes apps less addicting. I learned this hack from [Tristan Harris](#), a former design ethicist at Google.

Health: Change the background of your laptop to a picture of nature. Studies show that seeing nature improves your mood. I learned this hack from *The Nature Fix*. In addition, if you're someone who stares at a screen all day at work, change the

background of your programs to darker colors. Your eyes will thank you.

Reading: When I used to come home in the evenings after work, my default behavior was to watch hours of YouTube. I recently blocked YouTube on my laptop. Now, when I'm bored, I pick up a book. It's becoming my default choice. I still watch TV and waste time on the internet, but not nearly as much as I used to.

Do you have any examples of default behaviors you have successfully changed, financial or otherwise?



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)