Heartland Institute of FINANCIAL EDUCATION

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Instructor's Tutelage

It's no secret that employees who are healthy and happy are more productive and engaged at work. Wellness also keeps heath care costs down. It's a strong argument for employee wellness programs. More and more, employers are adding financial wellness programs to supplement the physical ones, remembering that employees who are stressed out may not be contributing to the bottom line. In the recent past, the U.S. Consumer Financial Protection Bureau published a report advocating for these programs and found it's well worth investing in employees' fiscal fitness. "The return on investment to employers from comprehensive health wellness programs, though hard to pinpoint, appears to be large, ranging from $1 to $3 or more per dollar invested," the report found. Not only can improving personal finances help employees focus at work, it can also prepare them for rising health care costs, like deductibles and premiums, writes Warren S. Hersch on LifeHealth-Pro.com. Employees are interested in such programs, as well as benefits like short-term loans to help during an unexpected emergency, Hersch writes.

Businesses throughout the U.S. have attempted to provide for the welfare of their workforce. Consequently, many have been frustrated with rapid inflation of benefits costs and the unending administrative burdens that accompany providing benefits. Employees have come to rely on their employer to provide and/or make available welfare benefits for the workforce. And while all of this is occurring, the average American seems to fall further behind, financially speaking. Perhaps we're focusing our attention, at least to some degree, in the wrong place. Workplace wellness is a term that generally describes financial classes, health promotion activities and organizational policies and initiatives intended to support physical and financial health behavior in the workplace. The key concept is behavior. The hope is that employed persons will increase control over and improve their own health, both physical and financial. The workplace then should be a guiding force for how we may take control of our future. But that's only the beginning. It also provides us with a formula to manage this load of impending health and financial-related distress by embracing the concept of financial wellness. We can only change the problems we have by embracing a new solution. That solution is financial education coupled with implementation strategies.

Report: Credit Card Debt Increased by 24, 500% Since 1970

PFEEF November, 2019

Consumer debt in the U.S. has grown by 25 percent in five years and doubled since the turn of the century, according to the latest Clever Real Estate report. Consumers in southern states hold more debt as a proportion of their income than other regions in the U.S., and baby boomers showed greater levels of financial literacy than millennials, the report found. Researchers identified three major reasons for skyrocketing debt: credit cards, financial

ISSUE GUIDE

Report: Credit Card Debt Increased by 24, 500% Since 1970 (Cont.)

literacy, and location, based on data analyzed by the Federal Reserve.

The average American household held $533 in debt and earned $30,300 in 1950, not including mortgages. In 2018, households had $31,420 worth of debt relative to a median income of $78,646.

In 2018, 7 in 10 borrowers who didn't pay the full balance on their credit debt paid $113 billion in credit card interest and fees, up from $74.5 billion in 2013.

Revolving debt, comprised mainly of credit card debt, increased 24,500 percent since 1970, adjusting for inflation.

"When looking at the data, we were surprised at how quickly debt exploded since the first credit cards became available in the 1960s, how many American households carry a balance each month (over 70 percent), and how bankruptcies have skyrocketed since the 1980s due to the increase in consumer debt," the report states.

Clever Real Estate, which provides a free online service connecting customers "to top agents to save money on commissions," calculates that the average American household holds more than $31,000 in debt, or 40 percent of the median household income.

Credit card debt has encouraged over spending, the report says. According to the FINRA Investor Education Foundation, 19 percent of Americans spent more than their income in the past year; 36 percent broke even in 2018.

Overall revolving debt has increased by 20 percent since 2013, the report notes, "suggesting that we're not only spending more in general, but more of that debt is going unpaid month-to-month, compounding initial debt."

When it comes to financial literacy, baby boomers scored an average of a C grade in the company's financial literacy test, and millennials failed. Only 4 in 10 of the millennials who took the survey were able to choose the correct answer to the question "What is interest?" Baby boomers were twice as likely to answer the question correctly.

Baby boomers scored 27 percent higher on questions about loans, 18 percent more about credit cards, and 16 percent more on credit score questions than millennials.

When it comes to location, the analysis calculated a debt-to-income percentage for each state by dividing the total auto loan, credit card, and student loan debt by the median household income. The report excluded real estate related debt such as mortgages to be consistent with Federal Reserve data, which also excluded real estate related debt.

Mississippi had the highest debt to ratio percentage, 31 percent, in 2018; Washington had the least of 4 percent.

Credit card debt was highest in Alaska, Hawaii, and New Jersey and lowest in Kentucky, Mississippi, and West Virginia. New Jersey had higher mortgages ($40,630) and student loans ($6,090) than average. Texans have the highest auto loan debt of $6,720, compared to the national average of $4,659.

Planners' Top Worries About Clients' Financial Wellness

Charles Paikert | Financial Planning | November, 2019

Despite the plethora of resources available to clients, advisors say they are still worried about their clients' grasp of a number of key financial areas, including financial literacy, savings, retirement and insurance.

Almost one-third of clients are not financially literate, meaning they do not have sufficient knowledge and skills to make informed decisions about their monetary lives, according to advisors surveyed by Financial Planning's most-recent Financial Wellness Report.

- Not enough saved: 34%
- Just enough saved: 36%
- More than enough saved: 30%

"Financial literacy is a major issue," one advisor said. "If a client doesn't understand the basics of finance and investment strategies, it makes giving advice to them meaningless."

This difficulty has far-reaching ramifications. For one, financial stress — often caused by poor planning and misunderstanding — can lead to higher health care costs, according to SourceMedia research. The impact can also trickle down to the next generation: Three-quarters of clients had either minimal or adequate savings for their children's college expenses, according to about 300 advisors surveyed by Financial Planning in September and October.

'SOMETIMES WORSE'

Sensitivity is critical when it comes to working with clients who are less confident about financial concepts. "The best thing I've learned is not to make them feel inferior or afraid of money and investments," one advisor said.

Showing clients "a visual representation" of financial concepts was helpful, one advisor noted, while another suggested clients with less financial knowledge bring in a family member to help them grasp new concepts.

At least one advisor who works with less-experienced clients found it affected their investment recommendations. "If a clients' literacy level is lower, I will encourage them to save more," a respondent explained. "And I might recommend [investment] strategies that are more- or less-risky depending on their literacy level."

While wealth managers generally agreed it's easier to work with financially literate clients, others pointed out that sophisticated clients can be troublesome, too.

"Sometimes it's worse if they're financially literate," one advisor said. "They're good people, but sometimes they think they know everything."

Another wealth manager put it this way: "If clients [think they are] are financial experts, they take my advice less seriously."

TOP CONCERN

Lack of adequate retirement savings remains a top concern for planners. While respondents said 30% of their clients had more than enough saved for retirement, 34% reported clients had not saved enough and 36% indicated their clients had saved "just enough."

"It seems to be getting harder for people to hit the goals I feel are necessary for a worry-free retirement," one advisor said.

Another advisor's clients are struggling because they didn't save or invest enough while working. "They were under the impression that their jobs had a retirement plan set up for them," the planner said.

The lack of adequate emergency savings and health insurance coverage also remain concerns. Thirty-four percent of advisors surveyed said their clients didn't have enough money for an emergency; and 36% reported that their clients had "just enough" money for unexpected expenses.

Retirement Remains a Financial Wellness Issue

One quarter of clients do not have any health insurance, according to advisors surveyed, and 34% had only minimal health insurance.

"The increasing cost of health care in this country is an emerging need that more clients need to understand for their financial wellness," one wealth manager said.

The concern is well-founded. For example, the median annual cost of a home health aide is almost $50,000, according to a recent study by Genworth Financial, and the annual cost of a private room in an assisted living facility is close to $100,000.Those costs are expected to increase to $66,000 and $131,000, respectively by 2027, Genworth estimates.

On a more cheerful note, clients show familiarity with tax

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Planners' Top Worries About Clients' Financial Wellness (Cont.)

strategies, helping relieve advisors' worries about financial wellness. Around two-thirds of clients were either very knowledgeable or extremely knowledgeable about key tax strategies, including capital gains, estate tax exemptions, charitable contributions deductions, retirement plan contributions and DAFs.

Compensation is an integral part of clients' financial wellness. When salaries or comp packages rise, planners told FP they overwhelmingly advise clients to increase their allocation to investments and retirement savings. A majority of planners also said they advised clients to not change the amount of their spending on health care, debt payments, non-discretionary items such as mortgage payments, as well as discretionary items like vacations and entertainment.

Overall, advisors told Financial Planning they found clients listened well and "with a positive mindset to follow our recommendations and advice." They added that it helps to tailor messages to clients' level of understanding.

"I decide how much and what kinds of information to give my clients based on their financial literacy," one advisor said. "I also try to provide additional resources to help increase their overall financial knowledge."