The Power of Financial Education

Turning your dreams into reality

Randy McDaniel
Oklahoma State Treasurer
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This book is dedicated to those teaching, supporting and encouraging financial education in Oklahoma.
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ACKNOWLEDGEMENTS

Recent events have made me more grateful for all the people in my life, especially my family, close friends and team at work. The spread of COVID-19 led to a global pandemic, causing people around the world to take stock of their priorities, relationships and finances. The difficult economic circumstances that followed underscored the importance of financial education because it can be instrumental in developing the skills needed to get through tough times.

My hope is this book will help people be better prepared to face financial challenges in the future. To get a book ready for publication, team work is needed. I first want to thank Chris Biggs for his many contributions, including conducting research and formatting the text of this book. I also want to thank Deputy Treasurer Tim Allen for his help with editing and production. They both were not only important for this project, but also serve in key positions for a number of priority programs that include outreach initiatives designed to improve financial literacy.

I want to express my appreciation for the entire staff of the Oklahoma State Treasurer’s Office for their loyal and diligent service. These have been unprecedented times. The Capitol Restoration Project caused the office to locate to another building away from the State Capitol complex for almost a year. This was the first extended relocation since the Capitol was built in 1917.
The pandemic led to unique challenges as we worked daily to fulfill our core responsibilities. Existing remote capabilities were significantly enhanced and new virtual methods of communication were implemented, proving vital to meeting the heightened demands for government services across the state.

The dedicated professionals at the Treasurer’s Office rose to the occasion. Banking, accounting and investment personnel went above and beyond normal requirements to provide uninterrupted operations as we moved back to the Capitol while the pandemic persisted. I’m grateful for their hard work, positive attitude and steadfast focus on accountability and service.

I would be remiss not to mention the excellent work of the debt management and unclaimed property divisions. The former is a recent addition to the responsibilities of the office, while the latter has celebrated its 20th anniversary. These are high profile, critical operations that historically were at least partially conducted through in-person meetings. Conditions changed dramatically, and the management teams of both divisions developed creative solutions to accomplish our duties and serve the public.
INTRODUCTION

The Power of Financial Education provides a road map to your future prosperity. From understanding the fundamentals of financial literacy to achieving economic security, the information shared in this book will help you discover the secrets to eliminating burdensome debts, having resources set aside for emergencies and building a substantial retirement account. Ultimately, the goal is to help you create the financial situation in your life that gives you the freedom to live out your dreams.

The cornerstone to achieving the American Dream is believing in yourself as you search for opportunities to be successful. Upward mobility is attainable through hard work, ability and knowledge. These attributes, coupled with some good fortune and perseverance, make realizing your goals possible.

Living the American Dream can mean something different to everyone. There is no one path or destination, but there are common elements for most people. A recent Bank of the West study showed that just 60 percent of Millennials believe the American Dream is achievable. While still a majority, the relatively low percentage reflects the many economic uncertainties they have faced while working in the modern economy. But despite the challenges, the top components they list to obtaining it include buying a house, possessing limited or no debt and having ample savings when reaching retirement. These aspirations are not unique
to Millennials. The objectives and concerns of Americans from every generation have consistently had a strong connection to personal finance issues.¹

When you manage your money well, you increase your freedom to make changes in your life, like pursuing a more fulfilling career. That better job may offer higher compensation, but it may not. You may rather move to a more inclusive workplace with fun co-workers and a core mission in-line with how you want to make a difference in the world, but your financial obligations keep you from making a change.

If your bills absorb the entirety of your take home pay, you can become trapped. Year after year can go by and you’re still living paycheck to paycheck, working at a job you don’t enjoy. Satisfaction is increased by having choices. If your bank account is stout and your debts are low, you have more flexibility to leave a dead-end job and think about alternatives that inspire you.

Make no mistake, no job is perfect. If your workplace environment is acceptable and your job is rewarding, working at the same place for a long time can be beneficial. Some people change jobs too often, accepting a little bump in pay and falling for persuasive rhetoric, only to find the new situation is worse than the prior one. Plus, it’s hard to

build a large retirement account and maintain uninterrupted health care coverage if you are constantly changing jobs.

Most employers value loyalty and look for people to hire that have a track record of stability. Longevity has other benefits. Expertise is gained for a specific job, while the history of the employer is better understood. Over time, credibility with co-workers increases, which elevates trust and friendships.

Certainly, there are advantages of having longevity with an employer. That said, if you are a high achiever, there will be enticing opportunities elsewhere to occasionally consider, especially if you are working at a place that stifles your talents, happiness and upward mobility. As you think about those opportunities and ways to improve your career and life, being knowledgeable about financial issues will help empower you to achieve your dreams.
Why It Matters

Financial Inclusions

Understanding Products

National Economy

Debt Management

Unforeseen Events

Safe and Secure

Helping Others
Chapter 1
WHY FINANCIAL LITERACY MATTERS

“Financial illiteracy is not an issue unique to any one population, it affects everyone: men and women, young and old, across all racial and socioeconomic lines. No longer can we stand by and ignore this problem. The economic future of the United States depends on it.”

- President’s Advisory Council on Financial Literacy

What would you do if money was not an issue? It’s an interesting question to contemplate. For some, it would mean they could donate more time and money to help people in need. For others, their priorities would be more inward-looking and focused on material possessions. The ideal scenario for you may be a combination of both generosity and overindulgence. But just as you start enjoying your vision of a massive beach-front estate with a fleet of expensive cars, a luxury yacht and other trappings of the rich and famous, the dream vanishes from sight as your current economic realities come into the picture.

Young or old, there is no getting around the fact that money impacts your life. Your net worth expands or narrows the lifestyle and professional options available to you. Whether

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you are thinking about buying a new car, home or business, or taking early retirement, your financial strength is an integral part of the equation.

Financial literacy promotes an understanding of issues that are used in budgeting, investing and long-term planning. Prioritizing expenditures between needs and wants and appreciating the impact these decisions have on long-term goals is a result of economic education. Knowledge helps you make better choices which can lead to greater financial security and freedom.

In order to get yourself in position to reach your goals, you need to develop the skills and mindset to put the pieces of your life together in a way that’s advantageous for your success. Lofty ambitions can be achieved but will require planning and tenacity. You need to align your talents with your interests, and then work harder and smarter than others chasing the same dream. This course of action is more than theoretical. There are many real-life stories of people from all backgrounds who have found success by embracing the power of financial education.

**Meet Camilo Maldonado**

When Camilo Maldonado was a young boy, his family was struck by tragedy when his father died. After a valiant battle with cancer, the mountain of medical bills that accumulated from his father’s treatments took a heavy toll on the family’s finances. Despite the challenges Camilo endured growing up poor, he was determined to find a way to attend college and excel academically. His abilities were recognized and
efforts rewarded. With the help of scholarships and financial aid, Camilo made it to the Ivy League, graduating from the University of Pennsylvania and then Harvard Business School.

After college, Camilo and his twin brother created the Finance Twins blog to help people collaborate and learn about financial literacy. Eventually, the site developed into a popular resource for how to manage money and stay out of debt.

A top personal priority for Camilo is to become financially self-reliant. He credits his progress toward this goal with his eagerness to gain knowledge. He said, “I am so incredibly proud of myself for taking the time to learn about personal finance and financial literacy.”

Some of Camilo’s practical savings advice includes participating in your workplace retirement plan and reducing unnecessary expenses. He encourages devoting a significant slice of your paycheck towards your 401(k) or similar retirement plan. Since cost-cutting measures add up, he argues, for example, that using safety razors for shaving are a better deal than the cartridge razors that are more expensive.

Besides making smart decisions, Camilo also believes that having the right attitude is helpful for achieving financial independence. Having a humble upbringing led to what he considers are some of his best attributes: resourcefulness, resiliency and gratefulness. Being resourceful helped him
succeed in school, being resilient spurred the motivation to take on unfamiliar challenges and being grateful allowed him to appreciate the blessings that have come his way. These attributes cause him to be confident about his future.

Camilo embodies the point of financial literacy and the opportunities it creates. He said: “From an early age, I understood that money was a tool that I could use to provide security for myself and my loved ones, and to buy myself the freedom to spend my time as I saw fit.”

Being financially secure can make your journey less stressful and your goals more achievable. As you think about the opportunities in front of you, consider these seven reasons why financial literacy matters:

1. Financial Inclusion

Economic education plays an important role in financial inclusion. Having a good understanding of core financial terms and concepts increases your confidence and ability to break through barriers.

Barriers to entry is an economic term to characterize the obstacles that can make it hard for new participants to enter an industry. For example, suppose a government agency imposed unreasonable regulations and fees on those wanting to join an industry. These heavy requirements would stifle entrepreneurship and inclusion.

In addition to regulatory barriers, there can be personal ones. Financial literacy can help remove personal barriers to facilitate inclusion. Illiteracy can lead to having limited exposure to the wide range of products and services offered by banks and other financial institutions. Knowledge is important to awareness and access, which in turn are important to participation in financial markets.

There are good reasons for optimism because of the headway being made. Financial inclusion is growing globally, hastened by greater access to mobile phones and the internet. However, the progress has not been equal between men and women in different parts of the world, and efforts need to be made to resolve this inequity.  

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According to the Global Findex database, nearly four billion people, or 69 percent of the adults in the world, have an account at a financial institution. This is a significant change for the better. By way of illustration, only 51 percent of the adult population had an account in 2011.

“In the past few years, we have seen great strides around the world in connecting people to formal financial service,” World Bank Group President Jim Yong Kim said. “Financial inclusion allows people to save for family needs, borrow to support a business or build a cushion against an emergency. Having access to financial services is a crucial step towards reducing both poverty and inequality.”

As access to online banking and investment services grows, another issue enters the picture: cybersecurity. Digital fraud and abuse are unfortunately a concern for everyone these days, especially those unaccustomed to using technology. When using various types of electronic devices, it’s important to stay vigilant and safeguard your passwords and personal information from identity theft.

2. Understanding Products and Services
The growth in financial inclusion is a pivotal step forward to improving literacy rates. However, the existing high

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levels of those still lacking a basic knowledge of money issues is unsettling, especially considering the proliferation of financial products available.

People are much better trained for their jobs, causing them to be more comfortable going to work and earning a living than managing what they make effectively. If their occupation is not in the financial services industry, it stands to reason that financial training would be a lower priority than improving job-related skills. Even so, economic education should not be disregarded.

Awareness of financial products provides a basis of understanding when evaluating the merits and drawbacks of different offerings. All securities have risks that you need to understand before investing your money, so make sure you get your questions answered and the product makes sense to you before buying. Even perceived riskless investments, such as U.S. treasury bonds, have risks not related to the loss of principal, like underperforming the benchmarks set to reach your goals. Earning too low of a yield may necessitate the postponement of your retirement or spending down your savings to make ends meet.

Of course, losing money hurts any financial plan. Speculating on a risky venture that you really don’t understand and where public information is limited poses the risk of losing a large part of your investment. As products become more complex, the need for financial literacy increases in order to protect your money as you engage in financial markets.
According to financial analyst Cullen Roche, founder of Pragmatic Capitalism, “The financial services industry is not becoming less complex. In fact, technology is likely to make it increasingly opaque, automated and sophisticated. When we combine that with the reality that we reside in a monetary world that services an increasingly complex and interconnected global financial system, there is a strong likelihood that finance will only become more and more complex.”

As your investments increase in size and complexity, developing a relationship with financial professionals you trust, such as financial advisors, accountants, bankers and insurance agents, can be beneficial for leveraging your time and achieving your objectives. While they can be useful partners as you navigate an ever-changing financial landscape, personal knowledge is still essential. It allows you to be better informed about what assistance is needed, where you should focus your time, and who is truly qualified to help.

Few investors have professionals monitoring or directing every personal expenditure. Most people who have worked hard to earn their money don’t want a third party telling them how, when and where they can spend it. Nevertheless, it’s almost always possible to manage resources more

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effectively. By carefully monitoring income and spending patterns, ways can be found to save money, plan for major expenditures and gain better control over household budgets.

Knowledge serves as a foundation for financial planning. As measurable goals are developed and the ripple effects of your choices become understood, planning provides a comprehensive perspective to your financial decisions. Periodically, as results are reviewed and analyzed, adjustments can be made to make sure you are on track to reach your goals.

3. Impact on the National Economy

Financial literacy is vital to not only your financial health, but collectively, to the broader economy. Personal success stories are inescapably linked to the nation’s prosperity. As wealth increases and more investments are made in securities, such as stocks and bonds, the issuing companies use that capital to expand operations and create more quality jobs.

From a national perspective, the employment rate, disposable personal income (DPI) and consumer spending are key economic indicators that are closely monitored to measure the state of the economy. DPI is net income after taxes, and consumer spending is a term to describe the purchases people make on items to meet their daily needs. Spending creates the demand for goods and services which allows companies to generate sales, become profitable and hire new workers as they grow.
Roughly 70 percent of the U.S. gross domestic product (GDP) is the result of consumer spending. If consumer spending is strong and the economy is expanding, there is generally rising consumer confidence about the future.

During times of growth, lenders are more likely to extend credit to people. Too often consumers accept these loans haphazardly, leading to rising consumer debt. Since the economy benefits from greater consumer spending and, at least initially, from larger amounts of personal debt, you cannot count on outside influences to warn you about overspending and borrowing. At the end of the day, it’s up to you to be responsible.

Business cycles are inevitable. When downturns occur, consumer spending declines. Sometimes the economy goes into a recession, causing consumer confidence to plummet. Those who over-extended in the good times still have debts to pay. When there is job loss or declining income, the credit worthiness of those households can deteriorate.

4. Debt Management

Consistently paying your bills on time is the way to maintain a high credit rating. This rating affects the number of lenders interested in extending credit to you and at what interest rate. A strong credit score results in having more favorable borrowing terms and conditions.

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When getting a loan to buy a big ticket item like a home or car, you should think about the minimum that can be spent to fully meet your needs, rather than what’s the maximum amount that can be borrowed. This will help prevent digging too deep of a hole for yourself.

If you already have a heavy debt burden, financial education is useful for developing a strategy to eliminate your debts in a thoughtful and balanced manner that works for your life. Your income and family needs will influence the speed you are able to reduce your debts. Even so, understanding the different types of loans and interest rates being charged will help you prioritize your repayment schedule.

Student loans, credit card bills, rent and car payments can make it hard to save money, especially for young adults. According to a report from the Allianz Life Insurance Company, social media adds to the problem by encouraging overspending. Peer pressure has long caused people to squander money on unnecessary items, and social media has exacerbated the problem.

The Allianz survey noted that a super majority of Millennial respondents admitted that social networking platforms influenced their spending decisions and self-esteem as they compared their vacations, cars and jobs to their peers. Members of other generations are not immune to peer pressure, with a majority of Generation X and Baby Boomers acknowledging that quality of life comparisons
have caused them feelings of inferiority which have led to binge shopping.\(^8\)

Information on where consumers spend their money and on what items has always been of great interest to business establishments. Yet, advertising firms are more informed than ever about consumer behavior, gathering enormous amounts of data on spending patterns. These trends allow businesses to see where to focus product development and target their marketing.

As advertisers become increasingly sophisticated in their ways to sway consumer spending behavior, awareness of these efforts is important as you think about the reasons for your buying decisions. Whenever possible, you should take control of the communications you receive, and become proficient with the technology devices you use regularly. When solicitations become bothersome, there are proactive steps you can take, such as unfollowing brands on social media and blocking undesired calls and texts.

Long before these modern tactics, legendary entertainer Will Rogers said this about advertising: “It makes you spend money you haven’t got for things you don’t want.”\(^9\)


5. Planning for Unforeseen Events

Financial wisdom has always been consequential. The long-standing compensation for good financial stewardship is the elevation of your financial security. The sacrifices made today lead to a better standard of living for you and your family in the future.

Recent events highlight why being prepared for unexpected turmoil has never been more necessary. During times of upheaval, having a rainy day fund may be what prevents undo financial hardship for your household. In 2020, life changed abruptly as a result of the pandemic. As people started to recognize the symptoms of COVID-19, the outbreak spread globally through international travel. In short order, the importance of having savings became abundantly clear.

The pandemic caused the biggest behavioral adjustment in generations. Many of life’s milestone moments were disrupted. Graduation ceremonies went virtual, while weddings were postponed and many sports events were cancelled. Social distancing meant a drastic reduction of gatherings for concerts, charity events and worship services which are important components to the binding fabric of communities.

To reduce the spread of the virus, people quarantined at home causing many organizations to curtail operations. The drop-off in business led to millions of workers being laid off from their jobs or furloughed. Unemployment quickly reached the highest levels since the Great Depression.
According to a Federal Reserve report, less than half of adults in the United States had enough cash reserves to cover three months of expenses for this emergency. The results of the survey vary significantly by income and education levels, with a substantially higher percentage of upper income households having adequate rainy day funds available to be used. The report also showed that jobs held by college graduates were better shielded from the pandemic’s economic ramifications.\textsuperscript{11}


The salient point being made is the need to be financially prepared for unexpected events. Whether that event is a pandemic, recession or hurricane, there will be times of unforeseen troubles. You need to have resources set aside to weather the storm.

6. Protecting You and Your Family
In addition to having a rainy day fund, insurance can help protect you and your family from financial calamity. Risk is the possibility of loss from an incident. Insurance can provide some peace of mind by shielding you from risks you cannot afford to cover out of pocket.

The concept of risk as an inescapable probability of loss is associated with another term: uncertainty. Risk, viewed in this general way, is not only connected with accidents but with business and employment. It’s borne by those in sales compensated by commissions or tips, by retail store owners borrowing money to stock their shelves with merchandise, by property owners who are dependent on the rent paid by tenants and by farmers who rely on favorable weather to grow their crops. The list is long of those jobs exposed to work-related uncertainties, and those risks are not limited to whether a job is kept or not.

Attempting to insure every possible adverse scenario is not suggested. It’s impossible, and the costs would suppress saving and investing. Nevertheless, you need to cover your catastrophic risks. For example, if you lose your job and there’s a major storm, one of the last things you could afford to spend money on is a new roof for your home.
As former automobile executive Henry Ford II said, “Nobody can really guarantee the future. The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them, and then make our plans with confidence.”\textsuperscript{12}

Assessing your insurance needs is an ongoing exercise. As your life and possessions change, so will your insurance requirements. For instance, the celebrated arrival of a newborn baby may spur you to get life insurance. When your responsibilities increase, you may also want more comprehensive coverage for the added protection.

7. Helping Others
While the general focus of personal finance is self-reliance, an important part of living a fulfilling life for many people includes being invested in the broader community. To give an example, giving back is a priority for Trae Young. As an all-star point guard for the Atlanta Hawks, Young has excelled, and he agreed to donate $4 million towards a public athletic center based in his hometown of Norman, Oklahoma. The Young Family Athletic Center will include eight basketball courts, 12 volleyball courts and two 25-meter pools.

The facility will be open to anyone needing an outlet to play sports or work out. He said, “I don’t have fun unless the

people around me are enjoying it, too. That’s why I give back and that’s why the city and everything about this so important to me."\(^{13}\)

If you work hard and thrive, your success can help lead to the success of others. You may run a large company that provides quality jobs to scores of people or donate your resources to worthy causes to help those less fortunate. You may serve in public office or encourage the next generation by coaching a little league team. You may volunteer at your


favorite local non-profit or go on mission trips to assist others in remote parts of the world.

Some of the most inspiring stories of helping others are rooted in heroic responses to a national emergency or tragedy. Vivid images come to mind of first responders, health care providers and military heroes running toward danger to help and protect their fellow citizens.

There are also countless random acts of kindness that take place every day. Even simple courtesies can make a difference. A smile and a thank you to the clerk helping you at a retail store or the server at a restaurant can go a long way in making that person’s day. Your preference may be for such humble good deeds to go undetected, but someone will probably notice. The positivity that spreads as a result may spur others to make an extra effort to express their gratitude.

“Financial peace isn’t the acquisition of stuff,” said personal finance author Dave Ramsey. “It’s learning to live on less than you make so you can give money back and have money to invest. You can’t win until you do this.”

Where you spend your time and money will be shaped by your priorities as well as your net worth. Financial literacy can put you on a pathway towards financial freedom. When you prosper and decide to help others, the positive energy

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gained by giving back can provide a sense of personal joy and fulfillment, but more importantly, it can make a meaningful difference in someone else’s life.
Chapter 2
FUNDAMENTALS OF FINANCIAL LITERACY

“Like all learning, financial education is a process that should begin at an early age and continue throughout life. This cumulative process builds the skills necessary for making critical financial decisions that affects one’s ability to attain the assets, such as education, property and savings, that improve economic well-being.”

- Alan Greenspan, former Chairman
  United States Federal Reserve

According to Standard & Poor’s (S&P) Global Financial Literacy Survey, 67 percent of adults worldwide are not financially literate. This means there are roughly 3.5 billion people lacking an understanding of rudimentary financial concepts. While deficiencies are more prevalent in developing nations, financial illiteracy is widespread, even in the industrialized world. The United States, for example, is ranked 14th globally with only 57 percent of adults financially literate.17


These results are disconcerting but not surprising. Many private sector and non-profit organizations have long recognized the problem and have been engaged in quality programs designed to improve outcomes.

Junior Achievement is a good example of a non-profit that works with companies and other groups to provide learning opportunities for young people in entrepreneurship, financial literacy and work readiness. The Oklahoma affiliate sponsors the Investor Challenge where hundreds of high school students from around the state are given the opportunity to experience buying and selling securities on a mock trading floor of an exchange. Students not only gain exposure to the risks and rewards of investing, but also learn about teamwork and financial decision making.\(^\text{18}\)

Over the past two decades, the federal government has identified increasing economic education as a priority and set in motion the establishment of a nationwide strategy. In 2003, the Financial Literacy and Education Commission was created within the U.S. Treasury Department to advance programs centered on personal finance. The resources the commission developed can be found at MyMoney.gov.\(^\text{19}\)


Across the country, state treasurers and their offices are heavily involved in promoting financial literacy. Efforts to improve awareness and understanding through community outreach programs, social media campaigns and strategic partnerships are all designed to impact positive change. Advocating for beneficial public policy is another major initiative.

State policymakers have responded to the call. While serving as a member of the Oklahoma Legislature, we approved the Passport to Financial Literacy Act. This legislation requires financial education to be taught in public schools. Many other states have enacted similar legislation, but work remains to ensure instruction is provided to students in every state.

A key partner in promoting financial literacy is the Oklahoma Council on Economic Education. As part of a national alliance, this organization facilitates lessons on related topics by supplying teachers with free workshops, insightful student programs, and online videos and lessons. One of the more popular programs is the Oklahoma Stock Market Game. Teams of three to five students compete in a stock picking contest for ten weeks. The students not only
learn about equity markets and investing, but also the impact world events can have on their performance.\textsuperscript{20}

In collaboration with state councils, superintendents and university affiliates, the Council for Economic Education (CEE) conducts an extensive review of the status of K-12 financial education in the United States, gathering data from every state and the District of Columbia. According to the CEE, its “biennial Survey of the States serves as an important benchmark for our progress, revealing both how far we’ve come and how far we still have to go.”\textsuperscript{22}

Core Concepts

Financial education involves learning about effective money management practices. This allows you to make sound decisions with your resources. Without a proper understanding of basic financial concepts and a commitment to growing your knowledge over time, many of the choices you make can leave you unprepared to meet your future needs. Consider the following troubling statistics:

- According to the Federal Reserve, nearly 40 percent of American adults are not able to pay for a $400 emergency with savings, cash or a credit card that could be paid off in a timely manner.\(^{23}\)
- The Fed also estimates U.S. student loan debt has surpassed $1.7 trillion.\(^ {24}\)
- According to a recent GOBanking Rates survey, over 64 percent of Americans expect to spend their retirement years with $10,000 or less in savings.\(^ {25}\)


\(^{24}\) Abigail Johnson Hess, “U.S. Student Debt Has Increased by More Than 100% Over the Past 10 Years,” CNBC online, December 22, 2020, https://www.cnbc.com/2020/12/22/us-student-debt-has-increased-by-more-than-100percent-over-past-10-years.html.

Let’s take a granular look at the S&P Global Financial Literacy Survey, billed as the largest, most comprehensive measurement of financial literacy. More than 150,000 adults in over 140 countries were interviewed to complete the survey. The main partners contributing to this project include McGraw Hill Financial, Gallup, the World Bank Development Research Group and the Global Financial Literacy Excellence Center.

The goal of the survey is to produce the most reliable measurement of global financial literacy. In addition, it seeks to provide useful data to elected officials, non-profit leaders and private sector executives to inspire the development of useful curriculum for improvement.

The survey evaluates knowledge of four basic financial concepts: numeracy, inflation, risk diversification and compound interest. In order for participants to pass, questions regarding three of the concepts need to be answered correctly. While the terms used in the S&P survey

It’s clear that financial literacy should be a high priority. Knowledge will help improve behavior and results.
may seem obscure to some and dull to others, user friendly definitions are provided for clarity on these important topics.

1. Using Numeracy

Numeracy is having the ability to use math in your everyday life. Sometimes referred to in casual circles as money math and in academic settings as quantitative literacy, numeracy is being able to work with numbers to solve common problems you encounter daily. While mathematics as a course of study can be more theoretical, numeracy is focused on practicality. It incorporates arithmetic, using the basic math skills of addition, subtraction, multiplication and division.

“Numeracy is not the same as mathematics, nor is it an alternative to mathematics,” said Lynn Arthur Steen, former President of the Mathematical Association of America. “Today’s students need both mathematics and numeracy. Whereas mathematics asks students to rise above context, quantitative literacy is anchored in real data that reflect engagement with life’s diverse contexts and situations.”

A key reason many people have trouble with some basic concepts of math is because they do not have a firm footing in numeracy skills. The cumulative nature of math depends on students building on their knowledge as they advance.

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through grade levels. Some students may have little trouble completing their math assignments in grade school, but then start falling behind as they grow older because the ideas were not ingrained. Ongoing practical use helps instill both the concepts and confidence needed for future application.27

Most people have the aptitude to become financially literate, even those who prefer other subjects and activities, if they make it a priority. Consider the advice of the late United Kingdom prime minister Margaret Thatcher: “Disciplining yourself to do what you know is right and important, although difficult, is the high road to pride, self-esteem and personal satisfaction.”28

A person’s ability to identify and understand quantitative differences in a wide range of situations is essential for making wise choices. Below are some hypothetical situations where numeracy skills are needed:

- You are in a grocery store. There are various brands of the products you want to buy. In many cases, both the quantity and prices differ, and you want to get the best deal for your money. Can you determine the lowest price per unit of the available choices?

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• You travel to a foreign country and only have U.S. dollars. You want to exchange the dollars for the currency used in the country you are visiting, but notice that different vendors at the airport offer different exchange rates. Can you determine which one offers the best deal?

• Here’s a question from the S&P financial literacy survey: “Suppose you need to borrow 100 U.S. dollars. Which is the lower amount to pay back: 105 U.S. dollars or 100 U.S. dollars plus 3 percent?” Since $103 is less than $105, the second option is the correct answer.

2. Being Mindful of Inflation
Inflation is the widespread increase in the prices of goods and services. As inflation occurs, there’s a decline in the purchasing power of money. In the United States, there are two main measurements of inflation: the Consumer Price Index (CPI) and the Producer Price Index (PPI). The former records the prices paid by consumers and the latter the prices paid by producers.

The focus here will be on the CPI since it’s the more broadly known and closely watched index on inflation. By measuring variations in price, the CPI allows people to observe how the purchasing value of the dollar fluctuates over time.

Compared to the 1970s and early 1980s, inflation was relatively low during the past decade, staying under 3 percent per year. As shown in the following graph, the
average was in line with the Federal Reserve’s long-term target rate of 2 percent inflation.\textsuperscript{29}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{inflation_chart.png}
\caption{Inflation rate from 1995 to 2020.}
\end{figure}

The situation changed in 2021. Robust consumer demand coupled with government stimulus and pandemic-related supply chain disruptions led to an inflation surge not seen in decades.\textsuperscript{31} Recently, Russia invaded Ukraine, causing new inflationary pressures and geopolitical concerns.


At the far end of the inflationary spectrum is the possibility for hyperinflation. This occurs when prices are increasing very rapidly at rates over 50 percent a month, resulting in wages and return on assets struggling to keep up with the higher costs. When there’s hyperinflation in a country, which typically occurs during times of war, economic chaos and excessive money supply, many consumers living there decide to expedite their plans to make major purchases before the domestic currency becomes even less valuable.\(^\text{32}\)

Low inflation also influences financial decisions. Increased borrowing often occurs during periods of low inflation because the cost of money is lower. If the interest charged on loans is inexpensive and the rate earned on savings is minimal, people tend to save less and borrow more.

While the rate of inflation can and will vary over time, it’s rarely absent from the economy. Realizing the likely loss of purchasing power due to inflation is why saving for retirement is so critical. Taking responsibility for your retirement needs will help prepare you for higher costs in the future. Otherwise, you may have to eliminate items from your budget or risk running through your savings.

Many seniors enjoy working because of the benefits they see in remaining active and engaged. However, there are seniors who would rather not work because of health reasons or the desire for leisure, but are forced to find

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employment to keep their heads above water. Having the discretion to retire on your own terms is always the preferred choice, and it needs to incorporate the long-term impact of inflation.

Closely related to the CPI are interest rates. When there is high inflation, interest rates are also relatively high. When inflation is benign, interest rates for both borrowers and savers are generally low. Current rates should be taken into account when making financial commitments. Think about the following situations and the effect prevailing interest rates might have on making the right decision:

- Suppose that you are in the market for a new car. The dealer offers three options: 0 percent financing for a year, followed by 4 percent financing for the remaining four years; a 3 percent fixed rate loan for five years; or a floating interest rate loan that is based on market conditions. After reviewing your financing options, can you determine which deal is best for you?

- Assume you have been renting an apartment and have decided it’s time to purchase a house. Should you get a 15-year or 30-year mortgage loan? What impact does the mortgage interest rate have on your monthly payments and how much can you afford to spend? Should you make a larger than required down payment or keep any optional funds in your savings account earning interest? Answers to these types of questions will be addressed in a subsequent
chapter on housing. The central point here is that inflation and interest rates matter when making financial choices.

- The S&P survey asked: “Suppose over the next ten years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy today?” If both your income and prices double, you could buy the same amount.

3. Mitigating Risk through Diversification

Diversification is a strategy used to reduce risks. The idea is to not put “all your eggs in one basket,” so all will not be lost if something should happen to your “basket.”

Diversification is achieved by putting your money in a variety of industries or securities, such as stocks, bonds, cash equivalent instruments and other types of investments. For example, mutual funds and index funds that have a wide range of stocks in their portfolio would be less risky and more diversified than owning shares of one particular company.

Unfortunately, there is no such thing as the ideal investment strategy that always performs best in every market situation. Sometimes having a concentrated position is more profitable when that security outperforms most other types of investments. Participants in this higher risk proposition may argue that others have over-diversified their upside away.
Economic conditions inevitably change. Timing the market in general and for a specific stock can be problematic. Did you buy at the top not realizing the stock price was about to drop? Maybe it is truly a diamond in the rough. However, did you sell the position too early to take a small profit before it made a big move?

In 1776, economist and philosopher Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations*, commonly called *The Wealth of Nations*. The thesis of this classic is that society benefits as individuals work to fulfill their self-interest in free market economies. On the topic of investing, Smith warned, “The chance of gain is by every man more or less over-valued, and the chance of loss is by most men under-valued.”

There are exceptional stock pickers who have outperformed the market, but Smith’s cautionary words of unwarranted conceit should be kept in mind. Developing a strategy that provides competitive returns with relatively less risk is an approach that most investors use to build wealth, and it’s typically achieved through diversification.

Regarding this topic, the S&P survey asked: “Suppose you have some money. Is it safer to put your money into one business or investment, or into multiple businesses or investments?” Investing in multiple entities is the safer course of action.

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4. Taking Advantage of Compound Interest

Being familiar with the concept of compound interest is instrumental for making better financial choices and increasing your net worth. To achieve your goals, you need to get the power of compounding interest helping you instead of working against you.

In financial dealings with institutions, interest is either received or paid. When borrowing money, interest is the rate charged on your loan balance. On the other hand, interest is the rate paid to you on fixed-income investments or money-market savings accounts.

There are two methods of calculating interest: simple and compound interest. Simple interest is calculated on the loan’s original principal balance. Compound interest is calculated on the original balance and on the accumulated interest of prior periods. As such, it can be considered “interest on interest,” and is unfavorable if you have loans with very high rates of interest and beneficial when it comes to the growth of your investments.

The S&P Survey asked the following question related to compound interest: “Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money both years?” In these low rate market conditions, good luck finding a financial institution paying 15 percent! Nevertheless, the rate of interest is not the underlying issue. The correct answer is
the bank will add more money the second year due to compounding interest.

Since savings can earn interest, money received today is more valuable than the same amount received in the future. This fundamental financial principle is called the **Time Value of Money (TVM)**. The TVM concept is significant because whether or not you use it to calculate precisely the competing options available, understanding that there’s an associated opportunity cost with waiting helps you make informed decisions with your resources. If the waiting period is long enough, not only were you not allowed to invest your money and earn interest, but inflation could chip away at its value.

The basic TVM formula uses variables such as the interest rate, number of compounding periods, present value and future value to make financial calculations. Without taking a deep dive into detailed TVM calculations, it’s worth noting they can be used for determining how much capital is needed to be invested today to reach a target amount in the future.

Urban legend holds that Albert Einstein said, “There is no force in the universe more powerful than compound interest,” and that he invented the Rule of 72.

Attaching Einstein’s name to these ideas might increase acceptability, but no proof can be found to support these claims, according to an investigative report by *The Wall Street Journal*. Nevertheless, the unattributed quote stresses
the point that compound interest is powerful because of the dynamic effect on wealth creation.\(^{34}\)

What is the **Rule of 72**? The Rule of 72 is a straight-forward way, especially compared to TVM calculations, to estimate the amount of time it will take for an investment to double at a given rate of interest. It’s a useful tool when thinking about retirement and the potential growth of your portfolio over time. For example, if an investor achieves an annual return of 8 percent, the investor would double their money about every nine years \((72/8 = 9)\).

The Rule of 72 can serve as motivation to save money. Here are two different situations that demonstrate why the sooner you gain financial knowledge and make the decision to begin, the better off you will be.

Suppose a 33 year-old investor began saving ten years ago in a retirement account that has amassed a total of $100,000. Using the Rule of 72 and assuming an 8 percent return, the money would double every nine years. So, in 27 years, there would be three doubles of the original amount by the time the investor reached age 60. Here are the calculations:

- First double by age 42: $100,000 \times 2 = $200,000.
- Second double by age 51: $200,000 \times 2 = $400,000.
- Third double by age 60: $400,000 \times 2 = $800,000.

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Another person takes longer to get started and contributes a smaller amount each pay period. It took this investor until the age of 51 to accumulate $100,000. The same 8 percent of interest is earned, but there would only be time for one double by the age of 60. The nest egg would have grown to one-fourth as much: $200,000 instead of $800,000.

The sizable difference in outcomes shows that beginning to save later impairs the ability for compound interest to do its magic. When people are better informed earlier in life, they are more prepared to begin saving for retirement and other milestones, such as their children’s college education.

There are no assurances that either investor in the previous examples will achieve an 8 percent return. Different portfolios and periods of time will produce results that vary. Moreover, to illustrate the Rule of 72, the examples did not include the continuation of contributions beyond the $100,000 benchmark. Clearly, monthly additions to their respective accounts would result in larger nest eggs. In the chapter titled “Planning for a Prosperous Retirement,” a more dynamic model is presented, but it will utilize a lower annual rate of return. Nevertheless, there is no calculation more important than the calculated decision to get started.

As noted investor Warren Buffett said, “Do not save what is left after spending, but spend what is left after saving.”

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35 Phoebe Dampere Osei, “Saving: Where to Start and How You Can Save as Much as Possible,” *Yahoo! Finance*, June 29, 2021,
If your employer offers a retirement plan, start participating in the plan as soon as you are eligible. The participation level you should choose depends on your financial circumstances. Plan to at least contribute enough to receive the full match provided by the employer. For example, if the plan provides a dollar-for-dollar match up to 5 percent, you should contribute at least 5 percent. This means for every dollar invested, you would get a 100 percent match on your money, in addition to the favorable tax treatment of contributions and, of course, the potential for significant growth through compound interest.

Like every important financial decision in your life, it’s ultimately your responsibility to plan for your future. There are no requirements for you to spend your resources wisely or take advantage of favorable investment opportunities. You have the freedom to choose, and financial education helps provide the foundation for a lifetime of good choices.

Chapter 3
CARS, FREEDOM & RESPONSIBILITY

“Cars bring me sheer joy.”36 - Evan Spiegel, Entrepreneur

One of the major responsibilities many teenagers have is driving and maintaining a car. Most people remember their first car and the excitement that came with their newfound freedom. After passing the driving test and getting a license, new drivers no longer have to rely on others to go places and can travel unsupervised on the open road.

Growing up, I remember the fun times we had cruising around in my older brother’s 1970 Chevrolet Chevelle Malibu. Mark referred to the two-door sport coupe as the “green machine,” and before long so did everyone else.

37 1970 Chevrolet Chevelle Malibu

My first car was a used 1978 maroon Oldsmobile Cutlass Supreme. It got me from place to place but was definitely not great. Fortunately, my other brother, Lance, is only a few years younger than me. When he became old enough to drive, he got the Cutlass, and Dad gave me his almost new 1984 Pontiac Firebird. The car was awesome, especially for a teenage boy. It was sporty, fast and dependable. I drove the “rocket” well beyond my college days.

Eventually, the high mileage and maintenance costs along with the desire to get something different led me to trade in the Firebird. Since then, I’ve had a number of vehicles as my needs changed. My wife and I have two active kids, causing

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us to want more space for their friends and sports equipment.

Just like their peers, most celebrities got their first cars when they turned old enough to drive. Some of them grew up in the limelight and had the means to buy expensive vehicles that were flashier than your average teenager could afford. Pop singer Taylor Swift cruised around in a pink Chevrolet Silverado, actress Scarlett Johansson owned a BMW Z4 and pro basketball player LeBron James had a Hummer H2.39

![A 1973 Ford F150 was Toby Keith’s first vehicle.](image)

For many other celebrities, the money and fame came later in life. This is apparent with their unassuming first car

choices. Comedian Jerry Seinfeld drove a 1977 Volkswagen Beetle, actor Tim Allen managed to get around in a 1966 Chevrolet Corvair Corsa and country singer Toby Keith owned a used 1973 Ford F150 pickup truck. Like these examples, an inexpensive, used vehicle is likely the only option for many first-time car owners.41

What is the Ideal Car for a New Driver?
Before all else, parents should consider whether their teenager is ready to own a car by monitoring their driving behavior. After demonstrating satisfactory command and responsibility behind the wheel, it’s worthwhile to consider the advice of two auto experts about the cars they recommend for teens. Both agree on at least one thing: a high performance sports car should not be their first vehicle.

Matt Edmonds, an executive with auto parts and accessories supplier Tire Rack, stresses the safety features needed for any vehicle that a teen drives. These features include an anti-lock brake system, traction control, side airbags, a sufficient crash performance test and the ability to make sudden maneuvers to avoid accidents. Edmonds is not opposed to higher-end vehicles for teens. His daughter was given a Volkswagen Jetta and his son an Audi A3.

Phil Berardelli, author of several books on safe driving, also emphasizes the importance of vehicle safety for first-time car drivers, but advises against expensive new models.

Berardelli bought used cars for his daughters. His oldest daughter had a Pontiac LeMans and his younger daughter had an Oldsmobile Cutlass. More recently, he has recommended a pre-owned Ford Taurus station wagon for teens.

Not only is the Taurus station wagon big and sturdy, but it contains such safety components as airbags and an anti-lock brake system. As a result, it is able to withstand minor collisions while keeping buckled occupants safe. Beradelli pragmatically points out that a teen’s first car is more likely to get some door dings and be involved in a fender bender. Why pay the extra money for a new car and the associated higher insurance premiums until a good driving record is established? 42

**Buying Your First Car**

Having a car not only brings more freedom but responsibility as well. Maintenance, repairs, insurance and fuel are some of the expenses that come with car ownership, making it important to have a budget. Besides taking into account the estimated operating expenses, your ability to set aside money for a down payment and make monthly car payments will help determine how much you should spend.

A new car loses close to half its value within five years, so the best deals are typically with used ones. A car that is just

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a few years old will likely still be modern in style and features with plenty of mileage left on the engine. Plus, buying used allows for upgrading to a better brand name compared to the price of a vehicle bought new.

If you are a teenager, financing options may be limited. Lenders prefer borrowers with good credit scores, stable employment histories and financial assets. Since most teens do not meet such metrics, they will likely need their parents to co-sign a loan or perhaps take out a loan on their behalf.

A loan is a contract between the lender and borrower. The borrower agrees to pay back the amount received at a certain interest rate over a period of time. The objective is to get the best terms possible in order to minimize the financing costs. Sometimes the most attractive option is to borrow money from your family members because they probably will allow greater flexibility with payment deadlines and may not charge interest. Of course, such a financial arrangement is likely not ideal for them! 43

Do the Research
Start by making a list of potential vehicles to buy with practicality as the main objective. If a Taurus station wagon is not appealing, pre-owned small or midsize sedans as well as trucks and SUVs come to mind as potential alternatives. On the other hand, luxury autos may cost too much upfront, especially when making allowances for the operating costs.

Insurance companies typically charge extra for covering high-end sports cars owned by young drivers. Flashy car features can be unreliable and expensive to replace, while powerful engines can take substantial resources to fuel and maintain. After considering the costs and safety features of potential vehicles to own, look up the models using a resource like ConsumerReports.org to evaluate their track record of reliability and performance.44

**Arrange for a Test Drive and Inspection**

Information from online reviews can help narrow down the field of prospects and expose features that may require further scrutiny. Concerns about seat comfort and ride quality with each vehicle can be assessed once you go for a test drive. With a used car, it is important to keep in mind that conditions may vary widely. While some used cars have been well-maintained, others have been neglected and damaged. Consequently, it is important to know a vehicle’s collision and maintenance history.

When dealing with a seller, who is not a close friend or family member, it’s good to have an experienced car buyer participate in the test drive and inspection. Examining the car should be thorough, both internally and externally. It’s also good to do so during daylight because paint and other cosmetic flaws will be easier to notice. The reliability of the engine matters. If you have reasons for concern, consider asking a professional mechanic to take a look. There likely

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44 Ibid.
would be a charge for this service, but the due diligence will help prevent purchasing a lemon.  

**Time to Negotiate**

When the car you want passes inspection, the next phase is determining the purchase price you are willing to pay. Some dealers do not negotiate. The sticker price is the set price. Other dealers will settle on the final price through negotiations. For teens, you should have a parent to help with the process. It’s important to realize that the sales team is trained to maximize profits for the dealership. This is what they do for a living. Most first-time car buyers lack the background to match the know-how of professionals, so there’s no shame in seeking assistance.

Research online and get the wholesale price of the car ahead of time. In addition to the year and model, the price is also based on condition, mileage and location. When dealing with a private seller, negotiations are generally less formal than at a dealership, where the car will display the retail sales price. The seller probably bought the car as a trade-in or at an auction for an amount close to the wholesale price and needs to make a profit to stay in business. You should make an initial offer just above the wholesale price, realizing the final negotiated price will probably be closer to the retail price.

If the purchase is being made with financing, look online for quotes from financial institutions to use when comparing

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45 Ibid.
the dealership’s credit proposal. A borrower with good credit has options. After weighing your choices, pick the loan proposal that offers the most favorable terms.

Finally, negotiate one part of the deal at a time. Once the purchase price has been settled, then move on to consider financing. Once the loan terms are established, if you are interested, discuss any supplemental options such as an extended warranty. If at any point the seller does not seem to be offering a fair deal or there’s another vehicle you want to consider, be prepared to stop and walk away. Keep in mind, every year more than ten million new cars are bought and sold. This has created a massive inventory of used vehicles to choose from to fit your needs.\textsuperscript{46}

\textbf{Auto Debt by the Numbers}

Americans’ love for driving their own vehicles may explain why people are willing to take on heavy debt loads to have them. A recent study by the Federal Reserve Bank of New York has found that overall auto loan debt in the United States has grown substantially to a record $1.28 trillion, which is 75 percent higher than during the Great Recession. Unfortunately, delinquent payments are up too, as seven million Americans have fallen more than 90 days behind on their car payments over the last decade.

The country’s high levels of auto debt underscore how important car ownership is in most communities despite it being financially demanding. Except in the urban core of

\textsuperscript{46} Ibid.
large cities, vehicles are often necessary to get to jobs and other places. However, for many workers, auto prices are rising more quickly than wages, leaving them at a greater risk of default on their loans.\(^{47}\)

**Car Loans: Beneficial or Burdensome?**

Auto financing is almost as old as the automobile itself. Eleven years after the Model T rolled off the assembly line, Ford’s competitor formed the General Motors Acceptance Corporation (GMAC) to provide customers loans for the cars they purchased. By 1930, three-quarters of all vehicle purchases were made with a loan. GMAC revolutionized the car buying process which helped push its parent company to the top-tier of the automotive industry.

The Bureau of Transportation Statistics reports that transportation remains the fourth highest household expenditure in the United States, behind health care, housing and food. With the average new automobile costing $36,000, it’s not hard to see why it’s difficult for many people to get ahead when they add a large car payment to their other expense items.\(^{48}\)

**Paradigm Shift in Auto Culture?**

There is noteworthy evidence that Americans’ dependence on the automobile is waning. The per capita number of

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\(^{48}\) Ibid.
miles driven in the United States, which had risen for more than half a century, has been trending downward over the last decade. This change can be attributed to the 16-34 age group, which has been less fascinated with car ownership than older age groups. As the New York Federal Reserve study shows, auto debt is growing fastest with Americans aged 70 years and over. The growth rate is slowest for those under 30, even though young adults with car loans are more likely to not keep up with payments.\(^{49}\)

Since young adults are more prone to fall behind on their loans, they need to be careful when deciding how much money to spend on a vehicle, including the selection of the best available financing options. The prevalence of high interest loans and record auto debt in the United States emphasizes why buying a dependable and affordable vehicle is a good choice to make. Although there’s a trend for teens and young adults to not drive, that option is primarily limited to those living in concentrated population centers with quality public transit available to them. For those who do not have easy access to public transportation, it’s likely they will continue to own vehicles to meet their needs.

**How to Lower the Operating Costs**

Whether buying a new or used vehicle, there are ways to reduce the expenses that come with ownership. The following are some useful tips:

\(^{49}\) Ibid.
• **Consider your insurance options.** Car insurance coverage is compulsory in most states. Think of it as a necessity, with potential savings for good behavior. If you establish an exceptional driving record, the premium may be reduced. Good grades can also warrant a discount. Since the marketplace is so competitive, it’s worth shopping around to find the best deal. With that said, it’s important to remember there are factors other than costs to consider, such as coverage and service, when buying insurance.

• **Maintain the correct tire pressure.** The recommended tire pressure level should be listed in the vehicle’s owner manual or placed on a sticker inside the driver’s side door frame. Underinflated tires can result in 3 percent extra fuel usage. In order not to waste money on unnecessary fuel costs, make sure the tires are sufficiently inflated.

• **Employ preventive maintenance best practices.** Make sure the air filter, for example, is changed regularly for a smoother and more efficient ride. A dirty air filter can elevate fuel consumption by as much as 10 percent.

• **If recommended, use premium synthetic oil.** Compared to conventional oil, high performance synthetic motor oil should last thousands of miles longer before needing to be changed. This leads to more time on the road and less time spent at the auto shop for servicing.
• **Find the right mechanic for your vehicle.** Use a service and repair company that’s not only reputable, but also reasonably priced. Knowing the market price for auto parts and services in the area helps prevent being stuck with inflated maintenance costs.

• **Be a defensive driver.** Aggressive driving is not only risky, but it can reduce fuel efficiency. Stop-and-go driving uses more gas than smooth braking and accelerating. To control fuel costs and eliminate trips to the collision repair center, you should keep the speed down and pay attention to other vehicles on the road. Defensive driving saves lives and money.\(^\text{50}\)

**Promoting Safe Behavior on the Road**

Here are a few ways to operate a vehicle responsibly when you’re behind the wheel:

• **Wear a seat belt for your protection.** Research shows seat belts that cover the lap and shoulder reduce fatality risk to front-seat passengers by as much as 45 percent, and lower the risk of injury by up to 50 percent. The survivability statistics are even higher for light truck occupants, who are 60 percent less likely to suffer a fatality. This data makes a

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compelling case for the effectiveness of seat belts. The smart decision for drivers and their passengers is to always buckle up, no matter how far the destination.

- **Comply with all traffic laws.** Transportation experts evaluate a number of complex road factors and recommend certain traffic restrictions in different locations. It is important to realize that speed limits have been put in place for a reason and should be obeyed. Posted speed limits should not be the only factors affecting driving speed. You should also adjust your speed in response to poor visibility, hazardous surface conditions and slow traffic flow. If traffic norms and laws are not followed, the consequences can be expensive tickets for violations and perhaps severe injury.

- **Avoid distractions.** Refraining from careless decisions made inside the car can help you reduce risks on the road. Full concentration should be focused on the number one priority, operating the vehicle safely. Texting while driving certainly distracts most drivers from having their hands on the wheel and their eyes focused on the road. Less distractions translate into a better chance of you arriving at your destination safely.\(^{51}\)

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The economic and safety issues presented are not meant to discourage people from driving, but rather to shed light on the benefits of avoiding costly mistakes.

The Perils of Teenage Distracted Driving
Distracted driving may be a bigger problem among young people than previously believed, potentially causing three to four times as many car crashes than suspected. The National Highway Traffic Safety Administration once figured that distracted driving contributed to only 14 percent of teen driver crashes. Yet the AAA Foundation for Traffic Safety studied the interior cabin video footage of 1,700 teen involved crashes and found that distractions played a role in an estimated 58 percent of the accidents. This sample of evidence indicates that official reports may have significantly undercounted the prevalence of teenage accidents caused by distracted driving.

Some teen drivers can easily become preoccupied with conversations with passengers or checking out something inside the vehicle. Using a cell phone to send messages is
one of the most consequential distractions. In the final six seconds before a crash involving cell phone use, teens divert their attention to their phones for an average of 4.1 seconds. In just that small amount of time, a car on a highway can travel hundreds of feet, making it less likely for them to brake or steer away before a collision occurs.\(^5\)

**Is Ride-Sharing Replacing Car Ownership?**

A growing number of people avoid becoming distracted drivers by not driving at all. With consumer debt and traffic congestion becoming major problems, they’re deciding that owning a car is not worth the money, risks or hassle. Such a mindset has been seen in a survey commissioned by the Arity technological research group which found that half of Millennials do not consider it essential to own a vehicle.

Furthermore, the declining number of driver’s licenses issued indicates that having a car in the United States has become less of a priority for young drivers. Research from University of Michigan professor Michael Sivak found that almost half of all 16 year-olds had driver’s licenses in 1983, but the rate had dropped to less than a quarter by 2014. For those aged 20 to 24, the percentage with driver’s licenses fell from 92 percent in 1983 to 77 percent in 2014. After broadening the age parameters, Sivak discovered that licensing had also declined materially for those aged 16 to 44 over the same time period.

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The rise of ride-sharing is partly responsible for the decrease in enthusiasm for driving and maintaining a vehicle. Rather than wanting to drive, Millennials know they can get to their desired destination by hailing an Uber or Lyft driver and riding comfortably in the car’s backseat.53

There’s considerable research that counters predictions that auto sales will plummet for Millennials living in the ride-sharing era. Consulting firm Strategic Vision Inc. conducted a survey to assess how much consumers enjoy driving. Results show that while young people do like ride-sharing services, they are not usually viewed as a complete replacement for owning a vehicle. Millennials like to use Uber and Lyft for specific reasons, such as when they are going out for the evening or when it’s easier to be dropped off somewhere rather than find parking. As such, Uber and Lyft are more of a competitor for taxi cabs, rather than replacing car ownership.54

While interest for driving has lessened with some young people, most still greatly value their vehicles. After all, just as it was with prior generations, having a license and car provide newfound independence and are part of the rite of passage to becoming an adult.

53 Will Pavia, “Millenials Falling out of Love with the Great American Road Trip,” The Times (United Kingdom), (November 12, 2018): 33.
The Open Road

As much as having a car expands personal freedoms, it also increases your responsibilities. It’s up to you to arrive to school and events on time, and car owners have an obligation to operate vehicles safely and address ongoing maintenance needs.

The economic and safety issues presented in this chapter are not meant to discourage young people from wanting to drive, but rather to illuminate the benefits of driving safely and avoiding costly mistakes. For teenagers, there are few things more exhilarating than taking the car out for a spin, turning on some music and enjoying the freedom of the open road.
Chapter 4
INVESTING IN HIGHER EDUCATION

“An investment in knowledge always pays the best interest.”56

- Benjamin Franklin
  Founding Father

Higher education is transformational for many college students. It’s more than a means to answer questions and develop work skills. Higher education teaches you how to think critically and broadens your perspective, while reducing economic and social barriers.

Deciding to pursue a college degree is a decision to invest in your future. It takes effort, sacrifice and resources. Abigail Adams, mother of President John Quincy Adams said, “Learning is not attained by chance. It must be sought for with ardor and attended to with diligence.”57

George Washington Carver, a distinguished scientist and inventor from the early 20th century, added, “Education is the key to unlock the golden door of freedom.”58

Ideally, you have people in your life that encourage your development and are willing to provide financial assistance to help you achieve your educational goals. Even when that’s not the case, striving for a post-secondary degree is a goal worth your strong consideration.

In the United States, attending college is more accessible than ever. To illustrate the increased opportunities available today compared to the past, a brief history of higher education is presented. Although a much broader portion of the population is now able to attend college, paying for it is a pervasive problem. For this reason, a number of ways to help fund a college education are discussed to encourage students and their parents to diligently search for financial solutions.

Since 1981, tuition has risen at an annual average rate of 7.1 percent, while room and board costs have grown 5.3 percent per year. These growth rates have substantially outpaced the Consumer Price Index annual increase of 3.2 percent.59 According to the College Board, the average cost to attend a public university is over $20,000 a year. Considering the trend line, the total amount to finance a college education for a child born in 2022 is likely to be at least $150,000.60

As a consequence of these trends, student loan debt has escalated to alarming levels. At $1.7 trillion, this total amount is second only to mortgages in size. Moreover, the average individual debt load is more than $32,000.\textsuperscript{61} To put these numbers in perspective, the graph below compares the recent growth in student loans to other major consumer debt categories.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{student_loan_debt.png}
\caption{Student Loan Debt Soars Since 2003}
\end{figure}

\textsuperscript{61} Melissa Erickson, “Financial Literacy: Many States Now Require Money Lessons for Students,” \textit{The Oklahoman} (November 1, 2020): T8.

Clearly, student loans are growing much faster than other types of household debt, and learning how to better manage these obligations as part of a comprehensive financial plan is essential. The failure to repay them in a timely manner harms personal credit ratings and can impede fulfilling other goals, like home ownership, saving for retirement and having seed money to start a new business.

The repercussions of having too much student loan debt underscore the importance of financial education. While some students take pertinent classes on personal finance in school growing up, many do not. For most students, lessons on money management were insufficient along the way to meet their needs after high school graduation.

Colleges across the United States have not only recognized this deficiency but are now offering classes in financial education. For example, the University of South Florida provides all incoming freshmen the opportunity to take courses on personal finance. This is important for incoming students because many of them are making expensive decisions early on that can affect their long-term financial health. Plus, once they graduate and apply for jobs, they need to understand the compensation packages being offered to them, including whether an employer provides competitive health care and retirement benefits.

In more general terms, the status of financial literacy has broad implications for the economy. Economic growth is a

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result of a number of factors, including improvements in technology and human capital. Higher levels of learning play a critical role in research and development, inspiring the next generation of scientists, inventors and entrepreneurs to discover innovations that help shape the economy of the future.

Economic growth has contributed to higher standards of living throughout U.S. history. To illustrate the exponential effect of progress and earnings, per capita income has doubled many times in the past. Income per person in 2007 was twice as high as it was in 1971, which was twice as high as it was in 1940, which doubled from where it was in 1896. Wage gains have contributed to a better quality of goods and services being made widely available for the public to use.⁶⁴

While economic development has led to overall wage increases, the personal benefits of a higher education can be seen in the earnings premium of workers. Additional levels of education are strongly connected with increased earnings. This premium was evident throughout the second half of the 20th century and continues to this day. The earnings of college graduates typically exceed those who only have a high school diploma by more than $1 million over a lifetime. As a result, higher education is still viewed as a wise investment because it pays lifelong dividends that

usually outweigh the opportunity costs of not attending college.65

A Brief History of Higher Education in the United States
Is earning a college degree attainable for you? To answer that question, it’s helpful to understand how higher education developed in the United States and grew into the more open system there is today.

The early settlers of the Massachusetts Bay Colony valued education and some were able to send their sons abroad for advanced learning. Eventually, there was enough support to establish an academic institution in New England, resulting in the founding of Harvard University in 1636, followed by the College of William & Mary in 1693.

During the early 18th century, the establishment of universities picked up with the founding of Yale, Princeton and Columbia. Initially, the curriculum was limited to the training of ministers and magistrates. Although most were privately funded, a movement for state involvement in higher education began soon after the American Revolution.

During the Civil War, the next stage of development can be traced to the passage of the Morrill Act. This legislation allowed states to annex federal land if they used it for agricultural and mechanical instruction. This point in

history marked the genesis of state-chartered universities across the country.

There was also a movement to establish Christian colleges. Some of these colleges would educate any student, regardless of their religious affiliation, while others accepted only students of their denomination. Today, most have relaxed religious affiliation requirements, but still maintain ties to their faith-based heritage.

At the turn of the 20th century, there were several other key developments. There was an expansion of teachers’ colleges, which were often called normal schools, and the higher education model of a comprehensive university became more prevalent. Arts and sciences were still part of the academic curriculum, but the disciplines of law, engineering, business, education and medicine began to have separate colleges under the umbrella of a comprehensive university.66

The next major step in expanding access was the GI Bill. Its passage towards the end of World War II went broadly unnoticed, but its influence on American culture has become apparent. The bill was designed to reward veterans for their service and to reduce postwar uncertainty as they returned home from overseas. The requirements to receive benefits were straight-forward: active military service that lasted at least 90 days and an honorable discharge. The

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benefits included an unemployment allowance, loan guarantees and educational assistance for tuition, books and living expenses, and there was no means testing for recipients.

The provisions were very popular among veterans. Over two million recipients attended universities, and more than three million enrolled in vocational classes. Veterans were not limited to any particular college or apprenticeship, as long as they could gain admission.

The GI Bill reshaped the image of campus life at American colleges. Before the war, most institutions were characterized as being rural, private, small and elitist. The student bodies were primarily comprised of unmarried white men. In 1940, there were about 1.5 million enrolled college students with less than 200,000 graduates living in the United States. By 1950, there were some 2.7 million students enrolled at a higher education institution, with nearly 500,000 degree-holding citizens. Students graduating in the 1950s were more diverse, representing different religions, races, and ages, and almost half of the veterans were married.

With the high birth rate following the war, many women devoted their time to raising children. After their children were grown, some women returned to the classroom. However, it was their daughters who caused the boom in female college enrollment during the 1970s and ‘80s. Currently, the number of women exceeds the number of men attending college.
By and large, higher education has experienced considerable growth. There are now more than 16 million students enrolled in colleges and universities in the United States with a third attending community colleges. More than a million students earn bachelor degrees each year, and roughly the same number earn associate, graduate and professional degrees. In total, more than 20 percent of all Americans are college graduates.

The major developments presented opened the door for people of diverse backgrounds to attend college, a privilege previously reserved for a small portion of society. This helped to create the common expectation for students to go to college or take vocational training courses after high school as a means to a more rewarding career.67

Presently, there are many programs available that provide financial assistance for advanced learning. Grants, scholarships, loans and college savings plans are all designed to expand opportunities for students by making higher education more attainable.

529 College Savings Plans
To prepare for the rising costs of a higher education, there are a number of options that parents, grandparents and students may pursue. These include saving in advance through an education investment account instead of relying on student loans or paying-as-you-go with current wages.

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Using student loans can be an expensive way to fund college, but may be one of the few options available to you if other arrangements are not made ahead of time. The fees and finance charges tied to the loans add $32,000 on average to the costs of a higher education. On the other hand, a less expensive way for parents and grandparents to help pay for college is through making contributions to a tax-advantaged 529 college savings plan.

These college savings plans are state-sponsored and are authorized by Section 529 of the federal Internal Revenue Code. They allow for contributions to be made in accounts opened for beneficiaries and can be used to cover the main costs of attending most educational institutions.

The list of qualified education expenses has expanded. The Protecting Americans from Tax Hikes Act of 2015 included a provision that allows for the purchase of computers, printers and internet access. More recently, the allowable uses expanded to include K-12 private school tuition, apprenticeships and student loan repayment. These items are in addition to the original qualified expenses of college tuition, fees, books and room and board.  

529 college savings plans are also attractive from a tax standpoint. The investment gains are not subject to taxation when withdrawals are made for qualified purposes. While deposits made to 529 accounts are not federally tax

deductible, many states offer favorable tax treatment when participating in their official plans. For example, Oklahoma offers its residents a state income tax deduction.

Established in 2000, the Oklahoma 529 College Savings Plan (OCSP) has been a very popular method for Oklahomans to save for college. It has been used by more than 30,000 students to pay for over $700 million in college expenses. Presently, more than 70,000 Oklahomans have accounts and total contributions continue to rise.

There are two 529 plans sponsored by the state. The original direct-sold plan has more than $1.2 billion in total assets with an average account balance of $19,000. In addition, the OklahomaDream 529 is sold through financial advisors and has over $200 million in assets. States across the country have similar programs that are making a difference in the lives of students and their families.69

**Meet Ben DiFilippi**

It’s possible to walk away from college debt free. Case in point, meet Ben DiFilippi who showed how it can be done. Through merit scholarships and a 529 savings plan that his parents set up for him, Ben was able to cover the entire cost of his undergraduate education at Clark University in Worcester, Massachusetts.

Ben’s parents were keenly aware of the repercussions of too much student debt. They borrowed over $100,000 to finance

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69 Oklahoma 529 College Savings Plan statistics, OCSP Board of Trustees, March 2021.
their educations and took 20 years to pay it back. The DiFilippis did not want their son stuck in the same situation. According to his mother Patricia, “We knew firsthand what it felt like to be having to pay back that money. We really felt strongly that we did not want the same experience to be what our son encountered.”

Ben DiFilippi and his mother Patricia

The DiFilippis turned to a 529 savings plan as their college tuition solution. They opened Ben’s account right after he was born and began making regular contributions with each paycheck. As the deposits and investment gains accumulated through his primary and secondary school education, the account balance available for college grew significantly.

Ben’s upcoming graduation is certainly a time to recognize his academic accomplishments, but is also a time for his whole family to commemorate. His mother proudly stated, “We’re going to be celebrating both his academic
achievement and our achievement as a family in preparing for the cost of it.”

Ben’s story illustrates how 529 plans can empower educational goals without the associated burden of racking up large student loans. It should further be noted that the DiFilippis are not alone. Contributions to 529 plans nationwide have risen to nearly $11 billion per year. In 2021, total plan assets surpassed $412 billion.\(^\text{70}\)

**ABLE Accounts**

There are other 529 savings accounts designed to help people with disabilities. With the approval of the Achieving a Better Life Experience (ABLE) Act, people with disabilities can set up tax-advantaged ABLE accounts to pay their expenses, including educational costs. These accounts are administered by the states and operate similarly to 529 college savings plans.

They are beneficial because earnings grow tax free as long as distributions are used for qualified services. The list of allowable expenses include paying for housing, transportation, employment training, technology, health and wellness and financial services. Like college savings plans, deposits can be made by family members, friends and beneficiaries, but there are maximum contribution

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limits. As awareness grows, more families will use ABLE accounts to plan and save for future needs.⁷¹

**Scholarships**

Scholarships are another great way to receive tuition assistance for a higher education. Universities offer academic scholarships to students who have demonstrated scholastic excellence and athletic scholarships to gifted athletes selected to participate on varsity sports teams. Pell Grants are awarded to students who can demonstrate financial hardship and have not already earned a degree.

There are also valuable scholarships for those willing to serve our country after graduation in the armed services. A full ride is available to a limited number of students selected to attend one of the nation’s military academies. The Reserve Officers’ Training Corps (ROTC) is another military training program offered at some universities where scholarships can be earned and graduating ROTC cadets become commissioned officers.

Another way for students to receive academic funding is through promise programs. Students earn tuition assistance by maintaining good grades and staying out of trouble. Other requirements may include studying in-demand majors or living in certain areas of the country.

These scholarships are typically offered by state and local governments for residents of their particular jurisdictions.

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Household income limitations often apply and are subject to change. Below are some examples:

**Oklahoma**

*Oklahoma’s Promise* provides scholarships to residents who have achieved the required GPA in high school, and their family’s income is below the threshold when the application is submitted. It covers tuition at any public university in Oklahoma for up to five years, but unlike most other programs, recipients can use it to cover part of the costs of attending a private in-state institution. Students must remain in good academic standing to continue receiving the funding.

*Higher education can be transformational for your life. It teaches you valuable skills, broadens your perspective and increases your opportunities for success.*

**New York**

The *Excelsior Scholarship* provides partial tuition and fee awards for students attending public in-state institutions. If
their household income is under the limit, students qualify for funding after other financial aid is exhausted. What makes this scholarship unique is there are post-graduation requirements. Recipients must live in the state of New York for the amount of time they benefitted from the scholarship. If such conditions are not met, the grant becomes a loan to be paid back.

**Rhode Island**

*Rhode Island Promise* covers the first two years of a student’s tuition and fees at any state community college. What makes this program distinctive is the universal accessibility of the scholarship. There is no maximum income limit and any state resident may apply. However, students must be enrolled full-time, maintain a 2.5 GPA and take 30 credit hours a year to remain eligible for assistance.

**Tennessee**

*Tennessee Promise* covers tuition and mandatory fees for students without other financial aid. Each semester, scholarship beneficiaries must perform eight hours of community service and receive mentoring. Unlike many promise programs tailored only for new high school graduates, *Tennessee Reconnect* encourages adults to return to college and complete their degree.

**El Dorado, Arkansas**

In addition to state programs, there are many scholarships offered at the local level. *El Dorado Promise* is funded by Murphy Oil Company and is one of the most flexible. Graduates of the local high school can receive assistance to
attend any accredited college in the country. Public institutions in Arkansas are fully covered and students going out-of-state institutions receive the equivalent of the highest in-state tuition.

**Detroit**

*Detroit College Promise* offers city residents free tuition and waived fees at area community colleges or four year institutions in Michigan. The two year program has no GPA requirement, but there are prerequisites for students wanting to attend a four year university. They must have a sufficient GPA and SAT score to be eligible.

**Kenosha, Racine and Walworth counties in Wisconsin**

*Gateway Promise* provides support for students enrolling for an associate degree offered at Gateway Technical College. It’s unique because it specializes in technical training like welding, and because three different counties teamed up to establish this program.

**Tulsa County**

The universal accessibility of *Tulsa Achieves* is noteworthy because it covers tuition and fees for every graduating high school senior living in the county who enrolls at Tulsa Community College. The only requirements are that scholarship recipients must matriculate in the fall semester after graduating from high school, meet the GPA threshold and graduate within three years.72

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72 Kaitlin Mulhere, “All the Places You Can Go to College for Free,” *Money* 46, no. 9 (October 2017): 82-86.
The programs highlighted are a mere sample of the types of scholarships available throughout the country. In addition, large companies provide college financial assistance for their employees. For example, Chick-fil-A offers Remarkable Futures Scholarships for selected team members,\(^7^4\) and through the American Indian College Fund, tribes provide educational resources for their members.\(^7^5\) These and the many other scholarships offered can be instrumental in helping students pay for college.


\(^7^5\) “Full Circle & Tribal College Scholarships,” American Indian College Fund website, accessed September 7, 2021, https://collegefund.org/students/scholarships/.
Higher education is an investment in yourself. College graduates tend to have higher incomes and more pathways for advancement. There are notable exceptions in all industries, such as sports and entertainment. Even so, earning a degree has been the foundation for numerous American success stories in the past and is likely to be even more imperative for success in the future.
Occupation

Options
Capabilities
Community
Upside
Proposals
Analyze
Teamwork
Interview
Opportunities
Navigate
“Dare to live the life you have dreamed for yourself. Go forward and make your dreams come true.”

- Ralph Waldo Emerson, Poet & Author

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77 Photo by Lance McDaniel, July 2015, Savannah, Georgia.
Many children dream about greatness with no career path deemed unrealistic. Some aspire to become a famous athlete or pop star, while others hope to become an astronaut or President of the United States. I earnestly support having lofty ambitions because nothing extraordinary happens without big dreams and the audacity to achieve them.

As you grow up, you learn more about yourself. Self-discovery is an important part of life. Along the way, friends and acquaintances are often more than willing to share their opinions about your strengths and weaknesses. Self-reflection aided by such input can lead to confirming your desire for a childhood dream or altering your plans for a career more aligned with your gifts and talents.

Whatever career path you choose, successful people always have goals to pursue. New hurdles to overcome bring purpose and energy. It’s important to be excited about your work because passion and commitment are key factors for advancement and a more fulfilling life.

Without question, selecting the right job is pivotal. A significant amount of your life is spent at work, so it’s worth careful deliberation to find the occupation and work environment that are a good fit. While having the perfect job is ideal, few jobs can completely meet all your ambitions, such as providing a high salary, excellent benefits, prestige and personal fulfillment.

Perfection need not be the enemy of good. If a job is satisfactory in most aspects except for the prospect of riches,
it could still be the right job for you. For example, you may see virtue in public service and want to spend your time on efforts that make a positive difference on a larger scale.

Notwithstanding the satisfaction and honor of serving others, your decision about what you will do for a living is consequential. If you work in a low paying job for a large part of your career, it will be difficult to amass great wealth. When making such a career choice, it’s even more essential to manage the money you do make well. On the other hand, if you become a corporate executive, a professional athlete or a movie star, you will likely achieve financial success, even if some bad choices are made along the way.

There are exceptions to every rule. We have all heard of celebrities who have had to declare bankruptcy. However, most are affluent not because of the flawless investments made or extreme spending constraints endured, but because of the money they made throughout their working lives. Income matters because most people have desires well beyond their basic needs to live. Strong positive cash flow allows debts to be retired quickly and new investments to be made on a regular basis.

The question becomes how do you balance chasing your hopes and dreams while also working to achieve economic security? You probably would not be reading this book if you did not have wealth creation as a goal. With proper planning and a commitment to implement those plans, you can become financially secure, and this book provides the solutions to make it happen.
**Working in Today’s Economy**

In the modern economy, job turnover is common and technology continues to transform the workplace. As the job market grows increasingly competitive and specialized, it’s useful to understand how your skills can contribute to different organizations.

Statistics can provide important revelations about the current job market. According to the U.S. Bureau of Labor Statistics, the median number of years that workers have been with their current employer is 4.2 years, with the tenure of older employees longer than that of younger workers. The median length of service of salaried workers aged 55 to 64 is over ten years, which is more than three times the 2.8 years for those aged 25 to 34.

Generally, people without a high school diploma have a shorter tenure with employers when compared to those with more education. Moreover, when reviewing public versus private sector employees, the difference is significant. The public sector has a median tenure of 6.8 years versus 3.8 years for private sector workers.\(^\text{78}\)

Employer-provided benefits can be a factor in how long you decide to stay with your current employer. If your workplace provides attractive retirement and health benefits, it may be better financially for you to remain there in order to continue receiving them. However, if your pay

and benefits are not competitive and openings for advancement are limited, there may be other employment opportunities worth exploring.

Occasionally, mulling over your options is a natural part of striving to reach your full potential. Whether you are a recent college graduate, middle-aged or nearing retirement, there will be times when you focus on whether to remain at your current job or move on to something else. Having a well-thought-out plan beforehand can make a big difference when considering your next move.

**Ten Steps to Choosing Your Career**

The different ways people go about making career decisions is interesting. Some people make snap decisions because it feels right, while others are much more analytical and want to spend a substantial amount of time weighing all their options.

You may be nearly certain about what you want to do and which offer to accept, or you may be open to a wide range of ideas. In any case, the choice made will impact your opportunities down the road. Aiming to be helpful, the following ten step process using the word **OCCUPATION** has been developed for making career decisions:

**1. Options**

What do you really want to do for a living? As you think about your future, a good technique to use is brainstorming. This method encourages an open dialogue where options are presented freely without judgment or limitations. Be
creative. This is your chance to think outside the box and shoot for the stars.

Brainstorming can be done alone or with a group of people you trust. In either scenario, compile a list of your interests and potential jobs. Which ones make you feel inspired? Enjoying what you do is not only important for happiness but also for sustainable success. Think boldly about your ambitions and the potential routes that could be taken to achieve them.

2. Capabilities

“Honesty and transparency make you vulnerable,” said Mother Teresa. “Be honest and transparent anyway.”

Being able to accurately evaluate personal strengths and weaknesses is an attribute of successful people. There are questions to consider as you do an honest self-assessment: Are you an extrovert that gets energy from being around people or an introvert that finds public events uncomfortable? Can you see yourself in a profession working behind a desk or working outside in open spaces? Have you earned a specialized degree or received unique training?

As you answer these questions, a recognition of your gifts, talents and training will surface. Most people over time gravitate toward occupations that best utilize their strengths. For example, people that enjoyed and excelled in

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math in school tend to pursue jobs that require calculations, such as banking, accounting and engineering.

Having a successful career is often about what you don’t do. Every decision comes with an opportunity cost, which is the loss of potential benefit from alternatives not selected. Spending too much time pursuing the wrong ambition can delay the professional development that is needed for advancement in a more suitable field.

3. Community
More often than not, location is a crucial factor for which job you apply for and accept. Moving to a different state or country is a major proposition, especially when having a spouse and children. Most people want to be around family and friends. Not only can you help each other out when emergencies arise, but you can also be there to celebrate life’s milestones together.

Sure, if a great job is available elsewhere and you have no compelling reason to tie you down, taking the job can be advantageous for your career and financial situation. Plus, it can be exciting to travel and explore new parts of the world; places where you may prefer the weather, entertainment and social life. Deciding whether or not you are open to moving is a key determination to make before applying for jobs.

4. Upside
Once you have decided where you want to live, you need to consider the long-term outlook of the career field you
want to pursue. If an industry you plan to join is in decline, the opportunities for promotion will be more limited. If the industry is growing, the potential for advancement is much better. For example, it is hard to imagine that the health care, financial services and technology sectors will be obsolete anytime soon. While there will be products and services eliminated within segments of those sectors, the overall trend is favorable.

It can be helpful to talk with family and friends about the jobs you are considering. People close to you want you to succeed and should be willing to share their thoughts. Learn from their experiences and be open-minded to their suggestions.

5. Proposals
After researching different areas of interest, it is time to narrow the field of possibilities down to a few serious proposals. Which ones appear best suited for your capabilities and ambitions? Are you willing to go through the levels of education required to become, for example, a lawyer or doctor? Are you willing to make the sacrifices necessary to serve in the military or in another public safety capacity?

The work-life balance is also an important consideration. Can you work long hours or do you need a flexible schedule because of other commitments like caring for a child? Do you have interests and hobbies that are time-consuming but are important to you? After considering these issues, the universe of potential jobs for you should shrink.
Make sure you have taken into account the advantages and disadvantages of each finalist on your list before making a decision. At the end of the day, the choice is yours. Once you have selected the career you want to pursue, it is time to start turning your dreams into reality.

6. Analyze
Research the employers in the industry you have selected. Make a list of ideal places to work and see if they are advertising job openings. Study their websites, visit their locations and search for employee reviews online. The more you know about an organization, the more effectively you can customize your message to what the company is looking for in an applicant.

Consider using a recruitment agency, especially if you plan on moving to a new city. Recruitment agencies should know the openings that are available and can be helpful with setting up interviews.

Your resume should be one full page. It should highlight your accomplishments in a favorable way, but do not misrepresent yourself. Prepare a short cover letter that explains your interest in the organization where you hope to gain employment. Mention that you would consider it a privilege to work there and why you would be an asset to their team.

Proofread your resume and cover letter. Spelling errors and other mistakes do not make a positive impression and could remove you from consideration. Be professional. Smiley
faces and other emojis may add color and humor to text messages among friends, but are not seen as appropriate to use when applying to fill most professional jobs.

Read the job description and its requirements carefully. Begin to anticipate what types of questions might be asked if you are chosen to interview for the position. Once you submit your application, it’s a good idea to be prepared for the employer to call for an interview at any time.

7. Teamwork

At the heart of every great team is a clear purpose that engages its members to perform at a high level. Team members won’t be inspired if they don’t understand the direction to travel and the final destination.

Contacts made through networking can be an important part of landing many jobs. When you’re in-between jobs, trusted colleagues should be contacted and made aware of your situation. If you are young and not acquainted with people in your profession of interest, think about influential people you do know. Even if they are in a completely
different field, they may have relationships with executives in a wide range of industries. Ask for their advice and permission to list them as a personal reference. If needed, request a letter of recommendation. References should be able to provide positive comments and insights about you that may not be apparent from reading your resume.

Certainly, there is a significant difference between a named reference on paper and an advocate willing to get actively involved in helping you land a job. Nevertheless, make sure they all know how much you appreciate their willingness to serve in that role. After all, they are doing you a favor. To a certain degree, vouching for you puts their reputation on the line regarding your integrity and work ethic.

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8. Interview

As a candidate for a job, you’re on the outside looking in to an organization. The goal during the interview process is to get those conducting the interview on your side. They want someone to stand out, making their decision straightforward and unanimous.

To be that candidate, you need to be prepared. In addition to the questions you anticipate, go online and research some sample interview questions. Practice your answers and do so out loud. If you are concerned about how you look and sound, record the rehearsal sessions. Critique yourself on how to improve and then rehearse again. As the saying goes, practice makes perfect.

When you are scheduled to interview, make sure your appearance is acceptable, if not exceptional, the day of the meeting. It should be self-evident that taking a shower, brushing your teeth and wearing clean clothes is a good idea. As my dad says, “I’m not going to get beat walking out of the locker room.” What he means is to be prepared and don’t go into an important situation without the proper gear. In the case of an interview, wear the right outfit for the job. Different occupations have different standards, but most professional positions expect business attire for an interview.

Arrive ten minutes early to the interview. Give yourself plenty of time to travel, especially if you are not sure about the office location or traffic. You may want go to the building where the interview will take place in advance to
make sure you know how to get there. If you are running really early the day of the interview, spend time in your car or at a nearby coffee shop going over your talking points.

Know your resume well. You never know which items may be the focal point for an interviewer. You should be prepared to respond to questions with confidence and credibility about your accomplishments and work history. Bring relevant documentation that may be requested, such as copies of your resume and, for recent graduates, copies of your college transcripts.

Maintaining a friendly disposition is important. Smile, make eye contact and use good manners. These actions will set the tone for a positive first impression that will last throughout the entire interview. Body language also matters. Be aware of nervous habits you have that may be off-putting and distracting. Examples include excessive leg or hand movements, regularly glancing at your watch or phone and constantly using the same words and phrases. Eliminating annoying habits are relevant to presenting a confident image.

Provide specific examples that illustrate your skills in practice. Instead of just saying how outstanding you are at managing others, demonstrate your leadership training and experience by sharing a time when you used your skills to solve a specific problem.

You should have one or two questions prepared ahead of time to ask your interviewer. This strategy may seem
counterintuitive, but done right can be very effective in showing your interest in being an outstanding employee. An example question might be, “What attributes do you value most for this position?”

After the interview concludes and in the days that follow, you should write or email a thank you letter to the person who conducted the interview. Typically, just a short note expressing your appreciation for their time and consideration is best. However, it can also be an opportunity for you to briefly clarify any misstatements made or highlight a topic you may have forgotten to cover in the interview.

If by chance you have committed to an interview but have already accepted a different job since that time, let the interviewer know that your meeting is no longer necessary. Instead of being a no-show, displaying professional courtesy by giving notice is respectful of their time and prevents leaving a negative impression. You never know what the future may hold for your career. Anything is possible. In a few years you may want to apply for another position with that organization. Whether that turns out to be the case or not, burning bridges is never a good idea, especially when it can be easily avoided.

9. Opportunities
America is often referred to as the “Land of Opportunity.” Central to this idea is the belief that all Americans are free to pursue their dreams, and there are numerous pathways to success. Some journeys are longer and more arduous
than others, yet the best way to have better future opportunities is to be outstanding at your current job. Not only does excellence bring a sense of personal pride, but others will take notice of your efforts.

When leaving to attend college, my mother bought me a small poster that states, “Attitude is everything.” I have read that quote countless times through the years, especially when facing challenging situations. The poster has been framed and now has a prominent place in my office. It’s a good reminder that having a positive attitude can change the dynamics of situations and leads to achieving better results.

It’s also been said, “Attitude determines altitude.” Look for ways to grow and improve. If a special designation or an advanced degree could be a game changer in your field, you should consider pursuing it. Without question, you want to

make room in your schedule for spending time off with family and friends, but your professional development also matters. Be open to opportunities to gain a competitive edge and rise above the crowd.

10. Navigate
Even with significant research, there’s nothing like being in the workplace interacting with fellow employees, clients and competitors to develop a better understanding of an industry. These relationships and insights will be important as you navigate your career.

Employers value loyalty. All things being equal, someone that switches jobs every few years is less likely to land an

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executive job when competing against someone who has a record of commitment. That’s not to say you should stay in a marginal situation forever, but an above average length of service is better than job hopping all the time.

At some point in your career, you may decide to go out on your own. Starting and running your own company has many attributes: no boss, more freedom and unlimited income potential. Many of the wealthiest Americans have their own companies. Yet for all the perks of running your own show, most small businesses do not grow into flourishing enterprises. In fact, many close their doors and cease operations after a few years.

Former Oklahoma State Treasurer Scott Meacham leads an organization dedicated to growing the number of innovative small businesses in Oklahoma. Acknowledging the challenges and the commitment required, he cautions that starting a business can mean, “not taking a paycheck or a weekend off. It means asking friends and family to understand and to sacrifice, too.”

Even so, he calls attention to the potential rewards: “Entrepreneurship is an unlimited opportunity to soar – solving previously ‘unsolvable’ problems thereby achieving life-changing results. Entrepreneurship is the opportunity to create jobs that improve the daily lives of others.”

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83 Scott Meacham, “Entrepreneurs Deserve Our Respect,” *Tulsa World* online, September 1, 2019, https://tulsaworld.com/business/scott-
Starting a business involves identifying a market niche that is underserved and then working to meet it with your creative solutions. When you are able to succeed by adding value to people’s lives, it is extremely satisfying. Plus, there’s substantial money to be made when owning a thriving enterprise.

You may not want to start out your career as an entrepreneur because gaining some experience can be advantageous. It takes time to build a financial base and track record which are important to having access to the business capital needed to run your own business.

I whole-heartedly support the idea of having lofty goals because nothing extraordinary happens without having big dreams and the audacity to achieve them.

Summary
Choosing the right career for you is an important decision. As you think about your future, the following highlights the major steps to take when making this decision:

meacham-entrepreneurs-deserve-our-respect/article_398f6b79-3f85-5915-8ddb-b83687b99b2b.html.
• Reflect on your strengths and weaknesses.
• Make a list of potential jobs that appeal to you.
• Match up your interests with personal attributes.
• Decide which jobs to actively pursue.
• Be professional, prepared and respectful.
• Don’t let setbacks get you down.
• Have confidence and a positive attitude.

The journey to find your ideal job may take months or even years, and you may change your career multiple times throughout your life. There are opportunity costs that come with the choices you make, but almost all jobs provide valuable experience. When you decide on a job, try to find meaning in your work and enjoy what you do. Most successful people have a willingness to work hard, a can-do spirit and a commitment to excellence. These traits are worth emulating as you strive for a great career.
Generational Communications

Traditionalists

Baby Boomers

Generation X

Millennials

Generation Z
Chapter 6
COMMUNICATING YOUR LITERACY SKILLS

“To effectively communicate, we must realize that we are all different in the way we perceive the world and use this understanding as a guide to our communication with others.”

- Tony Robbins
Motivational speaker

In every area of life, clear and authentic communication is needed to maintain good relations between people. Being able to explain yourself and listen to others is what allows a group of diverse people to get along and understand each other. Taking the time to engage in meaningful conversations and expressing empathy through your genuine concern during difficult times are some of the ways better relationships develop over time.

Your personal communication style is manifested through your word choice, tone and body language. Speaking and writing are typical ways to communicate your ideas and feelings, but visual gestures, facial expressions and cadence are relevant as well. After all, the long-standing adage still applies: “It’s not what you say, but how you say it.”

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Good communication skills are also crucial for showing your financial understanding on issues important to your employer. When you join a company, the effective dissemination of information is key to its success. Your ability to analyze data and articulate ideas on ways to improve overall performance will demonstrate your financial literacy skills and value to the team.\(^{85}\)

**Multigenerational Offices**

If you’re employed at a large company, it’s common to find a multigenerational workforce. When Baby Boomers, Generation X, Millennials and Generation Z work together, the social and economic differences between generations can sometimes make constructive dialogue difficult. If not acknowledged and addressed, these communication challenges can cause dissension and reduce productivity.


Fortunately, effective communications are possible when an organization has a culture of patience and collaboration. Strategies that foster teamwork can help uncover the strengths and weaknesses of business proposals, and it’s through the acceptance of different points of views that ideas flow more freely, creativity is elevated and better results can be accomplished. Modern society has much to learn from previous generations, but younger people also have a lot to offer. If work relationships are approached with an open mind and a desire for improvement, everyone can learn from each other, regardless of age.

Let’s consider some of the generational preferences when communicating with co-workers. Most Baby Boomers prefer face-to-face dialogue and often rely on body language to assess feelings and attitudes. The generation that followed, Generation X, was introduced relatively early in life to personal computers and the internet. They use email to be more productive, but this generation is also adept at interpersonal interactions. Millennials and Generation Z grew up with technology and have spent their lives using cell phones and online networking. They often favor communicating by electronic means and like rapid responses to their messages.87

To get a better understanding of each generation, it’s helpful to define the term. A generation is a group of people with similar birth years who have experienced life-changing

events around the same age. The shared experiences affect the beliefs and values of those of comparable ages differently than members from other generations.

Some broad assumptions can be made about the membership of each group, yet by no means do these inferences discount or ignore the numerous individual exceptions. Moreover, there is no single authority on the specifics of each generation. Various sources label the generations differently and vary the exact start and end dates. With that said, the following provides a general description of the generations.88

**Traditionalists (born 1922-45)**

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Traditionalists may be best known for their formal, orthodox and unassuming instincts. They have witnessed World War II, the Great Depression and transformational innovations. From the automobile and airplane, to space travel and the mobile phone, the magnitude of change has been extraordinary throughout their lifetimes. These events help explain their tendency to shoulder difficulties with faith and perseverance.90

"I am not in the habit of looking back. When I do, I am somewhat amazed that the only child of a dentist and a schoolteacher from a small town in Oklahoma was able to attend the Naval Academy, serve in the Air Force, and fly in space four times. These are accomplishments I couldn’t even imagine as a child.”

-Thomas P. Stafford
NASA Astronaut
Traditionalist

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On July 20, 1969, Astronauts and Traditionalists Neil Armstrong and Buzz Aldrin landed on the Moon. When Armstrong became the first person to step on the surface, he said, “That’s one small step for man, one giant leap for mankind.”

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92 On July 20, 1969, Astronauts and Traditionalists Neil Armstrong and Buzz Aldrin landed on the Moon. When Armstrong became the first person to step on the surface, he said, “That’s one small step for man, one giant leap for mankind.”

Traditionalists’ sense of loyalty and sacrifice also impacted workforce turnover rates, where they often maintained a single profession and few employers throughout their career. For many, job promotions were not expected unless earned through years of hard work. Although most of them have retired by now, their patience with the corporate ladder exemplifies their respect for hierarchy and authority. They also have a high appreciation for good manners and following the rules. When conflicts occur, this generation prefers handling such situations face-to-face and behind closed doors.93

**Baby Boomers (born 1946-62)**

Baby Boomers, formerly the largest working generational group, are considered optimistic, collaborative and service-oriented. Many families thrived during the prosperity that

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followed World War II. Boomers were also impacted by the profound social change that took place with the civil rights, women’s rights and war protest movements.

Perhaps inspired by Martin Luther King’s “I Have a Dream” speech or Barry Goldwater’s book *The Conscience of a Conservative*, this generation grew up with a sense that they could make a difference. As activists and community leaders, Boomers joined Rotary, Kiwanis and Lions Clubs, coached little league sports teams and enjoyed attending block parties.

Boomers believe they have a responsibility to give back to their communities by trying to live up to President John F. Kennedy’s challenge to all Americans: “Ask not what your country can do for you. Ask what you can do for your country.”\(^95\)

**Generation X (born 1963-80)**

Generation X members are characterized not only by their entrepreneurism and self-reliance, but also by their skepticism. They grew up at a time when divorce became more prevalent, along with the rise of MTV, cable television and the Space Shuttle program. From popular artists turning hits into music videos to the emergence of 24-hour news being reported from all over the world, these events contributed to expanding this generation’s perspective, as well as their entrepreneurial spirit.\(^96\)

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\(^{96}\) Ibid, 9-10.
Witnessing the misfortunes and achievements of the Space Shuttle program impacted multiple generations. The Atlantis embarked on its final mission in 2011.

“The final shuttle flight marks the end of an era, but today, we recommit ourselves to continuing human spaceflight and taking the necessary and difficult steps to ensure America’s leadership in human spaceflight for years to come.” -Charles Bolden, NASA Administrator (2009-17)

As NASA looked for new ways to inspire future space exploration, organizational structures were changing too and becoming less hierarchical. Gen Xers are generally not as concerned with appeasing corporate leadership and more focused on the meaning of their work. Rather than advancing their careers within a company or government agency, many Gen Xers want to conceive the next start-up to rival Google or eBay, or establish a non-profit to address a pressing need in society. This generation also values a good work-life balance, which includes spending time with their friends and family.99

**Millennials (born 1981-97)**

Millennials are more open-minded than some previous generations. Many grew up in supportive and structured households that concentrated on meeting their educational

needs and fostering cultural awareness. This generation was encouraged to participate in clubs and team sports where they often received much praise and recognition.

In this age of swift social change and globalization, Millennials are comfortable with the country’s changing demographics and feel interconnected with the rest of the world through technology. Electronic devices play a major role in their busy lives. This generation can stream music, post on Facebook and finish an assignment on their iPad, while replying to a text message on their cell phone. The ability to multitask is useful to their everyday activities as they pursue college degrees, maintain jobs and also carve out time to socialize with their classmates and friends.\textsuperscript{100}

**Generation Z (1998-2010s)**

Most of America’s newest generation are not yet old enough to vote, but their political and economic influence will grow once they all become adults and are working. Before the spread of COVID-19, members of Generation Z grew up with a stable economy and low unemployment. However, as the pandemic ensued, half of Gen Zers reported that someone in their household had lost a job or took a pay cut. For those old enough to work, they were particularly vulnerable since many were employed in the food and beverage service industry. As the economy recovers, most remain hopeful that ample employment opportunities will be available for them in the future.

\textsuperscript{100} Abrams and von Frank, “Defining the Generations,” 10-12.
Distinctive characteristics of Generation Z include being more ethnically diverse and on track to be better educated than any previous generation. Gen Zers are less likely to be high school dropouts and more often enrolled in college. In 2018, 57 percent of young adults aged 18-21 were attending a community college or university. Compared to previous generations, they are also more likely to have a college-educated parent, which describes 44 percent of their households.\footnote{Kim Parker and Ruth Igielnik, “On the Cusp of Adulthood and Facing an Uncertain Future: What We Know About Gen Z So Far,” Pew Research Center, May 14, 2020, https://www.pewresearch.org/social-trends/2020/05/14/on-the-cusp-of-adulthood-and-facing-an-uncertain-future-what-we-know-about-gen-z-so-far-2/}  

**Workforce Dynamics**

There are several reasons why all five generations may be represented where you work. As life expectancy gradually increases, some people want to stay engaged professionally for a longer period of time, while financial concerns cause others to postpone retirement. Regardless of the prevailing reason, the challenge is to ensure that members from all generations can work together productively. Many behaviorists contend we are influenced heavily by our environment. As each generation grows up experiencing certain types of customs, technology and events, they develop similar types of values. These values affect their attitude toward work and may cause the need for customized management solutions to address
differences. Nevertheless, it’s also important for managers to ensure any tailored policies are fair to all employees.

There’s no universal agreement on how influential the environment is on our behavior. Professor Paul Toulson of Massey University in New Zealand thinks that generational identity and environmental factors have less influence on workplace attitudes than age and technology. People’s needs change throughout the course of a career because of their stage of life and not their generation.

In addition, the infusion of new technology in the workplace is embraced by some and renounced by others. However, a person’s willingness to adapt should not be correlated to their generational group, according to Toulson. He concludes that the best management practices focus the attention on addressing individual needs.102

While addressing individual needs is fundamental to good management, additional insights can be gained by recognizing and addressing generational differences. Angela L.E. Walmsley, an associate dean at Saint Louis University, has written about methods to resolving intergenerational communication gaps and creating a more constructive work environment. For example, a Millennial wanting advice from a Baby Boomer could decide to approach the older employee in person rather than by using email or instant messaging. This particular way of

communicating will likely be appreciated and garner a more substantive response.

Face-to-face interactions can go a long way to bridge any divide. Although younger workers are accustomed to quick replies, patience is a virtue when seeking advice. When the issues under consideration are substantial and require careful reflection, allowing sufficient time for a thoughtful response is beneficial.

Since technology is often intuitive to Millennials, a good impression can be made by helping older employees with new platforms and software, when their assistance is requested. If Millennials prefer communicating with instant messaging, social media or some new medium, their more senior co-workers may be willing to do so if they are familiar with how to use them.

Perhaps the most essential element to having a productive work culture is maintaining respect for each other. All workers have their own opinions and experiences which are partly shaped by when they were born and the history shaping events of that generation. Different perspectives can bring value to organizations and should be appreciated. Once a baseline of respect is established, fewer conflicts develop and productivity increases.103

Communications specialist Sue Ellen Schlitzer expounds on the fact that everyone is unique and tolerance may be required before a group of diverse individuals can coalesce

as a unit. Members of older generations tend to be more conscientious and less convinced to pursue projects based on enthusiasm. From experience, they have seen bold ventures fail and are more aware of the associated risks. Instead of viewing such a perspective as too stifling, young team members should try to convince older colleagues to back their ideas with fact-based persuasion.

Good leaders can recognize the individual strengths of their employees and usually find it advantageous to have experienced staff mentor new hires. Through thoughtful pairings of team members, leaders can get constructive input from different frames of reference. This can be especially valuable when making big decisions.\textsuperscript{104}

**Communication Changes**

Millennials’ growing influence on the workforce should lead to communication efficiencies. Since they now comprise the largest segment of the U.S. labor market, this will cause many companies to tailor their operational practices in response to this demographic shift. Remote work and less in-person oversight are already becoming more common. Workplace communication practices will continue to evolve to meet the demands of employees.

Many younger workers want constant communication and feedback. They tend to prefer weekly progress updates through meetings or conference calls more than annual

performance reviews. They also value casual personal interactions. The informal drop-in at their workspace by colleagues and managers is typically appreciated when they’re not swamped with deadlines.

According to research provided by CIO Insight, 93 percent of Millennials believe that technology capabilities in the workplace matter when choosing an employer. The survey also indicates they are bypassing traditional news outlets and using social media to stay informed. Consequently, a company’s investment to maintain its technology edge is important to attracting the next generation of qualified workers.

Making work more mobile and remote is a trend that has been accelerated because of the coronavirus pandemic. Cell phones are not just for making calls and sending emails anymore. They are being used to track personal spending, check sports outcomes and manage social media accounts among many other functions. For younger workers, it only seems logical to want to use mobile technology to make their jobs more efficient. For example, corporate messaging apps improve collaboration by allowing workers to communicate in real time, while project management apps let managers track various projects and keep in touch with team members.

If an age-related communication gap is apparent, leaders need to find ways to bridge the divide. While Millennials are the biggest part of the workforce, most managers are from previous generations and often have different
communication preferences. Baby Boomers and Generation X members may rather communicate through a phone call or email, while younger workers may wish management would adopt cutting edge technology methods.  

Over half of the executive leadership positions worldwide are held by members of Generation X.  

Surveys do suggest that compromise can be reached on effective ways to share information as Millennials move into leadership positions. In order to get all generations on board with a company’s objectives, corporate trainers should 

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emphasize the importance of messages being delivered and viewed by all intended team members, and to achieve this objective, it may take multiple methods of communication.\textsuperscript{108}

As leaders continually strive to find the best ways to communicate with others in their organization, the generational identity of their employees will likely play a role in determining best practices. Ultimately, the goal of every manager is to attract talented individuals who embody the organization’s values and can add to its success. Diversity of age is not only common, but is often preferred. To recruit the best mix of employees and achieve exceptional results, organizations must balance being both pragmatic and innovative as they implement their communication strategies.

\textbf{Generational Attitudes toward Investing}

Although technology has changed how information is disseminated, economic factors still drive most business and investment decisions. Millennials started their careers in the aftermath of the Great Recession which began in late 2007. This affected their earnings, savings and outlook. The ramifications of the economic downturn led to delayed life choices and these postponed decisions will affect society for decades to come.

Wages flattened, while food, housing and other consumer products became more expensive. As a result, many younger adults took on substantial consumer debt and saved less. Data from the Federal Reserve highlights a key financial difference: Baby Boomers at the median age of 35 in 1990 owned nearly a third of U.S. real estate measured by value. In 2019, Millennials at the median age of 31 owned just 4 percent. That gap will narrow some by the time they reach 35, but is not likely to come close to even the smaller Generation X which had 20 percent of the housing market by age 35.\textsuperscript{110}


\textsuperscript{110} Christopher Ingraham, “Millennials’ Share of the U.S. Housing Market: Small and Shrinking,” The Washington Post, January 20, 2020,
The economic environment that came to pass for Millennials perhaps explains their preference for more cautious investment strategies compared to more risky ones that could yield higher earnings. According to an Accenture survey, Millennials are more likely than Baby Boomers to describe themselves as “conservative” in their investment approach, 43 percent to 31 percent. They prefer more “tried and true” investment choices than Boomers, 27 percent to 19 percent. Furthermore, 44 percent of Millennials claim they “spend a lot of time researching alternatives before making a major purchase decision,” in contrast to Boomers who say they only do so 33 percent of the time.\textsuperscript{111}

The changing approach to investing reflects attitudes about the financial services industry that are shared to some degree across all generations since the Great Recession. With the growth of digital platforms, the industry needs to ensure consumer demand is being met. With half of all Baby Boomer investors active on social media and a majority regularly using the internet, the investment platforms that can attract the younger generations should also appeal to Boomers and Generation X.

It is estimated there are more than 75 million digitally capable investors in the United States, a demographic that

transcends the generations. The digitally literate, those who incorporate technology significantly in their daily lives, make up 44 percent of the population aged 18-65 and represent approximately $27 trillion in total assets. Digital users recognize investing as a means to build wealth, as well as the importance of financial advice. According to the Accenture survey, 59 percent of those considered digitally literate have used financial advice, yet only 40 percent did so through a consultant. The different attitudes toward financial advice can be broken down by age segments.\textsuperscript{112}

Millennials tend to question the investment advice of professionals, but they have a desire to learn more about investing and want to someday pass along their wealth to their heirs. They realize there are risks with investing and tend to seek multiple sources of information to validate their investment preferences. About 71 percent of this group are investors, but only 22 percent do so with the assistance of a financial advisor.

Baby Boomers value the personal connection of a trusted financial advisor, regardless of market conditions. They may not actively use digital technology for investments, but understand it’s an option that could be used. Boomers are the wealthiest among their generational peers and have a high investor participation rate.

Although Millennials only maintain 5 percent of overall assets in the United States, this amount is certain to increase

\textsuperscript{112} Ibid.
going forward. It is estimated that $30 trillion in assets are
positioned to be transferred from Baby Boomers and
Generation X to their heirs in the coming decades. This
massive transfer of wealth is consistent with responses from
Boomers and Gen Xers indicating their plans to pass along
a large portion of their estates to their families.

The size of investable assets matters to all parties. Typically,
as people inherit funds and there are more assets to protect,
the desire for professional advice to diversify holdings and
plan for income and other needs increases. Even so, it seems
likely in the years ahead that financial advisors will need to
develop practices that can more compellingly accommodate
digitally savvy clients in order to maintain relationships
and keep the inherited assets under their management.113

The Connection between Communication and Literacy

While financial literacy is about growing your financial
knowledge, digital literacy allows you to be more connected
and informed. Being able to research issues online and
communicate your needs a number of ways is becoming
more necessary when engaging in financial markets. These
skills are also critical at work.

A golden rule of communication is “know your audience.”
When you are writing or speaking to a large group with
diverse ages and financial literacy levels, aim to be inclusive

113 Accenture, “Generation D – An Emerging and Important Investor
Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/
Industries_13/Accenture-CM-AWAMS-POV.pdf.
by trying to ensure everyone understands your message. Use language that is concise and avoid using industry jargon. If necessary, explain complex terms and concepts to help your audience follow what you’re saying. When sending written messages, proofread the text to eliminate typos and other mistakes.¹¹⁴

Being able to communicate with people of all ages will give you more opportunities to succeed at work and life. Building better relationships with others is always important, and excelling at work leads to more job satisfaction, promotions and pay raises. Higher income, when coupled with sound investment strategies, creates lasting financial security for you and potentially for the generations to come.

Investments

- Stocks
- Bonds
- Diversification
- Mutual Funds
- Exchange Traded Funds
- Alternative Investments
“Successful investing is about managing risk, not avoiding it.”

- Benjamin Graham
  Economist & investor

The total worldwide stock market value reached a massive $95 trillion by the end of 2020. If you combine the market capitalization of all publicly traded companies on U.S. stock exchanges, such as the New York Stock Exchange (NYSE) and Nasdaq, the United States represents a substantial share of the global stock market at over 55 percent.

The United States also remains a safe haven for market participants seeking income from bonds. The bond market is where new debt is issued in the primary market and existing debt securities are traded on the secondary market.

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The total market value of all outstanding debt is estimated to be over $128 trillion. Unlike the global stock market which is dominated by American companies, the United States’ leadership position in bonds is more closely followed by China and Japan. Collectively, the three countries make up over half of the outstanding sovereign and corporate debt.\(^\text{118}\)

\[\text{Treasurer McDaniel with a floor trader at the NYSE.}\]

Clearly, investors around the world have confidence that America is a good place to invest their money. If you’re not yet investing, the following explanation of fundamental investment terms and strategies will help encourage you to start.

**What is an Investment?**
An investment is acquiring something with the expectation that it will grow in value. Put in another way, investing is the act of reducing current consumption and using that surplus money to purchase an asset for future gain.

When you invest money and are confident you are going to get it back plus interest, you generally do not require a high return. However, if you are uncertain that you are going to receive your money back, let alone earn a positive return, you will likely insist on a greater potential reward to justify making the investment.

The principle of risk and reward is the trade-off found between the return expected to be gained on an investment and the level of risk you are willing to assume. Low risk securities generate less rewards, and high risk investments demand an elevated potential return. This concept is an indispensable part of investing and can be better understood by examining two of the most popular types of securities: stocks and bonds.119

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119 Brian Perry, “The Difference between Bonds vs Stocks vs Mutual Funds,” Pure Financial Advisors website, February 22, 2018,
What is a Stock?
A stock provides an ownership stake in the issuing company, not a contractual obligation with a stated guaranteed rate of return. However, there are two ways for investors to profit from stocks. Some companies distribute a portion of their net earnings by making dividend payments, which are typically paid quarterly. Another way to profit is through capital gains. This occurs when the stock price of a company rises above the purchase price. Capital gains are realized when the shares are sold at a profit.121

The price of all publicly traded stocks can plummet during extreme market conditions. This overall market risk is referred to as systematic risk. In contrast, specific risk is the risk that’s unique to a particular company or industry. Due to their exposure to both types of risks, investors demand a higher expected return with stocks than with investment grade bonds.122

What is a Bond?
A bond is a contractual obligation that requires the issuer to pay back the bondholder at a certain date. When you lend money to a government or corporation by buying their bonds, an issuer would be in default if you are not paid back. When an issuer has a low credit rating, indicating financial instability, investors require a higher interest rate due to the greater risks involved.

The time period to maturity of the bond also affects the interest rate received. If you are willing to lend your money for 30 years, you should expect a greater yield than when buying a bond with a shorter duration. Plus, increments of time create more likelihood for unforeseen problems to arise with the issuer.123

Occasionally, an inverted yield curve occurs. This would reflect a scenario in which long-term bonds have lower yields than short-term bonds of the same credit quality. In

123 Ibid.
the past, inversion has been a reliable sign that a recession is not far away.

A bond is also called a fixed-income security because the interest rate is set at issuance and does not fluctuate throughout the life of the bond. To account for market volatility, the bond price changes instead of the coupon rate. In general, when interest rates rise, bond prices fall. As rates go down, bond prices increase.

The entity borrowing the money makes interest payments to bondholders at regular intervals, typically every six months. Bond maturities vary from less than a year to 30 years. When a bond matures, the borrower pays back the full par value to the investor.124

Why Should You Buy Stocks?
The reason for having stocks in your portfolio is to achieve higher returns over time. Stock ownership is best suited for situations where you are seeking growth to meet your long-term financial goals. While there have been periods of both high and low inflation, stocks as an asset class have historically produced strong enough returns to significantly exceed inflation over time.

The objective of publicly traded companies is to maximize shareholder value. Capital appreciation is accomplished through increasing profitability. Fast growing companies

may decide to put all their net profits back into their companies for future expansion opportunities. Still and all, paying dividends is a way to incentivize investors to remain loyal shareholders. As a general rule, more established and less risky companies offer dividend paying stocks, while emerging enterprises do not.\textsuperscript{125}

\textbf{Why Should You Buy Bonds?}

The following example illustrates the stability of bonds compared to stocks. The worst annual performance for bonds over the past several decades was in 1994, when the bond market declined 3 percent, according to the Bloomberg Barclays U.S. Aggregate Bond Index. This drop appears insignificant in comparison to the unpredictable nature of the stock market which can fall by more than that in a single trading day.

That being the case, bonds tend to maintain their value better than stocks during an economic slump. Bonds and stocks often move in opposite directions, but that is not always the case. In some market conditions, both rise or fall together. Nevertheless, whether the economy is booming or contracting, it’s a good idea to own some combination of both.

The portfolio mix of stocks and bonds will vary depending on a number of factors. To help with your decision making, it should be noted that the long-term average return is about

\textsuperscript{125} Perry, “The Difference between Bonds vs Stocks vs Mutual Funds,” https://purefinancial.com/learning-center/blog/bonds-vs-stocks-vs-mutual-funds/.
4 percent less for bonds than stocks. Many investors go with a stocks to bonds allocation blend of 70/30, 60/40 or vice versa for conservative investors. Splitting it down the middle is also a common approach.

The ratio you choose should be consistent with the target return needed to meet your goals, your risk tolerance and time horizon. Diversifying your investments should help protect your portfolio from the higher volatility of owning only a few stocks and produce better results than just investing in bonds.\footnote{Ibid.}

**The Importance of Diversification**

Diversifying your portfolio allows you to better manage the uncertainty associated with investing. Owning different types of securities lowers your risk compared to just having one type. Diversification smooths out volatility, as the superior performance of one investment can offset the poor performance of another. To benefit from this strategy, your assets should not be too similar.

The following are some ways to diversify your investment holdings:

- **By asset class**
  - *Cash*: currency notes, savings accounts, money market accounts, certificates of deposit and treasury bills
  - *Fixed income*: government, corporate and municipal bonds
- Equities: individual stocks, mutual funds and exchange traded funds
- Real estate: real property and real estate investment trusts
- Precious metals: platinum, gold and silver
- Collectibles: paintings, antiques and wine
- Enterprise: a private company or business

- By time frame for bonds
  - Short term: less than 5 years
  - Medium term: 5-10 years
  - Long term: over 10 years

- By liquidity
  - Liquid assets: stocks, bonds, treasury bills and savings accounts
  - Nonliquid assets: real property, collectibles and family businesses

- By risk level for stocks and bonds
  - Conservative: 60 percent or more in bonds, the rest split between cash and stocks
  - Moderate: 40-65 percent in stocks, the rest in bonds with enough in cash to cover several months of expenses
  - Aggressive: greater than 65 percent in stocks, the remaining portfolio share in bonds with a minimal amount in cash

Adequate diversification calls for varying your asset classes and ensuring sufficient liquidity. When you are just starting out with limited means, taking a more aggressive approach
that emphasizes growth is common. As you age and hopefully have a sizeable nest egg, the conventional wisdom is that you should adjust your portfolio to a more conservative disposition. At the end of the day, a properly diversified portfolio should allow you to sleep at night and persevere even with some decisions that don’t pan out as expected.  

10 Principles of Diversification

Figuring out how to construct a well-diversified portfolio can be challenging. The benefit of the effort comes from finding uncorrelated investments that can grow during economic expansions, while also being able to withstand market corrections. The following principles will help you achieve the asset mix that’s right for you:

1. **Know your situation and goals.** Your portfolio should be tailored to your individual goals with a focus on long-term priorities. Your current financial position, future needs and appetite for risk all matter. Your asset allocation should reflect these personal factors.

2. **Reduce your overall risk exposure.** Even if you are a risk-taker, owning different types of assets is wise. For investments that are underperforming, there likely are others that are exceeding expectations.

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resulting in less overall instability. Instead of targeting just one particular type of security, asset class or market sector that could potentially tank your portfolio in especially unfavorable circumstances, you are in a more sustainable position if you have a strategic assortment of investments.

3. **Put your money in a variety of asset classes.** Traditionally, a blend of domestic stocks and bonds met the basic definition for a well-diversified portfolio. However, most professional investors have expanded their asset orbit to include a wide range of assets, from commercial real estate to foreign bonds, which has created additional diversification opportunities. Having more types of investments in a portfolio should further reduce asset correlation during a market correction.

4. **Put your money in different sectors.** Investors can create a diversified portfolio by owning stocks from a broad range of business categories. Take for example the Standard & Poor’s (S&P) 500 Index, which is comprised of the 500 largest publicly traded U.S. companies. It is regarded as a good gauge for large-cap American stocks and is widely followed by investors. The index sorts companies into eleven sectors, such as information technology, health care, financials and energy. Spreading your money out across the major industry sectors reduces your risks.
5. **Build a laddered bond portfolio.** A bond ladder is an investment strategy that involves buying fixed income securities with different maturity dates. When the bonds at the short end of the ladder mature, the proceeds are reinvested just beyond the longest outstanding bonds. For example, suppose you have $50,000 to invest in bonds. You decide to buy $10,000 worth of bonds that mature in ten years, and the same amount for each of the subsequent five years. When bonds mature, the money can be rolled over into new ones maturing the year following all your other bonds. The purpose of this strategy is to reduce the uncertainty associated with interest rate changes. Reinvestment risks are spread out compared to having all your bond money come due at once when yields may be low.

6. **Try to find assets that can succeed in bull and bear markets.** It may seem counterintuitive, but it is important to have some assets that are negatively correlated. When one asset type is flourishing, the other is underperforming during the same market conditions. Stocks and bonds would be considered the most prominent example of such a relationship, but the U.S. dollar and price of crude oil also tend to be inversely related. Negative correlation protects your portfolio from significant losses in declining markets, so it’s important to identify assets that often behave differently in various economic conditions.
7. **Rebalance your portfolio.** There will be securities that outperform others, causing the winners to take up a disproportionate share of your portfolio. Over time, rebalancing is needed to get back to your desired asset allocation. Periodically realigning your holdings ensures that you capitalize on your best performing assets by selling a portion of them and buying those securities yet to outperform. Rebalancing inevitably encourages you to fulfill the old investment adage: “buy low and sell high.”

8. **Stick with your rebalancing plan.** You may be tempted to pull completely out of sectors that are underperforming in order to increase your stake in the few that are thriving. Avoid this temptation. One of the purposes of a rebalancing plan is to maintain investment discipline, so that you will not make rash decisions based on what is popular at the time. Adhering to a plan of action is in your best interests and should lead to better long-term results.

9. **Remove the weeds.** While staying the course on your overall investment plan is advisable, occasionally you will need to pick the weeds out of the garden. An individual security may have performed poorly, but is still not a bargain because it appears destined to continue to fall. No one likes to admit a mistake. Losing money is never good. However, it is better to recoup some of your investment rather than holding a position all the way to its bankruptcy. If you have already realized
some capital gains for the year, taking a few losses to offset them can reduce tax liability. As you move forward, your portfolio is ready to perform instead of being weighed down by some underachievers.

10. **Assess your strategy in light of current market conditions.** Evaluating different asset classes using historical data gives you an idea how your investments should perform. Of course, previous results do not guarantee future outcomes. Understanding the past, coupled with knowledge of current economic trends, can provide important insights on how markets are expected to perform and the steps to take to implement the right investment strategy for you.\(^{128}\)

Following these ten rules of diversification will help you survive market setbacks and achieve long-term growth. It’s important to remember that risk can never be entirely phased out. Even secure investments like government bonds carry the risk of the income earned not keeping up with inflation or your spending habits. Finding the proper balance between risk and reward sometimes requires the realization that your comfort zone may need to be stretched in order to earn the return necessary to reach your goals.

As you consider which portfolio mix is appropriate, reviewing the average annual returns of specific portfolios

composed of a combination of stocks and bonds should help you with this decision. Fortunately, the Vanguard Group has provided such a resource by developing asset allocation models based on past U.S. market performance:

60% stocks / 40% bonds

![Pie chart showing 60% stocks, 40% bonds, and 0% short-term reserves]

<table>
<thead>
<tr>
<th>Historical Risk/Return (1926–2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual return</td>
</tr>
<tr>
<td>Best year (1933)</td>
</tr>
<tr>
<td>Worst year (1931)</td>
</tr>
<tr>
<td>Years with a loss</td>
</tr>
</tbody>
</table>

70% stocks / 30% bonds

![Pie chart showing 70% stocks, 30% bonds, and 0% short-term reserves]
# Historical Risk/Return (1926–2018)

<table>
<thead>
<tr>
<th>Average annual return</th>
<th>9.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best year (1933)</td>
<td>41.1%</td>
</tr>
<tr>
<td>Worst year (1931)</td>
<td>–30.7%</td>
</tr>
<tr>
<td>Years with a loss</td>
<td>23 of 93</td>
</tr>
</tbody>
</table>

## 80% stocks / 20% bonds

<table>
<thead>
<tr>
<th>Stocks</th>
<th>80.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>20.0%</td>
</tr>
<tr>
<td>Short-term reserves</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

# Historical Risk/Return (1926–2018)

<table>
<thead>
<tr>
<th>Average annual return</th>
<th>9.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best year (1933)</td>
<td>45.4%</td>
</tr>
<tr>
<td>Worst year (1931)</td>
<td>–34.9%</td>
</tr>
<tr>
<td>Years with a loss</td>
<td>24 of 93</td>
</tr>
</tbody>
</table>
The historical return information is derived from the index considered to best represent the stock and bond markets for that year. For the stock market, average annual returns were initially taken from the S&P 90 which began in 1926 and was expanded to its current configuration of 500 companies in 1957. The final index used for this study which ended in 2018 was the CRSP US Total Market Index which represents nearly all of the U.S. investable equity market. For fixed income securities, the S&P High Grade Corporate Bond Index served as the first representative index for the bond market models. The index changed four times between 1926 to 2018, concluding with the Barclays U.S. Aggregate Float Adjusted Bond Index.

The performance models show that you can be successful with a number of growth strategies. The average annual return gradually increased, from 8.6 to 9.4 percent, as the portfolio ownership of stocks increased from 60 to 80 percent. This result is logical since stocks usually outperform bonds. Also as expected, when more stocks were added to the portfolio, the spread between the best and worst years became more divergent.

The reasons financial advisors often recommend reducing the percentage of your portfolio in stocks as you age include having less time to recover from a major correction when

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your investment horizon is shorter and having less disposable income in retirement for new purchases when stock prices are depressed. Nonetheless, the asset allocation models illustrate three basic approaches to growing your nest egg. Whether you prefer a more moderate stock allocation of 60 percent, a more aggressive stock concentration of 80 percent or something in between, history shows the performance of a diversified growth portfolio has outpaced the 5 to 7 percent annual return commonly used for financial planning purposes.

**Mutual Funds and Exchange Traded Funds**

There are financial products designed to help you diversify your investments. **Mutual funds** and **exchange traded funds (ETFs)** provide the opportunity to invest in many different securities through a single investment without having to choose individual stocks and bonds. Both types of funds pool the money received from investors and purchase a broad range of securities.

There are some noteworthy differences. Like stocks, ETF shares are continuously traded on stock exchanges. However, mutual fund shares are not traded at different prices during business hours. While orders are received throughout the day when the market is open, they are bought and sold at the closing price. If you are buying mutual funds, you hope for a late afternoon sell-off so that your ownership position begins at a lower price. If you are selling, you hope for a late rally so that you receive more money from the shares sold.
In addition, the cost differences should be considered. Actively managed funds are more expensive to own and come with no guarantee of better returns. **Index funds** are passively managed and charge lower fees. They are pegged to market indexes, like the S&P 500, and do not require active management since the stated mission is to replicate the performance of the underlying securities in the index. Less discretion, research and travel leads to lower costs.

Even with higher expenses, some portfolio managers develop niche strategies that beat the market. Outstanding performance deserves recognition and consideration by investors. However, over a prolonged period of time, many actively managed funds underperform their index benchmark. Before investing in a particular mutual fund or ETF, it’s important that you do some research ahead of time to get a full picture of past performance and fees.

If you’re a seasoned investor and want to take an active role in your portfolio and target specific investments, ETFs can be a good option. Since the prices of ETFs constantly change, you can try to buy low and sell high, just like with stocks, throughout the trading day. Yet constant activity increases trading and other costs which lower net returns. Plus, if highly trained licensed traders struggle to achieve excess returns, it stands to reason that most investors are unlikely to outperform the market over the long run.\(^\text{130}\)

The Tax Implications of Mutual Funds and ETFs
Mutual funds and ETFs create capital gains that may be taxable. If a fund sells a security at a profit, it creates a realized gain. It matters for tax purposes how long the security had been held. If the period was less than a year, it would be considered short-term, and the sale in a taxable account would be treated like ordinary income which is generally subject to a higher tax rate. As a result, investors prefer long-term capital gains since they are currently taxed at a lower rate to incentivize more investments to help the U.S. economy grow.

Profit-taking is not the only reason for triggering a capital gain. Sometimes a fund is forced to sell holdings when customers decide to leave a fund. When more people depart than want to join, management must sell securities to generate enough cash to pay for the redemptions. In such instances, capital gains that are subject to taxation may have built up. When the gains are distributed at the end of the year, all the participants are responsible for paying taxes on the short-term and long-term gains, unless the distribution was received in a retirement or other special type of account.

There’s a benefit that taxable accounts have that retirement accounts do not: flexibility. Taxable accounts have fewer restrictions on when investors can withdraw their funds without penalty. At any time, you can sell securities and spend the proceeds on things you may want and need. While saving for the future is highly encouraged, a well-
structured financial plan includes some resources that are readily available to cover unexpected expenses.

In order to be up to speed on the current tax consequences of mutual funds, ETFs and other securities, you should seek the advice of a qualified tax professional. Not only do laws change, but every individual circumstance is different. Notwithstanding, the following summarizes some of the major tax and fee issues to consider:

- **Watch out for high turnover.** The frequency that a fund manager sells stocks to buy others should be taken into account. A high turnover rate indicates the fund manager is focused on performance with perhaps little consideration of the tax consequences for fund participants.

- **Review the fund distribution history.** An actively managed fund can be tax efficient, as long as it does not generate large capital gain distributions. If a fund were to trade infrequently, it would be tax efficient until you withdraw your position in the fund. Of course, most actively managed funds do not have a buy-and-hold-forever strategy.

- **Examine the costs.** At times, a fund may appear to be tax efficient because the potential income is absorbed as overhead instead of being distributed to shareholders. While tax efficiency is important, so is ensuring fees are reasonable.

- **Consider index funds.** These types of investments can be owned through both mutual funds and ETFs.
Since index funds are passively managed, they typically do not make significant capital gain distributions and are tax efficient.

- **Hang in there for the long haul.** As an investor, you should have a long-term time horizon for your growth investments. Not only should such a strategy lead to appreciation in your portfolio, but holding investments for a prolonged period reduces the costs associated with trading securities like brokerage fees and capital gains taxes.\(^{131}\)

**Alternative Investments**

There has been growing interest among institutional investors, from insurance companies and university endowments to state and municipal pension funds, for portfolio diversification outside of the traditional stock and bond markets. Investing in alternative assets is often reserved for high-net-worth investors and may require funds to be locked-in for at least five years. Even so, as a retail investor, you will have the opportunity to participate in some alternative investments. Consequently, understanding the different types and their attributes is worthwhile.

An alternative investment is generally considered any asset class that excludes stocks, bonds and cash equivalent securities. The asset can be tangible, such as precious metals, pieces of art, antiques and commodities.

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Alternatives would also include real estate, carbon credits and cryptocurrencies.

Clearly, the asset class is broad. Let’s narrow the focus to some common types of alternative investments:

- **Private equity (PE)** involves restructuring and taking ownership of an underperforming business with the goal of creating value. It can also include gaining control of a public company with plans to take it private. PE funds are pooled and invested in companies believed to have high growth potential. The investment pays off once the companies are sold to a buyer. The PE market has been growing substantially over the past few decades with global PE assets under management expected to reach $5.8 trillion by 2025.132

- **Venture capital** provides seed funding to startup companies that have the potential for exponential growth or to enterprises seeking to expand aggressively into a new market. The probability of failure is relatively high, but the investment also has the opportunity for lucrative rewards.

- **Hedge funds** are limited partnerships that often employ long and short equity trading strategies. The long positions are taken in securities expected to

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grow and short positions are placed on securities expected to decline. These funds, which pool money from high-net-worth investors, often engage in tactics that use borrowed funds to leverage their positions, anticipating this approach will lead to greater capital gains. While profits can be earned no matter which direction markets move, consistently being on the right side of market volatility is difficult for even the most seasoned money managers.

• **Real estate** is considered an alternative asset when bought solely for investment purposes. When investors want to own commercial properties, but not be landlords, they can buy into a real estate investment trust (REIT). REITs own and operate income-producing properties, including apartment and office buildings and shopping malls. They are more accessible than many other alternative investments because they are publicly traded on major stock exchanges and require a low initial investment.

• **Commodities** are natural resources, such as crude oil, natural gas, wheat, gold and silver. Many of these products are regarded as a hedge against inflation since they are tangible assets. Some investors like to purchase and store commodities, while others trade commodity contracts on the futures market which mature at different times throughout the year. Most contracts are sold ahead of the expiration date, hopefully at a higher price
than it was acquired, instead of taking delivery of the commodity. Since the positions are generally highly leveraged, the risks can be significant with commodities trading. As a substitute, shares of publicly traded companies or mutual funds focused on natural resources can be purchased.

Conclusions

A fundamental way to grow and maintain wealth is through diversifying your investments. The purpose of this strategy is to reduce risk. Although alternatives as an asset class are usually more risky than traditional investments, their inclusion in a portfolio can actually lower overall volatility due to their contrasting response to changing market conditions. For this reason, they can provide a way to earn positive returns when other securities are out of favor. Even so, you can still have a well-structured portfolio without the inclusion of alternatives. The strategic ownership of a diverse group of stocks and bonds remains a sound way to build an investment portfolio for your future needs.133

Smart Investing

- Utility Theory
- Prospect Theory
- Greedy Investors
- Fearful Investors
- Educated Investors
- Complacent Investors
Chapter 8
BEHAVIORAL FINANCE

“Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy, and greedy when others are fearful.”

- Warren Buffett
Legendary investor

When thinking about making an investment, rarely is enough attention given to our likely reaction to major economic events. The focus is typically on the different types of financial products to be purchased. Securities, like stocks, bonds and mutual funds, are evaluated on their future prospects and past ability to grow and generate income. However, long-term averages smooth out big bumps in the road. In addition to the securities selected, an investor’s behavior in different market conditions will have a considerable impact on the results achieved.

Psychology is a science that studies the human mind, especially those functions impacting our behavior. Why do we think the way we do? What are the motivations behind our actions? Are we able to keep our emotions in check when making important decisions?

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When considering questions such as these in the context of investing, our approach is shaped by our experiences as well as fear and greed. How we react to ever-changing events matters because important goals may go unrealized if the investment products chosen are not in sync with our risk tolerance and temperament.

Utility Theory stipulates that people will act in their own best interests and attempt to maximize utility. Another word for utility is satisfaction. Consequently, the theory is based on expectations that investors are always rational and motivated by profit to increase satisfaction.

Utility Theory is useful in describing general business and consumer behavior concepts. People buy goods because the purchases give them satisfaction by meeting a need, such as

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135 Image provided by TradeSanta, Data Driven Investor (blog), accessed April 9, 2021, https://medium.datadriveninvestor.com/ the-7-factors-of-the-fear-greed-index-that-you-should-understand-a123a7f004fd.
food for nourishment, or satisfies a desire, as in the case of buying jewelry. While consuming more of the same good, total satisfaction tapers off. Marginal utility refers to the additional satisfaction gained by each extra unit. With each successive unit, the total utility increases, but at a slower rate. At some point, additions can even cause the total utility to decline.\textsuperscript{136}

The following graph provides an illustration of marginal utility using a company that manufactures jackets.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{marginal_utility_graph.png}
\caption{Illustration of marginal utility.}
\end{figure}

Suppose the company has a factory where the number of workers is expressed in units of labor per day. As the number of workers increases to three, the rate of jackets

produced goes up with each successive worker, likely because each worker can specialize on a particular part of the jacket making process.

Even so, each additional worker after the third adds less to total output, which contributes to diminishing marginal utility. While specialization continues with each new worker, limitations on space and equipment hinder productivity growth. The addition of an eighth worker actually reduces the total jackets made in this example, leading to negative marginal returns. As the saying goes, “there can be too many cooks in the kitchen.”

The concept is also valid from a consumer’s standpoint. If you need a jacket to protect you from cold weather, the initial purchase fills a pressing need for winter. Subsequent purchases in other colors and designs may add variety, but the marginal utility grows at a lower rate. Eventually, your closet is full and any additional jacket purchased would lead to negative marginal returns as you are forced to get rid of other types of clothing needed for other seasons in order to free up space.

Likewise, every good and service competes for your use, and investments are no exception. How do you make choices to maximize your utility among the multitude of financial products and services? When is the right time to make changes to your portfolio? Your answer to these

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137 “What is Diminishing Marginal Product?,” Investor Trading Academy, last modified January 28, 2016, https://www.youtube.com/watch?v=k6wretXrcWY.
questions is critical because making good investment decisions is achieved not only through education and experience, but also through self-awareness.

Professors Daniel Kahneman and Amos Tversky’s seminal work challenged the findings of Utility Theory for not including psychology into its economic behavior models. They developed the Prospect Theory, asserting that people do not always behave rationally. Investors value gains and losses differently, causing them to make decisions based on their emotional impact.

Suppose a wine collector buys a bottle of wine for $35 but refuses to sell it for less than $50. If the market value is actually $35, Utility Theory cannot account for this price variance. However, the Prospect Theory can help explain the attitude of the wine collector. Parting with a treasured possession is undesirable and would require compensation above the market price.¹³⁸

Incorporating ideas from the Prospect Theory, behavioral finance focuses on psychology and its influence on investors’ behavior. Unlike other economic schools of thought, behavioral finance readily acknowledges human imperfections and disputes the notion that investors are always logical and undeterred by their biases.¹³⁹

To illustrate subjective financial behavior, let’s bring different investors to life in a hypothetical world with changing market conditions. Four types of investors are presented: Greedy, Fearful, Educated, and Complacent.

**Greedy Investors** are willing to take chances and always think they should have made a better return on their money. If their neighbors made 30 percent, they believe they should have earned 40 percent. If the stock market had a poor performance year, they argue they should have been in low-risk certificates of deposit (CDs). When their unrealistic goals are not met, they impatiently seek new financial advice and products.

**Fearful Investors** are worried about losing money. With one bad year or even one temporary downturn, these risk-averse investors are bailing out of products for perceived safer alternatives. Often they have less experience than other types of investors and identify strongly with the Mark Twain quote: “I am more concerned about the return of my money than the return on my money.”

**Educated Investors** are well-informed on financial matters. They are assumed to have the attributes of patience and good timing, and are routinely at the right place at the right time. Still, educated investors do make mistakes. Some investments underperform, and rarely are the absolute top

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or bottom market prices predicted. Nonetheless, their mistakes are relatively minor because their good choices far outnumber the bad ones. Most often, these investors meet their goals and personify the saying of Louis Pasteur: “Chance favors only the prepared mind.”

**Complacent Investors** are busy and unsure of their risk tolerance. They typically stay in investments because it’s most convenient to do so. Portfolio changes may be contemplated but are usually shuffled under the proverbial stack of other more pressing needs.

During business cycles, there are periods of expansion and contraction. When stock returns are high, money floods into the market. When times are tough and returns are low, many investors sell stocks and invest in stable investments like government bonds, money market funds and CDs.

In essence, investors follow the herd. As Warren Buffett advised, “Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can’t buy what is popular and do well.”

*The initial reactions of the four different types of investors:*

**Greedy Investors** meet with high-profile financial advisors. Taking the advice offered, they agree to invest 60 percent of

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their available funds in well-diversified stock portfolios. The remaining funds are invested in investment grade bonds, while leaving enough in cash for three months of expenses.

**Fearful Investors** are apprehensive about losing money and decide to invest half their funds in 3-month CDs and the rest in 6-month CDs. Their financial advisors caution that inflation can erode buying power, but the advice falls on deaf ears. A 1 percent gain is better than risking the loss of principal.

**Educated Investors** work with trusted advisors who have helped them learn more about core financial concepts and products. They know stocks have performed better than most other types of investments over time and that holding bonds for income can add diversification to their portfolios.

**Complacent Investors** are too busy with work and daily activities to discuss investments. They leave their money in savings accounts and make no other investment decisions.

*How would the four types of investors react to an expanding economy where stocks are increasing, interest rates are rising and the unemployment rate is low?*

**Greedy Investors** begin to wonder why they bought any bonds since their stocks are performing so well. Their bonds have gone down in value due to rising interest rates. After discussing with their brokers the potential sale of all their bonds, they begrudgingly agree to continue holding on to the ones they own.
Fearful Investors hear stories about all the money being made in the stock market. They are interested in participating but don’t want to pay penalties to withdraw early from their CDs, so they decide to stay with their CDs until maturity.

Educated Investors are pleased with their returns and remember the old investment pearl of wisdom: “The trend is your friend.” They keep their current holdings.

Complacent Investors also hear how the stock market keeps rolling along. They have no time to meet now but make appointments to visit with their financial advisors the following month.

Let’s assume all four groups need a new car, and stocks continue to rise.

Greedy Investors are feeling smart and confident, and tell their brokers to sell their underperforming bonds. Once the sale proceeds are received, they open online trading accounts in order to day trade small cap stocks. When it comes to buying a new car: Why buy mainstream when luxury sports cars are available? Greedy investors finance the full cost of their luxury vehicles at a high interest rate, enjoying the trappings of success on the drive home.

Fearful Investors are in the doldrums. Their friends are cashing in on the ever-rising stock market. The fear of losing money is now displaced by the fear of looking incompetent. They want to talk about their home runs like everyone else and decide to meet with financial advisors. As their 3-
month CDs mature, they buy new economical cars with part of the proceeds. The fear of buying a lemon dissuades them from buying used, and just in case something goes wrong, extended warranties are purchased.

**Educated Investors** are feeling good about their current situation. Seeking the best value for a vehicle, they do some research and buy quality used cars with low miles selling at a discount. They pay cash, determined not to have car loans since the interest costs are not deductible on their taxes.

**Complacent Investors** put off car shopping until their current vehicles require maintenance again.

*Meanwhile, the stock market keeps roaring to new heights.*

**Greedy Investors** enjoy a lifestyle of overindulgence. In an effort to pay for their high standard of living, they realize

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their returns would have been even greater if they had aggressively invested their rainy day funds and employed a leveraged strategy. Considering it a lesson learned, greedy investors open margin accounts and borrow against the equity in their securities. They boast to their friends and colleagues about their shrewdness. Although some people are receptive to their stock-of-the-day tips, others try to avoid them and their constant gloating.

**Fearful Investors** meet with well-established financial advisors, who explain the risks of buying stocks and that they should be seen as long-term commitments. The Fearful Investors say they understand market volatility and would still like to participate in stock investing. They proceed with purchasing an assortment of blue chip mutual funds.

**Educated Investors** begin to think about how long the stock market rally will last because current market conditions suggest a correction is likely in the near future. If this occurs, they understand that stocks are a leading economic indicator and will be impacted. They decide to rebalance their portfolios and sell a few of their overvalued stocks which have produced large gains. They also sell some stocks that have performed poorly and appear likely to remain on a downward trajectory.

Trading out of underperforming stocks will partially offset the realized gains from the winners. With the proceeds from the sales as well as the interest and dividends earned, educated investors buy bonds and preferred stocks to restore their portfolios to their desired asset allocation.
Fortunately, in this hypothetical economy, fixed-income securities are providing reasonable yields.

**Complacent Investors** decide to postpone meeting with their financial advisors until a later date. They want to focus on buying new cars. In this economy, the prices of most consumer goods are rising fast and vehicles are noticeably more expensive than they were just months ago.

*With the roaring stock market, exuberance fills the air! Everybody in the game is winning!* Retail investors feel they have missed their professional calling and consider becoming brokers. *In the media, financial commentary becomes as popular as politics and sports. Even at cocktail parties, the market becomes a hot topic of conversation. All of this exuberance is witnessed in spite of prominent experts cautioning that the market may be overvalued.*

**Greedy Investors** are having trouble handling their work loads. They spend much of their time on computers trading stocks, neglecting their full-time jobs. Yet, they are not too concerned. They can retire in a few years, if they continue making huge investment returns.

**Fearful Investors** are happy to finally be invested in growth stocks. They have more CDs coming due and appointments with their financial advisors are scheduled to move those proceeds into equities.

**Educated Investors** continue to listen to the advice of the financial experts and are aware of some famous market commentators claiming this is a new paradigm, where old evaluation metrics don’t apply in the modern economy. Yet,
they also remember what legendary investor Sir John Templeton said, “The four most dangerous words in investing are: this time it’s different.”

Complacent Investors are ready to start investing. They finally meet with their financial advisors and agree to well-diversified stock portfolios based on their stated long-term goals and risk tolerances.

A huge scandal involving top management at a major company becomes public, causing its stock to tank. It’s rumored that other companies may also be exposed to similar problems. The stock market starts to slide.

Greedy Investors own shares of this scandal-ridden company. After selling their positions at a loss and consulting with other day traders, they decide to put stop loss orders on all their other positions at 20 percent under current market values to prevent more massive losses.

Fearful Investors are now worried. Their stock mutual funds are not performing well. Their advisors sense their anxiety and suggest investing some of the money from their recent CD proceeds into short-term government bonds instead of putting all of it into the stock market.

Educated Investors and Complacent Investors make no investment decisions at this time.

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The stock market continues to fall, with several major companies warning of problems.

**Greedy Investors** sell most of their stocks due to the stop loss orders they put in place. They are surprised how often these orders get filled at low prices, only to watch the same stocks rebound in a few days. While a stock may not change much in price from one month to the next, it is common for that same stock to fluctuate significantly from peak to valley during the month. They use the revenue from the sales to purchase different aggressive stocks.

**Fearful Investors** begin to dread ever owning stocks and wish they had left all their money in less risky bank CDs.

**Educated Investors** have bonds called and the proceeds flow into money market funds. When the economy starts to slow, interest rates drop causing bond prices to rise. Many bonds have call features. This allows issuers to pay off bond holders early and refinance their debt at lower rates. When bonds get called, investors receive their capital back and it’s available for new investments.

**Complacent Investors** are not paying attention to the markets this month and continue to maintain their investment allocations.

*The national economic outlook is becoming unfavorable. Reports on company earnings are disappointing, and inventories start to pile up. Some highly leveraged companies go bankrupt.*

**Greedy Investors** grow increasingly concerned. The margin interest expenses, high car payments and other expenses for
items bought on credit are devouring their disposable income. Plus, their employers are looking to part ways because of their lack of production.

**Fearful Investors** continue to worry, but feel better after talking with their advisors. Their stock holdings are retaining more of their value than they expected.

**Educated Investors** and **Complacent Investors** review their performance statements and take no immediate action.

*A major international crisis ensues. An act of terrorism leads to an escalating conflict with another country, and people are fixated on the growing hostilities. The stock market turns sour, dropping 25 percent the week of the incident. After a proportional response, however, the conflict is resolved and stocks recover 25 percent by the end of the following month.*

**Greedy Investors** see all of their stop loss orders triggered the week of the crisis. By the time they figured out which orders were filled, how much money was lost and what stocks to purchase next, the markets had moved higher.

**Fearful Investors** understand why a crisis of this magnitude would cause a sell-off. They are in surprisingly good spirits after realizing their investments have not been wiped out but are trending upward instead.

**Educated Investors** had been following a few companies they wanted to own. As students of history, they are aware that buying stocks during periods of upheaval can yield superior results. They call their brokers and place orders. Their new stock picks are up big by the following month.
Complacent Investors call their brokers a couple weeks after the crisis and are glad to hear the market is recovering.

The economic outlook then turns gloomy. Corporate earnings are revised substantially downward as dark clouds spread throughout the economy. Stocks decline, wiping out the gains made after the international conflict. Even brokers are getting discouraged, and some in the profession quit to pursue other interests.

Greedy Investors have given up hope. Their stocks are so far underwater that the odds of recovery seem impossible. As they liquidate their investments and put the small amount left into savings accounts, some suddenly recall what their rich cousin said: “Bulls make money, bears make money, but pigs get slaughtered.”

Fearful Investors also sell their stock positions. They’ve had enough and can be heard saying: “Fool me once, shame on you. Fool me twice, shame on me.” They will never own a stock again.

Educated Investors have more bonds called. Interest rates are very low as the economy slides and demand for safety spikes. They pick up a few stocks. They figure that “blood in the streets” provides good buying opportunities.

Complacent Investors become very interested in their investments and make them a priority. They blame their brokers and themselves for not being prepared and informed. They start watching their portfolios daily and schedule meetings with their advisors to reduce their exposure to the stock market.
When many investors have lost hope, long after they were sure the bottom had been reached, the stock market begins to move up. The companies with strong sales that cut costs were resilient enough to survive and set the stage for a bright future. Others were not as fortunate. Educated Investors were able to determine which companies were the former and which were the latter, as they continued buying quality stocks in preparation for a strong recovery.

Closing Thoughts
Some may feel they behave exactly like one of these four types of investors. Yet for many people, their actions resemble several types depending on the situation. Of course, the goal of all investors is to make wise investment decisions that lead to long-term growth and security.

Educated Investors spend their time and resources trying to succeed in the stock market by consistently buying low and selling high. They try not to be swayed by emotion or temporal events which can often lead to poor decision making. When others are overly optimistic, they become cautious. When others are exceedingly fearful, they see opportunities and take them.

Clearly, unattainable foresight is required for perfect investment decisions. Markets do not go straight up or straight down, nor do even the best investors always capture the top when selling and bottom when buying. Mistakes are made by the wealthiest and most seasoned investors. However, vigilance, patience and experience are keys to successful investing over time.
In some ways, it is rational behavior to want to move back and forth between various securities. Fear of losing money is a strong catalyst that encourages such behavior. There is utility in trying to limit losses. On the other hand, when asset prices are soaring, there is utility in wanting to get in the game and benefit from large profits. Greed is also a powerful motive.

Maintaining a balanced approach can reduce your anxiety and mistakes. A well-diversified portfolio should have a mixture of stocks and bonds, and potentially other investment instruments. Investing in securities is different from other types of ownership due to their intangible nature.

Many investors do not see themselves as part owners of companies, as in the case of stocks, or creditors, when owning bonds. What is a thousand shares of a stock really worth? In actuality, the shares at any given time are worth what someone else is willing to pay for them.

When news of a looming recession fills the airwaves and stock prices begin to decline, the stock certificates owned appear abstract and vulnerable, while homes seem to hold their value as they look the same whether economic conditions are strong or weak. Even so, the facts are clear. Over time, stocks have outperformed most other asset classes.

According to the Case-Shiller Housing Index, the average annual increase for homes was 3.7 percent from 1928 to
2013. Over that time period, the performance for stocks was significantly better, averaging 9.5 percent annually.\textsuperscript{145}

Housing can provide an exaggerated view of net worth when glossing over all the costs. Unlike securities that involve lower handling expenses, owners are more likely to have an emotional attachment to their home which can inflate the perceived value. When selling, this can lead to a listing price that’s too high.

Behavioral finance helps explain this difference between market value and sentimental value. Parting ways with a family home may initially bring about a listing price high enough to satisfy the emotional costs caused by moving and not the price merited. Months without any offers, however, have a way of eliminating an emotional premium; so does having to make two mortgage payments. By contrast, stocks, bonds and other more liquid assets that trade on exchanges continuously reflect their current market value.

When owning financial securities, a major factor affecting your behavior is your tolerance for risk. Fluctuations in prices are an unattractive aspect of investing, so the amount of volatility you are willing to withstand should be considered before investments are made. Taking on too much risk can result in panic selling at the wrong times.

\textsuperscript{145} Sean Ross, “Has Real Estate or the Stock Market Performed Better Historically?,” Investopedia, last modified July 15, 2019, https://www.investopedia.com/ask/answers/052015/which-has-performed-better-historically-stock-market-or-real-estate.asp.
Factors impacting your acceptance of volatility include the time horizon involved and the amount of assets owned. If your retirement is decades from now and income from other sources is reliable, you may be willing to take more chances on a portion of your portfolio.

Different types of securities have different risk levels. For example, investments in emerging markets and small companies are considered aggressive, while owning a fund tracking the S&P 500 stock index is deemed as moderate. Purchases of U.S. treasury bonds and bank CDs are characterized as conservative.

In addition, it’s more risky to speculate by constantly turning over positions, compared to buy and hold strategies. A key difference between gambling and investing is the length of time involved. Make no mistake, there have been day traders who have done well and patient investors who have not. On the whole, however, patience is a virtue because stocks in general appreciate over time.

Dividends also matter. They are received by maintaining an ownership position. Reviewing the long-term performance of stock indexes shows the impact of dividend income on total performance. From 1930 to 2020, the income from dividends contributed over 40 percent to the total return of the S&P 500 Index.\(^{146}\)

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For many people, seeking financial advice is useful for determining their risk profiles, asset allocations and securities to purchase. The financial planning tools used can be beneficial for developing a course of action to meet your future needs. In other words, having a well-thought-out plan can provide utility and more peace of mind.

Your overall investment strategy should be in sync with your temperament. Whether you consider yourself greedy, fearful, educated, complacent or all of the above at different stages of your life, it’s important to realize that smart investors consistently seek improvement which includes increasing your knowledge and self-awareness.

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Chapter 9
HOME SWEET HOME

“As for me and my house, we will serve the Lord.”
- Joshua 24:15

There is something sacred about the place you call home. A home is where memories are made and where much of your life is spent. Not only is it a place for shelter and comfort, but your home is an investment that often becomes the cornerstone of your net worth.

When factoring out the top 35 percent of income earning families in the United States, home equity is over half the net worth for families who own property. Generally speaking, the share of your net worth invested in a home declines as your assets and cash flow increase. For the top 5 percent, it drops to 21.4 percent, but is still over one-fifth of this group’s net worth.

These figures show the extent of which real estate is a significant asset for American families. However, homes also come with obligations and can be expensive to maintain. It is estimated that the average annual upkeep costs are 4 to 5 percent of a home’s value. Such expenses include landscaping, paying for utilities and replacing worn-out appliances, in addition to needing to make monthly mortgage payments.

The term “house poor” describes those who do not have the resources to sustain their standard of living, while also
having to cover the costs of owning and taking care of their home. Such a scenario can be especially troubling for those in retirement, which describes at least two out of three senior households.\textsuperscript{148}

Some solace can be found in the fact that homes have historically held their value which provides options to address financial difficulties. Retirement is a time when some people decide to downsize and sell their houses to shore up resources for other needs. However, this is not the desired solution for many seniors who want to continue to stay in their homes for as long as possible.


\textsuperscript{149} Image retrieved from blog post titled “Living the American Dream,” accessed October 19, 2021, https://sites.psu.edu/kacenglish15/2014/11/06/living-the-american-dream/.
This point of view is completely understandable. After decades of working hard and making mortgage payments, keeping your home is often seen as an important part of continuing to live the American Dream. Owning a home has been one way of defining success in the past and it remains so with many young families today.

Fortunately, the United States is a great place to own real estate. The safeguarding of individual property rights is a higher priority here than in most other places in the world. The International Property Rights Index shows that only a small percentage of the world’s population lives in countries, such as the United States, with strong ownership protections and that those countries providing the

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necessary legal framework are the wealthiest. The top 20 percent of the Index have per capita income 16 times greater than the bottom 20 percent. Empirical evidence such as this clearly demonstrates that individual property rights are important to expanding economic opportunities.\(^{151}\)

**A Home as an Investment**

Many reasons come to mind for owning a house, like shelter, independence and investment. Some people may not think of a home as an investment, but see it merely as a necessity. An investment is the use of funds with an expected positive return on that capital. The starting point of the analysis is not zero, but instead should account for the rent that would have otherwise been paid to landlords. When incorporating these costs, a home is widely viewed as an investment.

We all need a place to live. If you are past the point of living with your parents or relatives, there are two choices: lease or buy. Can renting make sense? It can if you do not plan to live in an area for a long period of time, if housing prices in the area where you want to live are extremely high, or if you don’t want the hassles associated with owning a house. Nevertheless, if you plan to live in a particular location for at least five years and the housing market is reasonable, it’s a sound decision to buy a home.

Even so, it is not the guaranteed, riskless proposition many may assume. Homeownership does have drawbacks. Besides the continuous funding required for such things as principal and interest payments, maintenance and furnishings, property taxes can add up. As with every expenditure, money spent on a house is money that could have been used for other priorities.

Why then does everyone seem to make money in real estate? Perception does not always match reality. Many people fail to consider all of the expenses associated with owning a home. Closing costs, including real estate commissions are some of the expenses incurred, but are paid for with funds that are often not consciously added to the price of a house.

Improvements like swimming pools, sun rooms, new floors, wall texturing and painting are some of the other big ticket items often devalued in the calculation of profit or loss. Sometimes these improvements add more value than they cost; sometimes they do not. Alternatively, if the owner would have rented an apartment or purchased a smaller house, many of these items would not have been done, or at least done less expensively.

Determining whether a person was economically better off by buying or renting requires knowing the individual circumstances. If the person got a good deal on a home and was charged a reasonable interest rate on their mortgage loan, the person was probably better off buying the home. If the reverse was the case, where the person paid too much
for the home and financing, the person might have been better off renting assuming the money saved by renting was invested wisely instead of being used to spend more on consumer goods and services. These discretionary trade-offs complicate the underlying issue. Even so, when buying a home, the math is not as simple as purchasing a house for $150,000, selling it for $200,000 and netting $50,000. All the expenses should be considered as well as how much would have been spent renting from someone else to get a full picture of the investment performance.

Owing real estate is a proven way to build wealth, but like every type of investment there are opportunity costs with your purchasing decisions.

Why does the value of real estate tend to appreciate over time? Inflation is typically part of a growing economy. While too much inflation is not desirable as it erodes purchasing power, modest inflation typically coincides with economic growth.

It’s easy to find examples of inflation in the economy. Consider the prices of stamps and automobiles and how
they have risen over the years. The same goes for real estate. As the cost of labor, tools, materials and supplies rise, so does the cost of new housing. As the price of new builds increases, older home values follow suit. Just like the stock market, there have been business cycles of boom and bust in housing markets, but the trend is definitely upward over the long run.

An important reason for positive results in real estate is the length of time property is owned. People often stay in the same home for years. With many stock investments, the length of time between transactions is measured in hours, days or months. In general, the longer the time horizon, the more likely you are to experience a good return on your investment, whether it be stocks or real estate.

As housing prices rise, given enough time, the home you own should provide a nice gain when you decide to sell it. Let’s suppose you shop carefully and make a sound purchase for $200,000. Using the **Rule of 72** formula, you can estimate how long it will take for your home to double in value:

- If a 4 percent appreciation rate for the property is presumed, the value of the home would double every 18 years \((72 / 4 = 18)\).
- Total home value would reach $400,000 in 18 years and $800,000 in 36 years.

Few people, however, stay in the same house for 36 years. Tastes change, breakups happen, children grow up and jobs change. These are some of the many reasons people move. Another reason to move is the prestige of owning a much nicer place. Moving is stressful, but when done infrequently and for a good reason, it can serve as justification for years of work and sacrifice.

When considering the benefits of home ownership, it’s important to note that your mortgage payment is composed of interest and principal. Over the life of the loan, payments increasingly go towards principal. The interest paid may create a tax deduction, allowing you to get a larger “write-off” during the early life of the loan. While deductions can make a home more affordable, when you sell, you get the difference between the closing price and the equity in the house. You build equity by making principal payments. The longer you live in a home, the more equity you have.
Another reason people tend to do well in real estate is they usually use good old-fashioned common sense when selling. Most people do not list their home when major renovations are underway or on a holiday in the middle of a snow storm. Usually the grass is mowed, the house is picked up and cleaned, a new coat of paint has been applied and major repairs have been completed. If the housing market declines because of overbuilding or a jump in interest rates, homeowners will often hold on to the property waiting for conditions to improve.

As discussed in the previous chapter, this level of common sense is not always used when investing in the stock market. When market conditions are the best for buying because stocks have sold off, investors often sell into the declining market. Yet, when the market is peaking, everyone wants in on the action and buys high. These differences of average holding periods and common sense usually lead to more certainty of making money in real estate compared to other types of investments that are easier to liquidate.

It would be interesting if everyone’s home traded like a stock on an exchange. Housing prices would be quoted every second, and market prices would be transparent to all investors. For example, the sun is shining and flowers are blooming – your house is up $20,000. A week later, some of your neighbors didn’t mow their lawns – every home on the street is worth $5,000 less. Suppose the season turns to fall, and you have ghosts and other nightly characters in your yard. Some of your kids’ classmates are dressed in costumes
and drape tissue paper in your trees. The price drops $30,000. Luckily, you had no intentions of selling on Halloween!

**How Much Should be Spent on a Home?**
After you decide you want to buy a home, the question becomes how much should you spend? The amount depends on more than your income. Your savings will need be tapped for the down payment and moving costs. The greater the resources available, the more you can afford to spend.

Housing could be your top priority when it comes to your available funds. Your plan may be to buy the most incredible place you can get and live modestly on the income that’s left over. But is that situation truly best for your overall happiness? Has your standard of living really improved?

Much time and energy can be wasted when failing to make a fair assessment of your buying capacity. This can lead to problems that could have been avoided. Talking with a mortgage broker or banker to determine how much to spend on a house should be done beforehand, instead of waiting until after you’ve researched listings, toured houses and made an offer.

A general rule to use when buying a home is to spend two times your annual income. However, other financial considerations come into play. If you are married and both you and your spouse work, but the plan is for one of you to
stop working in the future to raise children, average the expected household income over the next ten years.

On balance, the amount spent should increase when one of the following is your circumstance: if you have good reason to believe your income will rise significantly, if you have accumulated enough savings to make a sizable down payment, if you plan to be in the house for a long time, or if you are willing to decrease your discretionary spending.

Another important consideration is the number of people in your household. A large family has a greater need for a bigger house than an individual or a couple without children and will likely want to allocate a higher percentage of their income to their housing needs.

Each situation is different. Your individual case cannot be accounted for with a basic guideline. Some people spend significantly on travel, dining, recreation, clothes and entertainment. For others, these things are a less important part of their lives.

Obviously, the more extravagant your lifestyle, the more it affects how much should be spent on a house. A big and well-furnished home you are proud to own can add to your sense of achievement and enhance your feeling of security. But if the home of your dreams creates substantial stress, it will not be worth it and you should find a home more suitable to your financial situation.

How much debt do you have? Student loans, credit card balances and car loans are common types of debt. The more
money you owe, the less you should spend on housing to keep your debt service payments reasonable. If you are financially strapped because of high mortgage payments, you may miss out on participating in many fun events that would bring you more happiness and fulfillment.

Once you determine how much you plan to spend, there are some considerations that have less to do with investing than needs and preferences. Do you want to live in the city or country? If you have children, what school will they attend and how will they get to and from school? Do you have special interests that would require an extra room for painting or playing an instrument? When you feel comfortable with your conclusions on how much to spend, the size of house you need and the desired general area, it is time to go house hunting and find the right home for you.

**Where do You Want to Buy a Home?**

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A top consideration when buying a house is the neighborhood you want to live in. Besides wanting to live close to work, many people like to reside near family and friends because when you buy a home, you are deciding to be part of a community of people. Good neighbors can enhance your life and investment. Inconsiderate neighbors who don’t take care of their homes and yards can diminish your property value, safety and enjoyment.

Take a moment to reflect on your perception of what makes a great residential area. Well-maintained yards, clean streets unfettered with dilapidated cars and homes that are well-built come to mind. All homes will need repairs over time. Conscientious homeowners that make the needed improvements in a timely manner help ensure a neighborhood remains strong.

An unsettling part of buying a house is that no one knows with absolute certainty what the future holds for any neighborhood. If you get a 30-year mortgage loan, you may be looking at a long stretch of your life staying in the same house. The only thing certain in life is change. As time goes by, cities and towns will wax and wane. The local economy may flourish when employment opportunities are abundant and then decline if employers relocate or go out of business. There are neighborhoods that have remained strong and stable for a hundred years and others that were recently built and will be run down in less than a decade.

The best way to forecast the future of local real estate is to observe the past and current developments. Make a special
effort to consider all the factors and purchase a home in a good area that’s right for you. It is often said to buy the worst home in a great neighborhood. This adage may be a bit exaggerated, but the point is worth considering as you narrow down your choices.

When you find the house in the neighborhood you want, the process starts to move fast. You make an offer. If reasonable, the homeowner may accept it, but more often than not there is a counteroffer. If both parties remain interested, back-and-forth offers continue until a deal is ultimately reached.

Once an offer is accepted, the next step is crucial. Every time you buy a house, get a comprehensive inspection. It’s worth the money. There may be unforeseen problems that you definitely want to know about prior to closing. If the house needs repairs, then further negotiations with the seller may be required to determine which party is responsible for them. Often the costs are split down the middle.

**Mortgage Loan Terms**

What terms do you want concerning your mortgage loan? Putting down 20 percent prevents private mortgage insurance (PMI). This insurance adds to your financing costs. Yet if you have limited access to funds and a small down payment is your only option, you will have to pay PMI until you have 20 percent equity in the house.

There are advantages of obtaining a 15-year fixed loan versus a 30-year loan. With a 15-year loan, you start
building equity more quickly. If you decide to move in five years, you should have accumulated a nice amount of equity to roll into a new home. Moreover, the difference in the monthly payment requirements may not be as large as you might think, so it’s worth it to run both set of numbers.

Still in all, the spread may be a difference maker. Perhaps you are stretching your last penny to be able to afford a suitable home, and to make the deal work, a 30-year note is necessary. If this is the case, when you start earning more money, you can make extra principal payments to shorten the life of the loan.

Many homeowners, however, take a different course of action. When they start making more money, the house they once thought of as their dream home is not quite as nice as some of their friends’ houses, and they start looking at more expensive properties. Many others use their rising income on their elevated spending habits.

For those who unfortunately see their income decline significantly because of unemployment, they will find it hard to make mortgage payments and put food on the table. The thought of putting extra money into their house is not an option. The situation might have been helped if they made additional principal payments along the way and built up more equity in their house, since a home equity loan could be used to cover expenses until things improve.

Bottom line: If you can afford it, consider getting a shorter loan. If your career takes off, you can effectively cut your 15-
year mortgage in half by making extra contributions. If you only make the required monthly payments, you will still increase your equity relatively quickly compared to a longer-term mortgage.

It is usually not advisable to pay points unless you plan to own the house for a long time. Points are fees paid upfront in return for a lower interest rate. It takes years of making payments at a slightly lower rate to recoup the out-of-pocket fees. Moreover, fixed-rate options are preferred because variable loans increase uncertainty. In the years ahead, if rates should happen to drop significantly, a new fixed-rate loan can be acquired to reduce interest expenses.

Before closing, you need to make sure you have insurance for your new home. Lenders will require proof of adequate coverage. If you don’t have an existing relationship with an agent, it’s a good idea to call several companies. It can be surprising the differences in costs and coverage levels when comparing insurance providers.

At the time of closing, many documents will need to be reviewed and signed. Ensure the costs are divided as agreed to between the parties and the amounts are correct. Abstract and title companies do numerous closings every day and mistakes can happen. It is easier to get issues resolved while the principals are at the table rather than sometime later.

The documents requiring your signature are typically standard and professionally produced. They should be acceptable when closing at a reputable abstract company.
Consider purchasing title insurance since having a title dispute can be expensive and time-consuming to resolve. If contested, it could disrupt your moving plans. Although title controversies are rare with residential housing, it’s a good idea to be covered just in case.

All things considered, most closings go as expected and the ownership is successfully transferred. At the conclusion, remember to ask for the keys and garage door opener before walking away as the new, proud owner of the place you now call home.

Insurance

- Wedding
- Auto
- Health
- Term Life
- Whole Life
- Variable Life
- Annuity
Chapter 10
THE ROLE OF INSURANCE

“Life insurance became popular only when insurance companies stopped emphasizing it as a good investment and sold it instead as a symbolic commitment by fathers to the future well-being of their families.”¹⁵⁵

- James Surowiecki
  Financial journalist

Having insurance is important because it provides protection when unexpected events occur. It also helps both individuals and families reduce uncertainty when thinking about their future. Its basic design allows risk to be shared by many policyholders who make premium payments. When losses occur, they are covered by insurance companies from the pool of premium contributions and the income earned from reinvesting those premiums. Insurance can be bought to safeguard against the potential loss from many types of events, even the out of the ordinary scenarios that sometimes take place.

Wedding insurance, for example, can be purchased to hedge against the event being cancelled. A natural disaster, heavy rain storm or a death in the family could cause the ceremony to be postponed. Having insurance allows you to be reimbursed for the expenses that are nonrefundable. If

your friends are not very responsible when they celebrate at big events, liability insurance can protect you from the potential property damage they may cause. A wedding policy can also cover injuries, if the event is held away from a traditional venue and involves some element of danger, such as scuba diving. Underwater weddings bring new meaning to the phrase “taking the plunge!”

While the most common reason for wedding insurance claims stem from vendors unable to fulfill contracts, there are also change of heart or “cold feet” policies that parents can take out in case the engagement is called off. With the total cost of weddings now averaging $25,000, it’s easy to

see why the parents footing the bill may want to be covered in case something goes wrong.\footnote{Sisolak, “9 Weird Types of Insurance,” Policygenius, https://www.policygenius.com/blog/9-weird-types-of-insurance-you-never-knew-existed/} 

Not everyone jumps in with both feet!

Insurance contracts are contingent on events that may happen but are not certain, such as the betrothed changing their minds, which are beyond the control of the policyholders. The insured party must also have a direct interest in the coverage, meaning the insured must experience the harm if the event were to happen. For example, you could not take out an insurance policy on a

\footnote{Photo provided by Kate Miller-Wilson, “Crazy Wedding Pictures,” LoveToKnow Media website, accessed November 5, 2021, https://weddings.lovetoknow.com/wiki/Slideshow:Crazy_Wedding_Pictures.}
neighbor’s home and expect to be compensated if it were burglarized or burned down.¹⁶⁰

Major unanticipated incidents can be devastating without proper planning and maintaining adequate insurance. Property and casualty insurance policies offer coverage for personal property loss, and the following describes the different types:

**Homeowner’s Insurance**

The mortgage on your home is often the largest debt you will take on in your lifetime, especially if you don’t own a business. With ownership comes the potential for damages. That’s where homeowner’s insurance comes into play, and determining how much is needed starts with knowing the value of your property.

It is commonly agreed among industry professionals that sufficient homeowner’s insurance would be at least enough to pay for the replacement of your home if a total loss occurs. You should also be covered for less severe, partial structural damages. Even so, some incidents are not covered by standard policies, including floods and earthquakes. They require the purchase of supplemental property coverage.¹⁶¹

The prevalence of natural disasters over the years show the importance of having home insurance. In 1971, losses by U.S. homeowners were estimated at $1.6 billion. By 2018, property damage claims had ballooned to more than $69 billion, mainly caused by severe weather, including hurricanes, tornadoes, sleet and flash floods.\textsuperscript{162}

Protection from inclement weather is not the only reason for insurance. Homeowner policies typically offer liability protection for injuries that could happen on the insured’s property. The minimum amount of liability insurance that providers usually offer is $100,000, but experts routinely advise that coverage amounts should be higher. For those leasing their residence, renter’s insurance offers similar property and liability coverage and is less expensive since the structure is owned by the landlord and not included in the policy.

In addition to providing liability coverage, homeowner policies also cover personal property that’s lost or stolen. Caps are placed on the replacement value of most household belongings, including electronics, furniture and artwork. Supplemental coverage can be purchased for specialty items, such as an expensive wedding ring.\textsuperscript{163}

**Auto Insurance**

Most states require motor vehicle owners to maintain a minimum level of liability insurance to pay for the injuries


\textsuperscript{163} Kess, Grimaldi and Revels, “Covering Risks,” *CPA Journal*: 66.
and damages of others when there’s an accident they caused. Additional coverage can be added to indemnify motorists for the repair of their vehicles involved in a collision. Comprehensive policies include protection for auto damages that result from theft, acts of nature, fire or other incidents not considered a collision. At a minimum, having at least the standard liability coverage is critical. Not only is it legally required, but the monetary repercussions for injuring a passenger or hitting a pedestrian can be far greater than the costs to repair a vehicle.

There are ways for drivers to make their comprehensive and collision coverage more affordable. For motorists with safe driving records, they can choose a higher deductible. This is the amount a driver pays if their vehicle is damaged before their insurance company pays the remainder. A higher deductible results in lower monthly premiums and is worth considering for safe drivers not prone to getting into accidents. Discounted premiums may also be available for people who bundle home and auto policies with the same company.\textsuperscript{164}

It is important to keep in mind that your personal credit score affects your insurance premiums. Underwriters view credit worthiness as a good indicator of someone’s likelihood to make future claims. Research shows that drivers with higher scores tend to get into fewer accidents. Consequently, if you have a strong credit history and a good

\textsuperscript{164} Ibid, 67.
driving record, you are much more likely to qualify for a lower insurance rate.

Following these tips will not only improve your credit score, but will save you money on your auto insurance:

- Drive safely.
- Avoid high levels of debt.
- Pay your credit cards, car loans and insurance bills on time.¹⁶⁵

**Excess Liability Insurance**

For some people, especially those with a high net worth and significant assets to protect, standard liability coverage may not be enough. Umbrella policies can be purchased to push the liability protection to a much higher threshold. The additional coverage is triggered when the basic liability exposure limits are exceeded. Second and third residences, multiple luxury vehicles, boats, planes and RVs are the types of properties that can warrant extra liability protection.¹⁶⁶

Excess liability coverage is not just for wealthy people. When your teenager is allowed to drive multiple family vehicles, this development can serve as motivation to get an umbrella insurance policy. Hosting swimming pool parties at your house is another.

Traditional liability limits may not be sufficient to cover the cost of a serious accident on your property. Homeowners with kids, especially those with pools, should consider the purchase of an umbrella policy, in addition to installing safety features around the pool like a fence with a self-locking gate latch.\textsuperscript{167}

\textbf{Flood Insurance}

While flooding impacts every state, standard homeowner policies don’t cover it. According to the Insurance Information Institute, floods cause more than $4 billion annually in insured losses. The National Flood Insurance Program (NFIP) is administered by the Federal Emergency Management Agency (FEMA) and is available to property owners living in participating areas.

In partnership with the federal government, private insurance companies sell the NFIP policies, but FEMA sets the premium and coverage levels. While living in a designated flood zone increases the premium rates for a community, discounts are available if substantial efforts are made to reduce the risk of flooding. NFIP coverage for a building structure is limited to $250,000 and $100,000 for its contents, but additional insurance can usually be purchased from the provider of your homeowner’s insurance.169

Earthquake Insurance
By the same token, traditional policies do not provide earthquake coverage. Unlike the flood insurance market, however, there’s no similar federal program for earthquake coverage. If you live in an area with frequent seismic activity, you may want to ask your agent if such coverage

can be added to your homeowner’s policy to safeguard against possible structural damages.\(^{171}\)

**Identity Theft Insurance**

Another type of property and casualty insurance provides protection from identity theft and its potential significant repercussions. Victims of identity theft may be held responsible for purchases made by someone else in their name, leading to the stressful process of having to restore their credit and reputation. Identity theft specialists provide consulting advice to policyholders on ways to limit the harm caused.\(^{172}\)

The indirect costs of identity theft can be substantial. Attorneys may need to be hired to negotiate with creditors and assist in the restoration of your financial reputation. Lost wages may result if time away from work is necessary to aid in a fraud investigation. If money is needed to be borrowed, loan rates may be higher due to a lower credit rating. As a result, it’s recommended that you seek policies that not only compensate for stolen property, but also provide assistance with correcting credit history problems.

In addition to having insurance to guard against identity theft, many experts advocate checking your credit score periodically. With the expansion of e-commerce and the volume of financial transactions made online, fraud has become an ever-growing threat. You should take advantage


\(^{172}\) Ibid, 70.
of the free annual reports offered by the three major credit reporting companies, Equifax, Experian and TransUnion, to monitor your credit history and ensure no suspicious activity has occurred.\textsuperscript{173}

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**Health Insurance**

The reason for having property and casualty insurance is to make you whole following a loss. Although there are differences, health insurance has a similar goal of shielding you from unaffordable situations. More than four-fifths of


all Americans have some form of public or private coverage to guard against costly medical bills. Besides the two largest government-sponsored programs, Medicare and Medicaid, most workers are insured through their employer’s group plan where coverage can be extended to their spouse and dependents. Policyholders contribute to the cost of the health care plan, but their share is normally less expensive than getting coverage on their own.

With health insurance, patients or the service providers are reimbursed for expenditures covered by the plan. However, patients are typically required to pay an upfront deductible. After the deductible has been met, a coinsurance rate is applied to future health care costs.

Another type of coverage available in both the group and individual health insurance markets is the high-deductible health plan (HDHP). As health care costs continue to escalate, more small businesses are offering HDHPs to their employees. This plan can be beneficial to healthy, young investment-minded policyholders. The benefits of such plans are lower insurance premiums since the deductibles are high as well as having access to a tax-advantaged health savings account (HSA).

HSAs are popular because contributions are made with pre-tax money. This lowers the income subject to federal taxation. These accounts can be used to pay for any health-related expense, and qualified withdrawals can be made tax free. For investment-oriented account owners, HSAs can be used as a long-term savings vehicle since contributions can
be made until enrollment in Medicare. Many companies that offer HSAs contribute to their employees’ accounts, making them similar to company-sponsored retirement plans. Additionally, since the high deductible is paid out-of-pocket by account owners, it encourages finding the medical services needed at competitive prices.\footnote{Margarida Correia, “Sponsors see HSAs as Great Thing for Retirement Savings: Health Savings Accounts Touted as Ideal Vehicle for Future Medical Care,” \textit{Pension \& Investments} 47, no. 7 (April 2019).}

**Disability Insurance**

Going without a paycheck because of a disability is a difficult circumstance for any working adult. Disability insurance can provide 40 to 80 percent of the salaries of those who become unable to work due to an illness or accident. A short-term policy provides almost immediate assistance with benefits lasting three to six months. A long-term policy begins after six months and provides benefits through age 65.

It’s often hard to persuade young people to buy disability insurance even though their capacity to earn income for many years to come is usually their most valuable asset. Why are suggestions to purchase this type of insurance brushed aside? When just starting out, many workers are healthy and do not want to spend their limited resources on insurance premiums for something they may not need. Feeling somewhat invincible, they often minimize their potential physical vulnerabilities that could hinder their ability to work.
In fact, millions of Americans of all ages would be in a financial jam if they were to become disabled. Research from the National Association of Insurance Commissioners has found that half of U.S. adults could not meet basic living expenses if a disability were to prevent them from working for a year or more. For many, foregoing a paycheck for even a month would be stressful.

Fortunately, if personal disability insurance is not purchased on your own, you might be covered anyway. Most businesses are required to carry workers’ compensation insurance for employees injured on the job. In other offices where coverage is optional, they may go ahead and offer disability insurance as a benefit or make it available to be purchased through payroll deductions. In addition, if you or a family member has paid into Social Security for the required number of years and your disability meets the eligibility criteria, you can receive monthly Social Security Disability Insurance payments.176

Life Insurance
While insurance is rarely a laughing matter, acclaimed American humorist Kin Hubbard quipped, “Fun is like life insurance; the older you get, the more it costs.”177

While most insurance can be seen as cover for a rainy day that may not happen, life insurance covers a circumstance that cannot be avoided. The only question is when it will occur. Premiums for life insurance are collected just like with other forms of insurance. The rates charged are based on the expected life probabilities of those of a certain age and health status.

The purpose of life insurance is to protect those depending on you against the financial hardship of an untimely death. There are two main types of policies. One is term life insurance that is set for a limited time period. A term life policy normally runs from 10 to 30 years and only pays out

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if the insured dies during the specified time frame. The potential value to be paid out is pre-determined, and the premium typically remains constant over the duration of the policy.179

“Life insurance isn’t something you spend time thinking about, but if something happened to you, how would your family get by?”

-Danica Patrick
Pro race car driver

The other type is whole life insurance. As long as the required premiums are paid, it remains in effect throughout the life of the insured. Whole life is attractive because it pays a guaranteed benefit when the owner dies. Notwithstanding, since the benefit payout is certain, the premiums are significantly higher than those paid for term life policies.

With whole life coverage, earnings grow tax-deferred. Policyholders can access this money if necessary during their lifetimes, but they may be subject to a withdrawal penalty and a potential policy cancellation if they do not maintain a sufficient cash value.

**Variable and universal life insurance** are variations of whole life insurance. Similarly, they are permanent insurance arrangements and have a cash-value component, but there are some key differences. For example, variable life insurance uses growth investments that perform like mutual funds, whereas the increase in cash value with a universal life policy is based on current interest rates.

There are advantages and disadvantages of each type of life insurance product. Term life is the least expensive. For many people, it covers the period of time when the loss of life and the resulting income would be most detrimental to their family. The drawback is the product has no value after the coverage expires.

Traditional whole life policies are designed for people seeking guarantees. Premium amounts, death benefits and return rates are all pre-determined. Universal life appeals to those wanting payment flexibility, but not the potential losses associated with investing. Variable life insurance is a good fit for those seeking more opportunities for tax-deferred investment growth.

If life insurance and other arrangements are not made beforehand, funeral expenses can be a major blow to the
savings needed by your family to carry on after you’re gone. An early death may be profoundly hard on the surviving spouse from both an emotional and financial point of view. However, some of the financial risks associated with morbidity can be shifted to insurers.

As health care and other costs rise, outlasting their savings is a major concern for many retirees. While modern medicine has been able to prolong life, the fees for the services provided are high, especially for the elderly. For those who need an extended stay at a nursing home or in a hospital, having long-term care insurance can reduce stress and financial hardships.

One way to safeguard against outliving your money in retirement is to purchase an annuity. During your career, you can invest in this product by making deposits over time or with a lump sum contribution. Your funds accumulate on a tax-deferred basis. When you reach retirement, you begin receiving regular payments from your annuity that last throughout your lifetime.\footnote{Joe Tash, “Policies Play Multiple Roles in the Game of Life: INSURANCE: Ample Protection Can Smooth Out Business Contingencies,” \textit{San Diego Business Journal} 40, no. 27 (July 8, 2019): 11 & 15.}

**Conclusions**

How do you prepare for life’s unexpected events? That’s a question few people like to spend time contemplating. However, bad things do happen, such as losing a job, having a medical emergency, getting into an accident and...
experiencing a natural disaster. As a result, steps should be taken to plan for setbacks and tragedies.

The underlying reason for insurance is to alleviate financial uncertainty by making losses more manageable for you and your family. The insured risks of accidents, death and even wedding cancellations can all be mitigated. For this protection, a premium is paid. While these fees are relatively small, they add up over time, and the greater your overall coverage, the more it costs. Since it’s impractical to attempt to cover every bad scenario, priorities must be made. Determining what types and how much insurance you should have is based on a number of factors, including your financial and family situation as well as your tolerance for risk.

Chapter 11
PREPARING FOR ADVERSITY

“It’s impossible for anyone keeping up with current events to believe that the future will be completely free of problems.”

- Christopher Manske
Author, The Prepared Investor

Having a game plan before traumatic situations occur and making the necessary adjustments afterwards are important steps to take to deal with crises and move forward in a positive manner. While insurance is designed to soften the blow of situations that cause abrupt financial loss, having sufficient savings is needed to cover ongoing expenses.

A good rule of thumb is to have three to six months worth of savings to cover living expenses in an easily accessible account. In reality, most people and many businesses do not have that much readily available. However, it’s a good benchmark to shoot for in preparation of times of turmoil and financial uncertainty.

Some history-making events are awe-inspiring, but others cause widespread heartbreak and upheaval. From the


\[184\] John Waggoner, “Preparing for the Unexpected,” USA Today, October 1, 2012, 03b.
standoff in Tiananmen Square, the fall of the Berlin Wall and the wars in the Middle East, to the global financial crisis and Hurricanes Katrina and Harvey, the indelible images of some events endure the test of time, including the ones presented below.

**Oklahoma City Bombing**

On the morning of April 19, 1995, tragedy struck America’s heartland when one of the deadliest domestic terrorist acts was carried out. A bomb inside a Ryder rental truck was set off outside of the Alfred P. Murrah Federal Building in downtown Oklahoma City. The bombing killed 168 people, including 19 children, and destroyed the building.\(^{185}\)

On the site, the Oklahoma City National Memorial was built and inscribed on the east gate is the following mission statement: \(^{186}\)

> “We come here to remember those who were killed, those who survived and those changed forever. May all who leave here know the impact of violence. May this memorial offer comfort, strength, peace, hope and serenity.”


The event will long be remembered as well as the compassion, generosity and resiliency shown in response that became known as the Oklahoma Standard.

One of the tenants in the Murrah building was the Federal Employees Credit Union (FECU), which had 18 of its 33 employees perish in the bombing. FECU’s CEO, Florence Rogers, was a survivor. After the blast, Rogers never lost consciousness, clinging to a concrete ledge on the third floor. Although it was hours before first responders could reach her, she persevered.187

![Survivor Tree at the OKC National Memorial](https://ktul.com/news/local/survivor-tree-seedlings)

Rogers’ survival is symbolic of the nearby American elm, which was heavily damaged by the blast. Most of the

branches and foliage were ripped away, and the elm was almost cut down. Fortunately, the "Survivor Tree" pulled through and has recovered to full bloom. ¹⁸⁹

Rogers’ resolve to reopen was steadfast despite all the trauma endured the day of the bombing. She attended an emergency FECU board of directors meeting that afternoon as the credit union worked swiftly to resume operations for its customers. FECU’s fast restoration of core duties is noteworthy and can be directly attributed to the disaster recovery plan the board had enacted.

The credit union’s catastrophe preparation was years in the making. As advised by their technology consultants who specialized in disaster recovery, FECU stored all of its computer records off-site in a 10-foot-thick, reinforced concrete vault. This move turned out to be very farsighted because all the paperwork and records in the office were destroyed in the blast. After locating the backup computer tapes, all the account data that had seemingly been lost in the bombing was recovered and available to be used by the next day.

Rogers and the surviving staff believed they had a moral obligation to reopen and serve the nearly 16,000 credit union members, especially those just beginning to plan for the funerals of family members who had lost their lives. Just two days after the bombing, a temporary location was set

up. On the morning of the reopening, there were 500 people standing in line.

Rogers believes a key management decision was seeking outside help following the disaster to ensure the credit union’s operational comeback was quick and orderly. For example, a dozen employees from other federal credit unions were brought in for daily staff support in the months after the reopening. Eventually, FECU transitioned to a new branch location where Rogers could be heard expressing her gratitude to team members for their dedication.190

Treasurer McDaniel meets with STEM Summer Campers from the OKC National Memorial & Museum. Science, technology, engineering and math were disciplines critically needed in the aftermath of the bombing.

The sudden impact of the Oklahoma City bombing on FECU and its dynamic response in the midst of chaos can be largely attributed to management’s decision to plan ahead for a worst-case scenario. The following are measures organizations can take in preparation for a disaster:

- **Have a recovery plan in place before disaster strikes.** The plan should be detailed, comprehensive and available for team members to review.

- **Have a file backup policy.** There should be copies made of important company files and this data should be held off-site. While maintaining paper copies at a location other than the headquarters is beneficial, keeping records in digital storage files allows for immediate accessibility.

- **Conduct a disaster training exercise.** Employees should periodically simulate a disaster scenario and walk through the steps of the recovery process.

- **Decide in advance the chain of command.** When a majority of a workforce has been seriously injured or killed, the circumstances are too stressful to determine the line of succession. Establishing who will be in charge ensures a sense of continuity regarding the leadership and operations.

- **Request help from experts.** The Association of Continuity Professionals is a good resource. Many of its members specialize in assisting businesses and non-profit organizations with disaster planning. The *Disaster Recovery Journal* is also useful. It provides a
directory of companies focused on disaster recovery services and training.\textsuperscript{191}

9/11 Terrorist Attacks
Tragically, just six years after the OKC bombing, domestic terrorism on a massive scale occurred, causing widespread devastation and suffering. On September 11, 2001, commercial airplanes were hijacked and then crashed into the twin towers of the World Trade Center in New York City. The towers would ultimately collapse within hours of the impact.

The nation’s capital was also targeted. One of the hijacked planes hit the Pentagon building. A fourth plane, believed to be headed for the White House or U.S. Capitol, ended up going down in a field in Pennsylvania after passengers intervened and impeded the hijackers. The 9/11 attacks killed almost 3,000 people.\textsuperscript{192}

Appalled by what happened, Americans came together in grief and determination. On the evening of the attacks, President George W. Bush declared:

\begin{quote}
This is a day when all Americans from every walk of life unite in our resolve for justice and peace. America has stood down enemies before, and we will do so this time. None of us will ever forget this
\end{quote}

\textsuperscript{191} Lienert, “Coping with Disaster,” \textit{Management Review}, 42.
day. Yet, we go forward to defend freedom and all that is good and just in our world.\textsuperscript{193}

After 9/11, there was a high level of traumatization felt by workers. As the recovery process began, the first priority of management was to rebuild employee morale. As Ray O’Rourke, a managing director at Morgan Stanley, put it, “we didn’t have a financial crisis on our hands; we had a human crisis.”\textsuperscript{194}


The shocking events of 9/11 illustrate the unfortunate reality that some circumstances cannot be foreseen. Consequently, improvisation becomes a necessity and is most effective when the governing protocols of an organization are well established. Below are some key issues for leaders to consider when facing a crisis:

- **Leadership needs to be visible and attentive.** Public officials arrived at the scene minutes after the attack to assume control of the rescue operation. In the days and weeks that followed, they conducted press conferences, attended multiple memorial services and maintained a steady presence in the city. The empathy and resolve of key leaders helped lift the spirits of all Americans.

- **Keep in mind the business objective.** In the aftermath of 9/11, people across the nation wanted to know what they could do to help. If you can, lending a helping hand to those in need is a noble act of generosity. For employees of a company trying to get through a crisis, focusing on work may be a good antidote for overcoming grief and anger. Work often gives people a feeling of purpose and normalcy. It provides a way to contribute to society and maintain good relationships with customers, as well as continuing to earn a paycheck for living expenses.

- **A strong foundation of values is essential.** Values are important when facing a crisis situation, and
trying to instill them during a disaster is too late. Team members need to know their company’s guiding principles beforehand. For example, Oppenheimer CEO John Murphy credits the firm’s core values of “dedication to caring” and “team spirit” to its survival as a business. He believed: “If you have a strong culture, you have the ability to maintain focus. On 9/11, we had a structure, a belief system and a hierarchy all in place. That helped us to get through the crisis.”

- **Have a first-rate public relations strategy.** As the only mutual fund firm in the World Trade Center, Oppenheimer was forced to hastily relocate its employees to a new office. Nevertheless, it managed to remain successful. The company had a plan in place to remind the public of its quality staff and history of strong investment performance. After the markets reopened, Oppenheimer received massive net inflows of money to its mutual funds. This example shows how dynamic leaders understand the importance of effective public relations to their company’s sustainability. In addition, strong internal communications helped the team work together and press on after the crisis.

**COVID-19**
In late 2019, the novel coronavirus broke out in China. By the spring of 2020, it had spread around the world and

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afflicted millions of people. The respiratory virus can cause severe breathing difficulty. In acute cases, hospitalized patients are put on ventilators, and tragically many do not survive. At the time of this publication, there have been more than 75 million cases reported and over 900,000 COVID-19 deaths in the United States.

The coronavirus also took a heavy toll on the U.S. economy. The shuttering of businesses displaced millions from their employment and led to a sharp decline in economic activity. For businesses of all sizes, managers and employees had to learn to cope in a time of social distancing and working from home. This includes CEO Jim Barrett of Edge Technologies based in Arlington, Virginia.

Barrett tested positive for the virus and had a difficult time with it. After he recovered, he offered some takeaways from the experience: “I’m determined to use the lessons I had the time to think about and learn during that time to move forward and be a better CEO. And a better person.”

He shares the following observations:

- **Effective communications are critical.** In the upheaval caused by crisis, there’s a need for

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operations to adapt. Technology advancements have made it easier than ever to have remote access to the software and platforms needed to stay connected with others. When working remotely, consistent communications are important because team members need to stay apprised of current events and directives. This will lead to figuring out the best ways to work with each other and clients.

- **Isolation can be productive.** Video conferencing can be a constructive way to hold meetings with co-workers and clients, especially when quarantine protocols prevent meeting in person. Plus, isolation provides more time to reflect and develop ways to increase productivity.

- **Delegate tasks.** Managers should empower team members. Although they are working remotely and need metrics to verify performance, have faith that they don’t need to be micromanaged. Point staff in the right direction and let them get to work adding value to the company. When the team succeeds, managers will appreciate staff taking on more responsibility which frees up time for other tasks.

- **Be grateful for your family.** Family members can make getting through illness and other crises easier because their help allows more time for healing. Even when isolated in a separate room in a shared household, meals can be placed outside the door. While social distancing may be practiced, the separation can be physical but not emotional.
Family members can still connect with each other through messaging and phone calls.\textsuperscript{199}

**Layoff from Employment**

When social and economic conditions change rapidly, you may be at risk of losing your job. Being prepared for a potential layoff is smart so your life will not be upended. For many people, the fear of not having enough saved and running out of money is real. If you were to lose your job, there are steps to take to mitigate the loss of income and be proactive about the next opportunity.

- **Determine income sources.** You need to determine whether there is enough money to cover your bills for the time being. Although not advisable unless absolutely necessary, tapping retirement accounts could help you access resources if you find yourself unemployed and desperate. Withdraw only the amount needed. Hopefully, your account balance is large enough that after the distribution it’s still in decent shape. If you have not reached retirement age, you may be subject to income taxes and an IRS penalty for the early withdrawal, so such action should be considered only as a last resort.

- **Prepare a budget.** Make a list of your monthly bills on necessities, such as food, shelter and electricity. Another list should be made that covers typical

spending on optional items. The purpose of this exercise is to get a better understanding of your financial situation. Do you have enough savings so you can hold out until a well-suited job comes along, or should you take the next job that comes available? Even those offered a significant early retirement package need to be aware of their spending habits to ensure there’s enough resources to last throughout their retirement.

- **Pursue unemployment benefits.** In collaboration with the federal government, each state administers its own unemployment insurance program. If you are not terminated for cause, you can apply for these benefits to partially offset your lost wages. In some private sector circumstances, your former company may provide severance pay for your years of loyal service.

- **Network.** Industry contacts you have made during your career, and by staying active in trade associations, should improve your chances of regaining employment in your chosen field. College alumni associations are also useful for networking. In today’s digital age, staying plugged in through social media is a good way to promote your skills and stay connected. For instance, there are platforms that allow job-seekers to post their resumes, making it easier for companies to find qualified candidates.

- **Dress appropriately.** First impressions are important. Those who show they care about their
professional image will make a better impression on prospective employers. Wearing an old t-shirt and sweat pants out in public all the time will not help your marketability.

- **Take advantage of continuing education.** There are educational institutions that offer workforce training classes. If possible, take advantage of these opportunities. Technical training and college courses can help you stay up to date with computer programs and learn other new skills that will likely be valuable to future employers.

- **Be open-minded about your next opportunity.** If similar jobs in your chosen field are not available, sales in a corresponding line of work may be an option. There are often openings in commission-based jobs since people are reluctant to take them due to the wage uncertainty. If working in sales for someone else is not a good fit, an alternative is to become an independent consultant to advise clients on matters related to your areas of expertise.

- **Cut spending.** Businesses continually look for ways to reduce administrative overhead to be more efficient. You should too. If you enjoy eating at fine restaurants, buying expensive cars and travelling overseas, it’s time to reduce or entirely refrain from such discretionary items until landing a new job. Less gourmet coffee and shopping for designer clothes is also helpful. When your thriftier lifestyle is no longer needed to make ends meet, the savings
achieved from its continuation could be used for investments instead of consumer spending.²⁰⁰

Lessons from an Unpredictable World

The responses witnessed after the Oklahoma City bombing, 9/11 terrorist attacks and COVID-19 outbreak provide lessons for how people and businesses can get through crises and prepare for the future.

The swift relocation of the Federal Employees Credit Union following the bombing shows how important it is for organizations to have a disaster recovery plan in place. Decisions about staff duties should be made in advance and copies of important documents should be stored separately away from offices. These preparations allowed FECU to be up and running just days after the tragedy.

Two valuable lessons from 9/11 are the importance of leadership engagement and having a strong corporate culture. After the attacks, the visible presence of civic leaders and their reassuring statements bolstered morale and inspired the nation to come together. Such action was not only demonstrated by those in public office, but by corporate leaders as well.

Oppenheimer’s CEO emphasized the firm’s core values to encourage his team as they transitioned from the twin

towers. He also implemented a top-notch public relations campaign. As a result of these actions, Oppenheimer not only stayed in business but thrived.

Learning to cope with the myriad of issues associated with the COVID-19 pandemic has impacted everyone around the world. It taught people and businesses how to succeed in an era of disruption and social distancing. Modifying business operations for seamless communications between managers, employees and clients was a key adjustment made by organizations to be successful. When team members work remotely, they need to be delegated responsibilities that suit their strengths in order to increase efficiencies and better serve customers, especially when protocol norms change significantly.

Difficult times often lead to high levels of unemployment. Out of necessity, they also lead to innovations. Making the best of a bad situation is a goal that is more likely realized when a positive outlook is maintained. While seclusion is hard for most people, being alone at home during a pandemic or an extended layoff provides a window of opportunity to think about your future and the ways to enhance your life.
Safekeeping

Bank Vaults

Record Storing

Unclaimed Property
Chapter 12
SECURING YOUR RECORDS & TREASURE

“For every minute spent in organizing, an hour is earned.”

- Benjamin Franklin
American statesman

Does recordkeeping really matter? This is a question many people ask because it can be tedious and often seems unimportant. As shown in the last chapter, recordkeeping is clearly critical for banks and other financial institutions like the Federal Employees Credit Union. Shortly after the Oklahoma City bombing, FECU was up and running because their account data had been stored and protected. Similar reasoning applies to individuals and their personal records.

As an illustration, the website of the Internal Revenue Service (IRS) devotes an entire page to the subject of recordkeeping, highlighting its significance for all taxpayers:

Good records will help you monitor the progress of your business, prepare your financial statements, identify sources of income, keep track of deductible expenses, keep track of your basis in property,

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prepare your tax returns, and support items reported on your tax returns.\textsuperscript{202}

These words of advice should be heeded to avoid any unnecessary tax troubles with the IRS. The ability to defend yourself in an audit with easily accessible documentation may be the only incentive you need to keep your financial records organized.

File cabinets are a good way to secure most of your records, while safe deposit boxes and home safes are useful for storing important documents and family heirlooms. Seeking protection against fire and theft is not a modern day development. In fact, it goes back to ancient civilizations.

\begin{center}
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\end{center}

The Treasury of Atreus


\textsuperscript{203} Photo by Klearchos Kapoutsis, “Treasury of Atreus,” The Vintage News online, accessed January 29, 2021,
The Egyptians and Greeks stored their most valued cultural artifacts in tombs and temples. Near Mycenae in Greece, the Treasury of Atreus is an example of a vault-like structure from the Bronze Age that still exists. The “bee-hive tomb” had a funerary purpose but also was used to store the king’s most prized possessions.

Other prominent examples are the Pyramids at Gizeh and the Temple of Rameses II at Abu Simbel, which served as early Egyptian treasure houses. In addition, the famous Greek Temple of the Parthenon in Athens had a vault room to keep the government’s treasures. A special chamber was cordoned off from the main stateroom where the tax receipts and other valuable assets could be kept for safekeeping.204

A Brief History of Bank Vaults in the United States

While the idea of securing valuable items goes back to early civilization, modern American vaults date back to 1865 when Col. Francis H. Henks commissioned the construction of the first public strongroom on Broadway in New York City. Two years later, Col. Henry Lee built the Union Safe Deposit Vaults in Boston.

A tragic event spurred public interest in secure repositories. The great Boston fire of 1872 ravaged the city for three days,}


destroying 65 urban acres. Distressed depositors at the Union Safe Deposit Vaults were anxious about the condition of their possessions they had in storage. Once the fire was finally extinguished and the vaults opened, the contents inside were found to be unscathed. News of the event traveled fast. In three years, there were almost 50 domestic companies in the safe manufacturing business.\footnote{Ibid, 70.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{ Manufacturers Trust Company Building vault}
\caption{Manufacturers Trust Company Building vault}
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In short order, most banks throughout the United States had their own safe and repository. One of the most famous for its architectural design was the Manufacturers Trust Company vault in New York. Located on ground level, it

remains unobstructed from window view when walking along Fifth Avenue. Its 30-ton door is seven feet in diameter and 16 inches thick. Yet despite its massive weight, the door can be swung easily by hand.²⁰⁷

At one time, the United States had the world’s largest bank vault door in operation. Located at the Federal Reserve Bank of Cleveland, the door weighs a whopping 100 tons. The hinge is also noteworthy because of its height of 19 feet and weight of 47 tons. Although the vault is no longer used, it has been preserved intact, remaining on display in the bank’s main building.²⁰⁸

²⁰⁹ Federal Reserve Bank of Cleveland vault

²⁰⁷ Barash, “The Vault,” Banking: 70.
²⁰⁹ “9 Vintage Photos of the Federal Reserve Bank of Cleveland and Vaults,” Cleveland Scene website, November 10, 2014,
While a vault is certainly a good way to protect important documents and small objects of value, for most people this type of storage is impractical. When it comes to practical recordkeeping, the publication *Medical Economics* offers some advice.

**How to Store Records**

Traditionally, a basic record filing system begins with manila folders labeled by categories which are stored in a file cabinet at home. When financial statements are received, they are read and evaluated. The important documents are filed in the appropriate folder and the rest thrown away or shredded, depending on whether the statements include confidential information.

It’s recommended to keep a list of all important policies and account numbers. This list should include bank accounts, life insurance policies and credit cards, along with contact information for the issuing companies. When circumstances change, having the phone numbers and email addresses of professional contacts, such as your attorney, accountant, insurance agent and financial advisor, readily available can be helpful to answer any questions. Since some documents contain sensitive information, they should be kept in a locking file cabinet or safe. If you do not have either at home, you may want to lease a safe deposit box at a bank for your most critical documents.

Some items should be held onto for an extended period of time, such as tax returns. The IRS has a seven year window to audit a tax return, but if fraud is suspected, there is no statute of limitations. Any tax year can be requested. If past returns have been discarded, you may want to get copies going back three years, which is the more common time period under review in an audit. Asking the IRS for copies is an option since the agency typically maintains your personal returns for seven years. Although there is a handling fee, it’s a straight-forward process to submit a Form 4506, Request for Copy of Tax Return.

For home improvements, there are a number of reasons why records should be kept: first, when you decide to sell, disclosing the condition of the home is required; second, if a claim is filed, there will be evidence of the repairs for the insurance company to review; and third, some home improvements can be added to your cost basis, which reduces the difference between the purchase and sale price, and therefore any taxes owed.

The types of documents that should be given special attention to their protection include mortgage papers, wills, trusts, deeds and titles. If there’s an executor to a last will and trust, this person should have an updated copy. If you have a living will or durable power of attorney, copies should be given to your personal doctor.  

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Beware of Cybersecurity Risks
The reasons for securing important data include protecting personal information from cybersecurity risks. Your computer, phone and tablet may contain sensitive information you want to safeguard, such as your credit card and social security numbers. When shopping online, only make purchases on websites that are secure. Log out of your device when you are no longer using it, even if you think a situation is safe. When you are in a public place, you never know who may be lurking around to steal data on your device when you step away for a moment.²¹¹

Types of Records to Keep
Technology has made recordkeeping much easier since most documents can now be stored virtually in cloud-based storage. Of course, many people still prefer keeping paper copies. The following is a helpful guide for how to handle certain types of records, whether using an electronic storage device, file cabinet, safe deposit box or home safe:

Annuities: The original documentation should be securely kept because it may be important to verify in the future the initial premium paid for each annuity and the key policy features.

Appliances: Sales receipts and warranties should be stored in a file folder and reviewed periodically to discard

paperwork for appliances that are no longer owned or under warranty.

**Bank accounts:** Monthly statements should be held until the next one is received, reviewed and filed.

**Brokerage accounts:** For stocks, mutual funds and exchange-traded funds that are bought and sold in taxable accounts, the trade confirmation information listed on annual summary statements should be kept for seven years as part of your supporting documents for your tax filings. For retirement accounts, quarterly statements should be retained until the year-end reports are received.

**Cars:** Once the vehicle is paid off, records of payments no longer need to be preserved. However, the certificate of title should be placed in a safe place. It is a good idea to keep maintenance and repair receipts because they may be useful when selling the vehicle.

**Credit cards:** Receipts can be thrown away after reconciling the purchases with the monthly statements, unless a listed item is going to be used for a tax deduction.

**Insurance:** Separate file folders should be made for your different types of insurance coverage, such as home, auto and life. The most important papers to include in each folder are the current declarations page and policy.

**Medical bills:** Copies should be preserved for at least a year to ensure there is no double billing for paid services. If a particular medical expense is tax deductible, the bill should be held onto for three years.
**Other documents:** Modern technology allows service providers and customers to store massive amounts of data electronically, which significantly reduces the volume of paper copies needed to be retained. Nevertheless, it is still a good idea to keep important original documents safely protected. When in doubt over whether to keep something, file it or store it electronically until you feel confident it can be discarded.\(^{212}\)

**Unclaimed Property**

Practicing good recordkeeping is a smart way to stay organized and keep up with the things you own. Otherwise, you may lose track of important documents, leading to the loss of personal property.

Companies all over the country are in possession of money and items that have been lost and whose owner cannot be found. After a number of years have passed without locating the rightful owner, the assets are transferred to state unclaimed property programs, generally administered by state treasurers.

The Oklahoma State Treasurer’s Office, like many other financial institutions, has a vault to store a reasonable amount of cash for routine banking transactions and other items of value, most of which are the contents of abandoned safe deposit boxes received from banks and credit unions. These items are stored in the vault for safekeeping and are made available for their owners to claim. When vault

capacity becomes an issue, the items are auctioned off to make room for new property.

If your property is lost and remitted to the unclaimed property division in a process called escheatment, the state serves as the custodian of the abandoned property, or the amount received at auction, in perpetuity.

History has shown that even with robust efforts like Oklahoma’s performance pay model which offers treasury personnel incentive pay for reuniting beneficiaries with
their property, assets unclaimed for a decade or more become increasingly unlikely to be claimed. This leads to a residual benefit for the state.

To determine the proper owner, each state establishes specific rules to prevent fraud. The reporting requirements are rather consistent from state to state, but there are differences. The dormancy period is the length of time from when a holder has an unclaimed property to when it must be reported. Most states follow the federally established dormancy period of three years, but some states use a tiered system that ranges from one year to five years depending on the type of property. As for which state receives the property after the dormancy period, the primary rule assigns the property to the state of the owner’s last known address. If there’s no known address, the secondary rule sends it to the state where the holder company is domiciled.

To protect consumers, companies must comply with unclaimed property laws, and significant civil penalties can be assessed on a holder if there is failure to do so. They can vary from simple interest charges to being fined the full value of the property. In addition, some states can charge large penalties if a report is filed fraudulently.\textsuperscript{213}

**Billions in Lost Treasure**

It is estimated that the states have custody of $50 billion in unclaimed property. The different sources include

abandoned savings accounts, payroll checks, utility deposits, life insurance policies, royalty payments and retirement accounts. The fundamental aim of all unclaimed property programs is the same: attempt to find the property owners, ensure the required supporting documentation is authentic and then return the property to them.²¹⁴

When an owner is reconnected with their long lost property, it’s quite satisfying for the auditor working the claim and, of course, the beneficiary receiving the money. As the key documents are located and presented, it’s like discovering a map to a lost treasure. Even so, most abandoned property remains unclaimed. Having a plan to store important records can prevent ever losing track of your property; assets that could play a role in your ability to achieve your financial objectives.

Chapter 13
FITNESS & FINANCE

“The only person who can stop you from reaching your goals is you.”

- Jackie Joyner-Kersee
  Olympic track & field legend

Physical and financial conditioning are similar in a number of ways, including their need for ongoing attention and effort. The game is never entirely done during a lifetime. Building and maintaining strength in both areas takes focus and a long-term commitment.

Being active helps improve your well-being. Exercising enough to raise your heart rate through daily physical activity is a worthwhile habit to form, and you’re never too old to start an exercise program.

Studies show that working out regularly leads to benefits with your balance, muscular strength, blood pressure, endurance, bone density and mental health. Plus, improved fitness can lead to having a longer period of time to work and earn a living.

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In sports, few athletes epitomize longevity and success like Tom Brady. Once most professional football players reach their 40s, they have been retired for years, but not Brady. After signing a major contract with the Tampa Bay Buccaneers at age 42, he still played at an extremely high level.\textsuperscript{217}

Tom Brady celebrating a crucial moment in the playoffs

In pro football, success is ultimately determined by winning the Lombardi Trophy. With the Buccaneers winning Super Bowl LV, Brady increased his number of championship

victories to seven. This is more than any other player in NFL history, and he’s the oldest quarterback to lead his team to a Super Bowl title.219

On the topic of measuring results, Brady said, “I think the great part about what I do is that there’s a scoreboard. At the end of every week, you know how you did. You know how well you prepared. You know whether you executed your game plan. There’s a tangible score.”220

Brady’s disciplined health and fitness routines have been instrumental in his athletic accomplishments and long career. He wakes up and goes to bed at the same time daily to ensure he’s getting enough rest and an early start each morning. Brady also works out every day, focusing on pliability exercises, which include planks, lunges and squats. He is very deliberate about his healthy diet, making sure the foods he eats are organic, such as dark leafy greens, legumes, whole grains and some lean meat for protein. On top of these measures, Brady likes to exercise his brain using apps like BrainHQ, believing they improve his reaction time, which was helpful when trying to find receivers downfield while dodging defenders.221

Brady is regarded by many as the greatest quarterback of all-time. The championships he has won and the records set speak for themselves. Moreover, Brady is an inspirational leader because he leads by example. He elevated the performance of teammates and exemplified the tried-and-true notion that hard work lays the foundation for success.

Less than four months after Brady led Tampa Bay to a Super Bowl victory, professional golfer Phil Mickelson built on the age-defying feats of 2021. A long-time top competitor, he actually entered the PGA Championship as a longshot. Nevertheless, he took an early lead and wound up winning to the euphoria of the big crowd surrounding the final hole. At the age of 50, Mickelson became the oldest player ever to win a major championship in golf.

Fans recognized and celebrated Mickelson’s fitness transformation leading up to the tournament. He lost weight by eating less processed foods and exercising more.
His driving distance became as long as his younger competitors as he increased his swing speed through flexibility and strength training. The efforts clearly paid off. He not only increased his bank account with the victory, but also his standing as a champion golfer.222

Michael Jordan was known for his grueling workout routines and relentless effort during games. Considered by many as the best basketball player to ever live, his stature is enhanced by his scoring records, clutch jump shots in pivotal moments and incredible playmaking ability.

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The six-time NBA champion has also been a tremendous success off the court as a businessman and owner of the Charlotte Hornets basketball team. According to *Forbes*, Jordan is the world’s richest athlete.\(^{224}\)

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\text{“Some people want it to happen, some wish it to happen, and others make it happen.”}
\]

- Michael Jordan

**Fitness and Finance Routines**

Even if you will never make a living as a professional athlete, staying in shape and achieving financial security are both important goals to have. Contrary to some opinions, your strategy does not have to be too complex. Whether coming from a personal trainer or financial advisor, the best advice is often straight-forward. But like many things in life, it’s easier said than done.

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Physical fitness practices typically include:

- Warming up and stretching
- Regular workouts
- Cardio exercises
- Training with free weights
- Increasing workout intensity
- Implementing a healthy diet

Basic personal finance strategies include:

- Getting a good job
- Saving for retirement
- Diversifying investments
- Increasing the amount invested
- Avoiding large consumer debt
- Riding out the inevitable downturn

In both fitness and finance, you should keep your focus on long-term results. While the quick fix may be preferred, there is no workout that can make a person go from unfit to having a bodybuilder physique in a week, and it’s unlikely that a stock bought today will make you a millionaire tomorrow. The continuous application of best practices is needed to yield lasting results.226

Olympic beach volleyball player Kerri Walsh Jennings said: “It’s going to be a journey. It’s not a sprint to get in shape.”227

The Health and Wealth Connection

Research published in the *Public Library of Science Medicine* reveals how beneficial exercise can be for increasing life expectancy. Those who perform 75 minutes of moderate exercise each week live nearly two years longer than their inactive peers. The study shows longevity increases even more with higher levels of activity. For example, 450 minutes of exercise per week results in a gain of four years of life compared to those who do not exercise. When comparing thin and active people to those who are heavy and inactive, people who are fitter live on average seven years longer.\(^{228}\)

The Center for Human Resource Research at Ohio State University explored the effects of smoking on wealth. Unsurprisingly, they are inversely related. The survey found smokers purchased cigarettes out of funds that were often saved by non-smokers, which led to a 50 percent higher net worth on average for non-smokers.

The *Journal of Labor Research* published data showing that regular exercise results in an earnings premium of 6 to 10 percent. While some exercise can certainly help increase earnings, frequent exercise has an even greater impact on the bottom line. Losing weight is also a benefit of working out. The U.S. Department of Health and Human Services reported that if adequate weight loss can be maintained for

those considered overweight, they can expect a significant reduction in medical costs over their lifetimes.

Savings are achieved by not incurring costs related to medical conditions like hypertension, heart disease, stroke and high cholesterol. Quitting smoking and participating in wellness programs are also useful since they lead to lower life and health insurance premiums.229

**Healthier Living**

Professors from University College London investigated how long people in England and the United States can expect to live without major disability challenges, such as not being able to independently get out of bed or cook, based on their socioeconomic factors. The study concluded the wealthiest men after age 50 experienced an additional 31 active years. By contrast, the men with the poorest backgrounds had just 22 active years.

According to the study, 50 year-old women from the wealthiest households enjoyed an extra 33 active years, compared to women from the poorest families who averaged 24 years. The nine-year gap is significant, showing that both men and women of greater economic means are able to achieve better health outcomes as they age.230

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As provided by an Associated Press health survey, people who stress about the money they owe are much more likely to report health complications. The poll results reveal the following:

- 44 percent of people with high levels of debt frequently suffer from migraines or other headaches, versus 15 percent with limited amounts of debt.
- 23 percent of debtors experience severe and chronic depression, compared to 4 percent with low levels of debt.

Medical research shows that when adrenaline and the stress hormone cortisol are released in a “fight or flight” scenario and the body remains in high gear for a prolonged time, it harms the body and mind. Such health complications include an elevated heart rate and higher blood pressure, as well as issues with memory, mood, digestion and immunity. Needless to say, it’s best to avoid having too much debt. It’s not only damaging to personal finances, but can lead to health problems.231

The Game Plan for Physical and Financial Fitness
A study by BT Financial Group shows that poor economic stability often goes hand-in-hand with poor physical fitness.

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According to the study, 34 percent of people who rated their personal finances as unstable also considered themselves physically unfit. However, only 9 percent regarded themselves as unhealthy and financially comfortable.\(^{232}\)

As the research indicates, unhealthy behavior can be harmful to the bottom line. For improvement, below are some proactive measures to consider:

- **Keep track of your activity.** Adding up expenditures and burned calories will help show if enough progress is being made. If not, your plan can be re-evaluated and adjusted going forward. Maintaining a record is the first step to setting a budget and making sure workouts are getting done.

- **Be aware of your triggers.** Everyone has their indulgences ranging from ice cream to designer shoes. If splurging on certain items is becoming detrimental, you may not want to completely eliminate such items, but the amount should be reduced. To illustrate, if you are too busy to plan a healthy meal, it’s beneficial to have on hand some nutritious snacks. This will make it less likely to resort to junk food to satisfy cravings. Similarly, if boredom often leads to a shopping spree, perhaps you can take up a new hobby to fill the void.

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• **Stay organized.** Since it’s generally true that structure brings order and chaos creates additional chaos, being organized makes achieving goals more likely. To minimize clutter, paperwork should be filed or discarded. In order to pay off debts, a schedule should be followed, and to reduce unhealthy temptations to your diet, pantries should be neatly stocked with nutritious options.

• **Set realistic goals.** If goals are too ambitious, most people lose interest and give up. Taking on the workout routine of a professional athlete will likely lead to exhaustion and injury, and utilizing the investment strategy of a super aggressive hedge fund manager may lead to excessive borrowing and bankruptcy. Such regimens don’t build confidence or inspire perseverance. For sustainability, goals should be reasonable and tailored to your capabilities.233

American sprinter Michael Johnson won four Olympic gold medals and eight World Championships. Even this former world record holder cautioned against unrealistic plans: “Don’t shoot for something unattainable – completely outside of your nature or opportunity.”234

Be suspicious of programs offering easy solutions to lose weight, build wealth or eliminate debt. Being pragmatic,

233 Ibid.

however, does not require separating financial and fitness goals. By closely monitoring behavior, avoiding unhealthy habits, staying organized and setting realistic expectations, both interests can be tackled at the same time. By merging these goals, synergies can occur.

**The Electric Bolt Workout**

As the fastest human ever, Usain Bolt of Jamaica made his triumphs on the biggest stages look easy to accomplish. While appearing carefree, he typically blew away the competition when he raced because of his intense preparation and natural abilities.

![Usain Bolt](image)

Eight Olympic gold medals, world record-breaking performances in the 100 and 200 meter races and a top speed

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of 27.79 mph are just some of Bolt’s many accomplishments as a sprinter. Of course, none of these feats were easy.

When he was training for competition, Bolt developed a rigorous daily routine. The Electric Bolt Workout focused on augmenting his explosiveness on the track. Some of the exercises included box jumps, bounding and cable knee drives. Following these exercises, he headed to the track. After sprint drills, he worked on building strength. Lifting weights and exercises such as leg raises, side sweeps and reverse crunches all helped strengthen his core.236

Bolt’s victories on the track demonstrated that champions are not made overnight. The groundwork for his accomplishments began with vigorous and consistent training. Financial success followed his awe-inspiring feats on the track. With a net worth of nearly $100 million, he’s one of the wealthiest Olympians of all-time.237

Jack LaLanne’s Fitness Story
Before his death at age 96, renowned fitness guru Jack LaLanne teamed up with a financial planning expert to write a book about the benefits of physical and financial readiness. LaLanne stressed the importance of being fit in preparation for when economic struggles happen. He

believed that mental and financial strength cannot be achieved without physical fitness. When people are unhealthy, they are at greater risk of having medical problems and becoming unable to perform daily tasks.

Ideally, people begin their physical and financial fitness journey at an early age. Lessons concerning the need to exercise, eat healthy and save money would therefore be ingrained. Yet in reality, life rarely turns out that way. People typically focus their attention on getting through the day instead of preparing for tomorrow.

Some couples have little time to take care of personal needs. Raising a family and working long hours can leave limited time to exercise and eat properly, much less using the few bucks left over for investments. As children get older, the pace of life keeps ramping up. Shuttling kids to and from activities results in meals on the go. Fast food is convenient, but the unhealthy choices made often lead to weight gain.

The desire for instant gratification can influence decisions involving money too. Instead of setting aside some of a pay raise for savings, the extra funds are spent purchasing a home entertainment system or tropical vacation the family wants. Saving may become even more of an afterthought when paying for their children’s college.

While life circumstances provide reasons to procrastinate, the reality is that the time to start saving, exercising and eating right is now. The analogy of car ownership highlights the point. If a vehicle is safely driven and serviced regularly,
it will last much longer. But if routine maintenance is not done and the wrong fuel grade is frequently used, it will not be long before the vehicle breaks down. Like a car, the human body requires proper care and attention.

Growing up, LaLanne did not understand the power of good nutrition and exercise until he attended a lecture. It piqued his curiosity and changed his life. He began to study nutrition and the human body, ultimately converting to healthy living and dedicating his life to inspiring others.

LaLanne’s father, however, never came around to appreciate the advantages of eating right and working out. He liked high-fat foods and rarely exercised. LaLanne was convinced his father’s bad habits resulted in an early death. By contrast, LaLanne’s mother listened to him and adopted his exercise and nutrition programs. Even though she spent many of her earlier years in poor health, she was able to reverse course and live an active life until age 94. He believed her transition to healthy living added years to her life.

“Your bank account and your health account are synonymous,” LaLanne said. “The more you put in, the more you can take out.” He also believed you must follow a simple principle: Refrain from instant gratification.

Owning a timeshare at a trendy location or eating a big slice of cheesecake may seem enticing at the moment, but how long will the enjoyment last? It’s possible the timeshare will be valuable, yet there’s no assurance that your future travel
plans will not change significantly. As for the dessert, the joy from the sweet taste will fade soon after your last bite. Your plan of action needs to look beyond the temporary and place emphasis on the future. People that have saved and planned ahead for retirement will experience less financial stress and more freedom, and those in shape are likely to have more energy and zeal for life.238

“Small Steps to Wealth and Health”
The interrelation between health and finance has been further examined by Rutgers Cooperative Extension. The program called “Small Steps to Health and Wealth” has shown that even modest efforts done consistently can yield meaningful results.

The program identifies common characteristics. For example, weight and monetary problems can start slow and then expand rapidly. Consuming items that are only a few calories or a few dollars may seem harmless, but indulging in them can lead to obesity and insolvency. Another parallel is the heavy use of technical jargon. This makes it difficult to figure out the details of competing choices which is the starting point to making good decisions.

Generally, people are more aware of personal data, such as their height, weight and blood type than know their net

worth and debt-to-income ratio. Being aware of these types of metrics gives you a clearer understanding of your current situation and where improvement is needed.239

**Prevailing Over Adversity**

When striving to improve, there will be obstacles. Fear, denial and inertia are some of the common barriers to making the needed behavioral changes. Motivation and willpower are a key attributes for moving past these barriers and reaching your goals.

It’s not suggested that eliminating destructive behavior is easy. For most people, breaking long-lasting bad habits is onerous. But don’t let aiming for perfection be the enemy of good. Trending in the right direction is always better than going the wrong way. Your winning game plan should include setting goals, making progress, avoiding bad decisions and believing in yourself.

Athletes must meet high standards to compete in the Olympics. Every sport is exciting to watch, but gymnastics stands out. The female gymnasts show that you don’t have to be big in stature to be great. From Nadia Comaneci’s perfect ten and Mary Lou Retton’s comeback from injury to win gold, to Shannon Miller’s balance beam feats and the all-around performances of Simone Biles and Sunisa Lee, these amazing athletes have left indelible images of perseverance and grace.

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“There is always going to be a reason why you can’t do something,” Shannon Miller said. “Your job is to constantly look for the reasons why you can achieve your dreams.”\textsuperscript{241}
Retirement Planning

- Employer Retirement Plans
- IRAs
- Roth IRAs
- Benefit Payments
- Savings Goals
- Portfolio Mix
Chapter 14

PLANNING FOR A PROSPEROUS RETIREMENT

“To me, retirement means doing what you have fun doing.” 242

- Dick Van Dyke
  Actor & comedian

Are Americans prepared for retirement? This has been an ongoing question as medical care improves and life expectancy increases over time. Despite the setbacks caused by the pandemic, the average life span of Americans remains high from a historical perspective at 78 years, which is 13 years longer than the traditional retirement age of 65. 243

Accordingly, time spent in retirement now makes up a larger portion of the average person’s life than in the past. Financial planning is needed so that your golden years can be spent doing what you enjoy, free from undo worry of outliving your money.

Retirement planning traditionally revolves around the three-legged stool metaphor, yet the stool may not be as sturdy as it once was. Social Security benefits, employer-

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sponsored retirement plans and personal savings have customarily made up the three key income sources used for retirement. However, few companies still offer new employees traditional pensions and defined contribution plans, such as 401(k) accounts, are too often not available or go underused. In addition, the future of Social Security is a growing concern based on the projected funding shortfalls and long-term solvency risks.244

Is There a Retirement Savings Crisis?
According to a survey conducted by the Insured Retirement Institute, less than a quarter of Baby Boomers and Generation X members are confident they have saved enough for retirement. In another report, the National Institute on Retirement Security revealed that three-quarters of Americans are “highly anxious” about their retirement security.

These concerns seem to match reality. Most Americans are not saving enough for retirement. AARP estimates half of all retirees, many of whom spent their working years doing well, are in danger of not being able to afford necessities like food and medical prescriptions. Findings from an Employee Benefits Research Institute’s survey show that 80 percent of workers between the ages of 25 and 34 have less than $25,000 invested and just 52 percent over age 45 have more

244 Anna Petrini, “(Un) Ready for Retirement: States Face a Costly Future if Their Citizens Fail to Save Enough for Retirement,” State Legislatures 43, no. 6 (June 2017): 10.
than that saved. In addition, nearly one-third of those over age 55 do not have access to an employer retirement plan, leaving only personal savings and Social Security as their primary sources of retirement income.\textsuperscript{245}

There are a number of factors contributing to the lack of retirement savings. According to motivational speaker and author Richie Norton, who has interviewed hundreds of people near retirement, a major problem is procrastination. An interviewee said: “I was waiting for a time when I’d have more time, education, experience or money to do what I wanted to do… only to find out when I got there that I still needed more time, more education, more experience and more money.”\textsuperscript{246}

Although Americans have been delaying their retirement in recent years, it has not been proportional to rising life expectancies. Regrettably, many people did not factor in the need for their savings to last over an extended period of time. Often, too much of their savings were left in checking accounts and spent instead of being put in long-term retirement plans.

This trend has led to insufficient contributions not earning the return on capital needed for their savings to go the distance. Another factor impacting people’s ability to save

\textsuperscript{245} Ibid, 10-11.

is too much consumer debt. Meanwhile, inflation continues to raise the bar on the total assets needed to maintain living standards.

There’s mounting evidence that the absence of a workplace retirement plan is an underlying reason millions of Americans are woefully unprepared for retirement. Ideally, the private sector would efficiently fill this void. While asset management firms are in business to manage money, low balance startup accounts are generally not their target. However, large rollovers certainly are. Policymakers need to work with business and labor to find ways to get people started. This will lead to a win-win situation: more economic security for workers and a larger number of future clients for financial institutions.

The U.S. Department of Labor estimates that 68 million Americans do not have the option to participate in a retirement plan through their employer. These Americans include employees of small businesses, as well as part-time and seasonal workers. Studies show that retirement savings will increase if more workers have easy access to a retirement plan.

Some states have passed legislation intended to improve the national savings rate. All workers who reside within their jurisdictions that are not covered by an employer plan can participate. Through these programs, workers make automatic deposits from their paychecks to their own state-sponsored retirement accounts. Participation is voluntary since they can opt out if they wish not to join. While there’s
no employer match involved, participants can choose their contribution amounts and types of investments. After legislation is approved by state lawmakers, state treasurers usually administer these programs, entering into agreements with private sector companies for investment and administrative support.

Encouraging people to take personal responsibility and provide for themselves through consistent participation in a retirement plan will reduce their need for future public assistance. This will save taxpayer money and provide more independence for plan participants.247

**Employer Retirement Plans**

There are two primary types of employer retirement plans: defined-benefit plans and defined-contribution plans. The goals of both are to help in the recruitment and retention of talented workers and to aid in the financial security of their former employees. There are strengths and weaknesses of both designs.

**Defined-benefit plans** provide participants monthly income for life after they retire. This type of arrangement is commonly called a traditional pension plan. The amount is based on a predetermined formula that takes into account years of service, the plan’s service credit multiplier and final average salary. For example, suppose an employee worked at a state agency for 25 years and over the final five years of service earned an annual average income of $60,000. If the

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multiplier is two, this individual would be entitled to $30,000 per year:

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25 \text{ (years of service)} \times 2 = 50 \text{ percent}
\]
\[
50 \text{ percent} \times $60,000 = $30,000
\]

Since benefit payments are on a monthly basis, the employee in this example would receive $2,500 a month for life starting at the designated retirement age. If a joint-life option is selected, the monthly amount is typically reduced, but spousal payments continue after the employee’s death.

Although workers may be required to make contributions into the plan, the investment returns and overall responsibilities are risks placed on the employer. When revenues drop, benefits increase or the overall economy contracts causing stock markets and bond yields to decline, pension payments are not affected. This benefit guarantee is a major plus for workers. In the public sector, it’s viewed as a trade-off for making less salary. Notwithstanding, it’s a potential financial burden for employers and can lead to fewer pay raises and layoffs.

Additionally, demographic shifts are causing challenges to pension systems. When comparing the growing number of retirees to employment figures, the number of workers to support retirees has shrunk over the past several decades. This trend has caused some financial stress to even the most stable employers and well-managed pension plans.

In 1974, Congress created the Pension Benefit Guaranty Corporation (PBGC) to insure the pensions of companies
that go bankrupt. The PBGC provides coverage for more than 33 million Americans in 25,000 defined-benefit plans.\textsuperscript{248}

For an example, it stepped in to rescue the pension system of the United Airlines parent company in 2005. Following the bankruptcy, the PBGC was able to cover two-thirds of the $9.8 billion pension deficit, but the remaining one-third was not funded. Over 120,000 of the airline’s employees and retirees were forced to take a cut in benefits.\textsuperscript{249}

With defined-contribution plans, workers make regular contributions to their own personal accounts, which are usually matched by their employer. The accrued benefit consists of all contributions, plus compounded returns. Benefit amounts are not guaranteed, but these type of plans provide more flexibility since resources can be spent as needed. The goal for an account owner is to accumulate a large individual balance over time. As savings grow, the risk of running out of money in retirement is reduced.

Defined-contribution plans have been supplanting defined-benefit arrangements as the preferred retirement program for businesses for many years. In 1975, traditional pension systems made up about two-thirds of all retirement plans. By the 1990s, that level had dropped to about one-third. In recent years, there have been few new defined-benefit plans


started and many private sector legacy arrangements have been closed to new hires.\textsuperscript{250}

**Private Sector 401(k) Accounts**

A 401(k) is a defined-contribution plan provided by private sector employers. The costs are predictable with these types of plans. They do not develop structural deficits like traditional pensions often do because the employer funding requirements are made upfront. Besides not having to worry about an employer’s ability to pay promised benefits, defined contribution plans are attractive to individuals wanting to take ownership of their retirement assets. Here are some other important characteristics about 401(k) plans:

- The account owner chooses how to allocate their funds from the available investment options.
- Investments grow tax-deferred until a withdrawal is made.
- Money withdrawn early incurs a penalty unless for a qualified reason.
- As directed by the IRS, there are Required Minimum Distributions (RMDs) which are based on the age of the account owner. Currently, withdrawals must begin by age 72.
- If the account owner is married, the primary beneficiary is the surviving spouse, unless the surviving spouse formally signs away the right to receive the funds. Sometimes this occurs so that a

\textsuperscript{250} Ibid.
family trust can be named as the recipient of the funds.

- Naming contingent beneficiaries is an extra step that should be taken by couples with children or other dependents.
- While the 401(k) is used by private sector employers, there are similar types of plans, such as the 401(a), 457 and 403(b) plans for non-profits, public employees and educators.\(^{251}\)

**Traditional Individual Retirement Plans**

Another type of retirement plan is the individual retirement account (IRA), which allows owners to make contributions to accounts that are tax-advantaged. IRAs can be considered a defined-contribution plan, but are funded and controlled by individuals. Here are some key aspects of IRAs:

- Tax is deferred until money is withdrawn in retirement.
- IRA contribution limits are set annually. They’re indexed for inflation and typically increase in $500 increments. For 2022, the limit is $6,000.
- Catch-up provisions allow those over age 50 to contribute an extra $1,000 for a total annual limit of $7,000.
- IRA contributions are tax deductible, if the individual is not also covered by an employer-sponsored plan.

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Early account withdrawals are subject to a tax penalty. Exceptions are made for those who are disabled or buying a first home.

Like other retirement plans, RMDs begin at 72.

Simplified employee pension IRAs (SEP-IRAs) are designed for small business owners and their employees. Contributions to these accounts are tax deductible and are subject to rules similar to IRAs.

All remaining funds at death are paid to the named beneficiaries or rolled over to a beneficiary IRA.

Roth IRAs

Roth IRAs have similarities to traditional IRAs. There is a tax penalty for early fund withdrawals, and the annual contribution limits are the same for both types of accounts. However, there are differences:

- A Roth IRA account is funded with after-tax earned income. There is no income tax deduction.
- Earnings appreciate tax free and are not subject to taxation at the time of withdrawal, if the money has been in the account for at least five years.
- There’s no RMD mandate for a Roth IRA when a certain age is reached. Contributions can continue to be made, but they can’t exceed your earned income.
- Roth IRAs have participation restrictions for those who are high earners and exceed income limits.

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252 Ibid, 207-08.
253 Ibid, 208-09.
Benefit Payment Options
There are several ways to receive income at retirement. Here are the typical options:

- **Regularly scheduled payments.** Most people receive a monthly stipend if they participated in a traditional pension plan. If they have an IRA or 401(k), the interval of disbursements is made at the discretion of the account owner. If desired, payments can be received monthly.

- **Lump sum payment.** Some pension and other employer-provided retirement plans allow their employees to take a single upfront benefit payment when they retire. Since this payment would likely materially increase their taxable income for the year, the lump sum is usually moved to an IRA.

- **Rollover to an IRA.** When the lump sum payment from an employer’s plan is rolled over to an IRA, the funds continue to grow. Income tax is deferred until later as partial distributions are taken when needed.\textsuperscript{254}

The number of defined-contribution plans has grown significantly. In 2020, almost 60 million Americans had 401(k) accounts through their participation in about 600,000 different plans. All of these programs combined had a total asset value of $6.7 trillion. When breaking down the plans by individual account balances, account holders in their 40s

\textsuperscript{254} Ibid, 212.
with more than two to five years of plan participation had an average balance of $36,000. For those in their 60s with at least 30 years of participation, their account balances averaged $306,000. It’s evident that the longer the participation period, the more time there is for contributions and earnings growth, resulting in a much greater amount saved for retirement.\(^\text{255}\)

The IRA is also a popular savings vehicle. With 46 million IRA account holders, there are fewer Americans participating in this type of plan than 401(k)s. However, at $9.5 trillion, the combined asset value of all IRA accounts is larger than that of 401(k) accounts. A significant portion of this total asset amount is made up of retirees who have rolled over their 401(k)s into IRAs. Nevertheless, there are many Americans who have opened an IRA from scratch and have built a significant nest egg.\(^\text{256}\)

**The Best Time to Start Saving for Retirement is Now**

To prepare for the future, you need to take responsibility and plan for your retirement. You should not wait until you get a pay raise or all your debts are paid before you start saving. No matter where you are in your career, whether working in management or in an entry-level position, the best time to start investing is now. Not only are there tax


advantages which make it more affordable, you can also benefit from the power of **compound interest**.

The following illustration incorporates an annual 6 percent rate of return and shows how beneficial investing at an early age can be.

If you started investing $5,000 a year beginning at age 22, you would have amassed over $500,000 more by the time you reached the retirement age of 67 than if you started at age 32 and invested the same amount each year. The difference in outcomes is remarkable. Just a ten year earlier
start on saving for retirement can almost double the size of your retirement portfolio.  

**Compound Interest**
The concept of compound interest is so dynamic because it allows for the reinvestment of earnings on the principal plus any additional deposits. As interest is earned on top of a growing account balance, the balance can grow exponentially over time. Of course, the types of investments in your account and their performance will determine how much they compound and grow. But, the bottom line is the sooner you start investing for retirement through an IRA or 401(k) or some other type of plan, the more time you will have to benefit from compounding growth.

**How Much Should be Saved for Retirement?**
A good target is at least ten times your final salary. You never know precisely how much you will need for retirement because it’s unknown how long you will live and the costs you will incur. Even so, studies show the average senior needs 70 to 80 percent of pre-retirement income to live comfortably. Social Security will provide less than half that amount, and the rest must be made up through personal savings. Accumulating ten times your annual

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income takes a long-term commitment, but should produce the desired results.

Regarding how much you should spend, financial advisors often advocate for the **4 Percent Rule**, which stipulates only 4 percent of your personal savings should be withdrawn annually in retirement.\(^{259}\) Taking such advice into account, consider the following scenario:

- Final salary before retirement: **$60,000**
- Minimum annual income needed in retirement: **$42,000** (70% x $60,000)
- Average annual Social Security benefits: **$18,500** \(^{260}\)
- Annual income required from personal savings: **$23,500** ($42,000 - $18,500)
- Estimated total amount of savings needed for retirement: **$600,000** (10 x $60,000)
- Annual amount that can be withdrawn from savings in retirement: **$24,000** (4% x $600,000)

As the scenario shows, you should be able to live comfortably in retirement if you have saved ten times your final salary over your working life. With an ending salary of $60,000, it’s recommended that you will need at least 70 percent of that amount, or $42,000, in annual income in


retirement. Factoring in Social Security benefits, only part of the $42,000 income needs to be from your savings.

Applying the 4 Percent Rule, you can withdraw that much from your savings each year without diminishing its solvency. With a total amount of $600,000 saved for retirement, the annual withdrawal amount of $24,000 is $500 more than the minimum amount needed from your savings to maintain your standard of living.

The rule of thumb of saving ten times your final salary for retirement should be the base amount to plan and strive for as you save. You may not start your career earning $60,000, but there’s a good chance you will make at least this much someday. According to the U.S. Census Bureau, the median household income in 2018 was $63,179 and incomes tend to rise over time with the costs of goods and services. Consequently, it would be smart to consider a higher income level as the basis for projecting the retirement savings needed.261

How can you save this much for retirement? After all, $600,000 or more is a lot of money. Obviously, you will need to invest a portion of your paycheck throughout your career. As for the right amount, “the more the merrier” should be the adage to follow, but 10 percent of wages is a good target.

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Saving 10 percent throughout your career should provide adequate retirement security. If you averaged earning $60,000 annually throughout a 35-year career and saved $6,000 of that amount each year, you would accumulate just over $668,000 in retirement savings, assuming an annual 6 percent rate of return.  

Target: Save 10 percent every year

Withdrawing 4 percent of the $668,000 portfolio, in addition to your Social Security benefits, produces over $45,000 to spend annually in retirement. That’s roughly 75 percent of $60,000, which is right in between the estimated 70 to 80 percent of pre-retirement income you will need.


Of course, saving 10 percent of your earnings when you are just beginning your career can be difficult. With an entry level position and limited disposable income, paying off student loans may be among the competing priorities. While 10 percent is your target rate, at least begin your career by saving some amount and plan to increase your savings rate over time.

George Foreman, the former heavyweight boxing champion, said: “The question isn’t at what age I want to retire, it’s at what income.”

What if You are Falling Short of Your Goals?
If you are behind the curve when it comes to retirement savings, there are options to help make up ground:

- **Control your debt load.** Have a game plan to pay back what you owe creditors. When you have a payoff schedule and eliminate debt, more money is freed up to add to your retirement accounts.

- **Contribute more money to your 401(k).** Start by dedicating 1 percent more of your paycheck to your 401(k) account. Small steps should be much more manageable if you are on a tight budget. Then, if you get a promotion and have extra money to spare, defer an additional 1 percent with your next paycheck. You should try to repeat this process throughout your career until you reach or exceed a

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10 savings rate. A pay raise is a great time to dedicate more funding to your 401(k) account.

- **Fund your IRA.** You can have both an IRA and 401(k) account. If you do, the amount you contribute to your IRA may not be tax deductible, but the earnings can grow tax-deferred until withdrawn.

- **Take advantage of catch-up contributions.** Annual IRA contribution limits increase after you reach age 50. The same is true for 401(k) accounts, which already have high annual limits. Catch-up contributions provide a good opportunity to grow your nest egg.

- **Earn more income.** The extra income from pay raises, a new job or a side gig can be used for retirement savings.

- **Plan to work longer than the typical retirement age.** Prolonging retirement can allow your investments to continue to grow, instead of withdrawing funds and shrinking your account balances.²⁶⁵

### How to Invest for Retirement

After deciding to invest in an IRA, 401(k) or both, you need to decide on a strategy that maximizes growth but also limits unnecessary risk. Typically, when you are young, putting a large portion of your money in stocks makes

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sense, but you should periodically consider reallocating to more bonds the older you become.

There is a general formula used to determine the right portfolio allocation of stocks and bonds. Take your age and subtract it from 110. This number should match the percentage of your investments in stocks. For example, if you are 30 years old, 80 percent of your portfolio should be in stocks and the rest in bonds and cash. However, the formula should only serve as a guide, not a rule. If you have a low tolerance for risk at age 30, your stock investment share should be less, maybe much less, than 80 percent to fit your risk profile.266

Management and trading expenses affect the bottom line over time, so it is important to ensure they are competitive. Registered investment funds disclose their fees and expenses in documents they are required to provide investors. This allows you to evaluate and compare the fees of the funds you are considering.

Investment funds are either actively or passively managed. Actively managed funds operate under the guidance of expert investment advisors and generally charge higher fees. Most passively managed funds are designed to track the performance of an index like the S&P 500 and typically charge lower fees. Compared to purchasing individual

securities, both types of funds can provide a good way to diversify your investments.

When you are ready to retire, it takes a large portfolio to generate the income you need to maintain your standard of living, especially when interest rates are low. Starting to invest early in your career makes the mountain easier to climb. With a steadfast commitment to funding your retirement accounts, coupled with a solid investment strategy and a dedication to eliminate debts, you will have set the stage for a fun and prosperous retirement.
Success

American Dream

Financial Plan

Overcoming Challenges

Realizing Your Dreams

The Power of Financial Education
Chapter 15
ACHIEVING YOUR DREAMS

“We all have our own life to pursue, our own kind of dream to be weaving, and we all have the power to make wishes come true, as long as we keep believing.”
- Louisa May Alcott
American novelist

Financial education is powerful because of the transformational change it can have on your life. As your knowledge and experience grow, you’re able to make better choices with your time, talents and money.

Financial literacy is a valuable skill to have as you travel through life trying to improve your standard of living and maximize your potential. While there will be obstacles

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along the way, know-how and drive are strong forces that can fuel big ambitions and the means to achieve them.

Being hopeful about the future is also important. When coping with adversity, hope can be crucial to your physical and mental health. Plus, it leads to greater creativity and effort as you pursue your dreams.

Seeking the American Dream
The ideals of the American Dream have deep roots. In fact, you can trace the origins back to the Declaration of Independence. The national ethos is embedded in this statement:

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the pursuit of Happiness.

There are poignant examples of the nation falling far short of this moral standard in the past. However, the passage still stands as a beacon of hope to follow as the country strives for a more perfect union.

The United States is different from many other countries because our government structure and heritage are based on individual rights. As national archivist John W. Carlin stated, our civic, economic and political culture has been molded by “the Charters of Freedom – the Declaration that asserted our independence, the Constitution that created our government, and the Bill of Rights that established our liberties.” For more than two centuries, these documents
have provided the framework for American ingenuity that has led to remarkable innovations and exceptional economic growth.\textsuperscript{268}

James Truslow Adams introduced the term “American Dream” in his 1931 book \textit{The Epic of America}. The following is an excerpt that summarizes his views on the concept:

The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement... It is not a dream of motor cars and high wages merely, but a dream of social order in which each man and each woman shall be able to attain the fullest stature of which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position.\textsuperscript{269}

Everyone is free to set the personal criteria needed to live the American Dream. One size does not fit all. For many, owning a home, graduating from college and landing a good job are fundamental to realizing that dream. While power and fame are often viewed as icing on the cake, most see it as having enough resources to retire comfortably.


Fortunately, there are still Americans willing to serve society through public service. With educators wanting to teach the next generation of students, health care professionals dedicated to helping the sick and injured, and members of the armed forces standing at the ready to defend our nation, serving a cause greater than oneself for some is an essential part of fulfilling their American Dream.

The Statue of Liberty has long been a symbol of freedom and a guiding light to people from around the world. By a large margin, the United States has more immigrants than any other country. There are a number of reasons for this fact, including the desire to escape oppression and the better economic opportunities that are available.\textsuperscript{271} Upward mobility and favorable outcomes are not guaranteed, but grit and persistence contribute significantly to the level of success achieved.

**Personal Financial Plan**

Realizing your dreams starts by setting obtainable goals. For example, you might want to save enough for a down payment on a home. Once this major goal is set, a course of action needs to be developed to fulfill it.

An analogy underscores the importance of having a personal financial plan. Investing without one is like building a house without a blueprint; the probable outcome is a home that is substandard and unstable. Similarly, the odds of long-term financial goals being met are more likely with a carefully developed plan of action rather than simply hoping things work out.

Every plan should include the following:

- **A list of specific objectives.** Saving for retirement is a common reason to invest, but there will be other

objectives to save for along the way. Educating children, caring for aging parents and buying a home all have different timetables. Your investment strategy should be tailored for specific events to ensure money is available when needed.

- **Risk management.** Risks are inherent when investing. Managing the uncertainties associated with your portfolio includes diversifying among different asset classes, such as stocks and bonds. The right mix for you depends on your risk tolerance, time horizon and experience.

- **Realistic expectations for investment returns.** An aggressive investment strategy provides higher potential gains, but is susceptible to greater market volatility and the loss of money. A more conservative portfolio invested in lower risk securities offers less upside, yet typically provides more consistent returns. Market conditions and your liquidity needs will vary over time. As your investment approach changes, so will your results. Setting realistic expectations is important as you plan for the future.

- **Insurance coverage for protection.** Purchasing insurance is necessary to safeguard your home, car and other assets. As your net worth increases, having sufficient liability coverage becomes critical since you have more to lose if sued following an accident. An umbrella liability policy can help cover a broad range of incidents that could occur.
• **A tax strategy.** Staying up-to-date on tax issues is part of strategic planning. Having a relationship with a qualified tax professional can be helpful as you consider significant financial decisions. A sensible approach is to ask questions for the upcoming year during your meetings to review and file your taxes. Some example questions are: What is the capital gains rate? Has the standard deduction changed? What are the contribution limits for the retirement accounts you own? The answers to these types of questions can be useful as you plan for the year ahead.

• **An estate plan.** Creating a will and trust that directs how your wealth will be distributed after you pass away is advisable, especially if you build a substantial net worth during your lifetime. A durable power of attorney can also be created to ensure your medical wishes are carried out if you become incapacitated. Designating who should be given authority to make financial decisions on your behalf, if it becomes necessary, is worth your consideration.\(^{272}\)

Having a financial plan that encompasses these topics will help you achieve your goals and provide a financial legacy to your family that will enhance their lives. While making a good living during your career is integral to reaching your goals, planning for the future is equally important.

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objectives, having a plan that’s aligned with your values also matters.

Values represent things you hold in high esteem, including your beliefs and morals. Most people have ambitions that reflect what they want to achieve in life. However, their ambitions are not necessarily linked to their strongest personal attributes or values.

Values reveal the reasons behind the goals. For example, if your goal is to make more money, what is the reason? Potential answers include to buy more things, increase your financial security or support other people in your life.273

“\textit{When values, thoughts, feelings, and actions are in alignment, a person becomes focused and character is strengthened.}”

\textbf{-John C. Maxwell}

\textit{American author & pastor}

It’s widely believed people who live and work according to their values have more fulfilling lives. In contrast, the way

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of life for the dispirited is often inconsistent with their values. Designing a life plan that incorporates your values should not only be satisfying, but provide the motivation needed to ensure your goals are met.

An example of two different people presented with a skydiving opportunity illustrates their values and how it might be perceived. The first skydiver treasures adventure and excitement. The experience would complement his values and likely be not only enjoyable but worth significant preparation. The second skydiver prefers safety and security. If she completes the jump, the experience would probably be unnerving and defy her values.\(^{275}\)

\[\text{Tandem Skydiving}\]


The same lesson can be applied to work. Suppose a busy executive has to frequently travel out-of-town for work, but he highly values spending time with family. While his career may be financially rewarding, he’s unlikely to be truly content since his life-work balance contradicts his values. Over time, the imbalance stifles his enthusiasm and job performance.

By the same token, suppose there’s a couple where the wife values saving and living modestly and her husband prefers a lavish lifestyle uninhibited by financial concerns. As the husband spends more than the couple earns and takes on large debts, the wife becomes stressed out since his behavior contradicts her sensible values.

Understanding your values and those of others close to you is important. Compromises will probably be required if one person in the relationship wants to save for a rainy day and the other wants to live for the moment. Openness and transparency often prevent unwelcomed surprises as you collaborate to make financial resolutions and work together to achieve them.

Since values represent important things in life, they serve to increase your desire to succeed. As you focus on them, it becomes easy to spot separation between your values and current choices. This increased awareness may call for taking corrective action to better align your priorities.\(^{277}\)

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Overcoming Challenges

There will be peaks and valleys in your life’s journey. Sometimes you will think you have everything under control, and then suddenly things will go wrong and break. Major setbacks can be stressful from both a personal and financial perspective. Working through difficulties and developing a course of action to move forward is the way to get back on track to living your dreams. Below are some ways to deal with challenging circumstances:

- **Ask for help.** There is nothing wrong with asking for advice from your friends and family. Having conversations with people you trust and sharing your concerns with them should be helpful as you work through a hard situation.

- **Accept reality.** Ignoring your problems will not make them go away. In fact, stockpiling negative energy can be harmful to your well-being. Writing down your major issues can be therapeutic and lead to discovering the best path forward for your life.

- **Be persistent.** Refuse to give up as you face challenges and strive to overcome them. Forge ahead from setbacks with courage and tenacity. A memorable phrase coined by the British government in preparation for World War II was “Keep Calm and Carry On.” This often repeated phrase helped those living in the United Kingdom cope with the darkest days of war and is still used today on both sides of the Atlantic Ocean.
• **Think of others in need.** It has been said, “We make a living by what we get, but we make a life by what we give.” If you know someone else going through a similar situation, consider reaching out to them and offering your moral support. Thinking of others can be mutually beneficial.

• **Stay positive.** According to author and motivational speaker Zig Ziglar, “Positive thinking will let you do everything better than negative thinking will.” Whatever situation you encounter, you control how you respond to it. Attitude is everything. Depending on the nature and significance of the setback, it may take some time to have a favorable disposition. Having said that, making an effort to stay positive will likely lead to better relationships at home and work.

• **Live with confidence.** It is quite natural to feel demoralized following hard times because there is always a chance things could get worse, an outcome that could expose you to even more frustrations and criticism. Don’t let critics define you or discourage you from pursuing a better life. Move forward with confidence.  

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President Theodore Roosevelt was known for his strong personality and views which invited his fair share of detractors. A passage from one of his most famous speeches provides words of encouragement for those facing criticism while trying to make a difference.

It is not the critic who counts... The credit belongs to the man who is actually in the arena; whose face is marred by the dust and sweat and blood; who strives valiantly... who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory or defeat.\(^\text{280}\)

The following highlights the real-life story of a man who defied the odds and achieved financial freedom. Because he greatly valued providing a stable upbringing for his son, he was willing to go the extra mile to achieve his dreams.

**Meet Chris Gardner**

In the early 1980s, you might think Chris Gardner was just another young and ambitious professional seeking to build a promising career in finance. Yet, his path to that point was certainly atypical and challenging. Growing up poor and in and of foster care, he didn’t know what he wanted to do with his life. Even so, he knew he wanted to be successful.

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A few years after leaving the Navy and working as a research lab assistant, Chris was at a crossroads. A drastic change was needed to improve his station in life. One day he noticed an expensive red Ferrari passing by and was mesmerized. He asked the owner what he did for a living. After finding out he was a stockbroker, a lightbulb went off and his career ambitions were set.

With much persistence, Chris earned an invitation to Dean Witter’s selective broker training program. He started out earning a modest income and had trouble making ends meet in the high cost-of-living city of San Francisco. However, Chris’s situation was even more complicated. Not only was he a single father of a 20-month-old son, he was also homeless.

In that first year, Chris couldn’t afford both day care and a place to live. He and his son slept at night wherever they could find shelter – from cheap hotels and churches to under his office desk. They even once stayed in a rail station bathroom. Chris not only wanted to have his own place to call home; he wanted to be wealthy. At Dean Witter and later Bear Stearns, he made working hard a habit. Chris would make 200 cold calls a day trying to reach prospective clients to open accounts. He knew having a significant client base was the ticket to a lucrative career. He said, “Every time I picked up the phone, I knew I was getting closer to digging myself out of the hole.”

Chris was very good at getting clients and managing their investments. After five years, he founded his own
brokerage firm named Gardner Rich. Chris remained low-profile until a local news station aired a segment about him. This caught the attention of ABC and led to an interview on the program 20/20. After the televised interview, national interest in his story grew.

Even a movie based on his life was made. Truly inspirational, *The Pursuit of Happyness* earned many accolades and was a box office hit. In spite of its success, Chris is most proud of the message it sends to others working everyday to achieve their aspirations. Anything is possible with the “Gardner gospel of persistence, progress and faith.”

**Five Steps to Help You to Achieve Your Dreams**
As you think about your future possibilities, there are practical steps to take that will help you realize your dreams:

1. **Control Spending**
   Being careful with your money is important. Limiting expenses will allow your paycheck to stretch farther. When making purchases, go for the best deal based on research instead of making snap decisions.

2. **Manage Credit Card Debt**
   Using a credit card is not necessarily a bad thing. Many cards offer cash and other rewards for purchases, but they

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must be handled responsibly. Ideally, you should set up automatic monthly drafts to pay your bills in full. This prevents debt accumulation and interest charges, while still allowing you to participate in the rewards program. If you have credit cards with unpaid balances, priority should be placed on paying off the ones charging the highest interest rates.

3. Set Up a Rainy Day Fund
At least one month of living expenses should be set aside for a rainy day. Rather than having to increase your credit card balances, this money can be accessed for car repairs or other unexpected expenses. Clearly, it would be better to have three to six months of living expenses put away in savings in case of a job loss or an emergency.

4. Prepare for Retirement
It’s never too early to start saving for retirement. When you become eligible at work, begin participating in your employer’s plan and don’t stop until you retire. It’s best to contribute as much as possible, but the minimum should be the amount needed to receive the full employer match in order to avoid leaving money on the table. In addition, there are tax-advantages when investing in a qualified retirement plan.

5. Use Best Practices
Incorporating best practices into your daily life is a worthwhile endeavor to pursue. When good financial and fitness habits are a part of your regular routine, they can lead to impressive results over time.
The Power of Financial Education

Financial education is powerful because of the positive influence it can have on your life. As your understanding increases, so does trust in your abilities to engage in financial markets. Knowledge and confidence are critical attributes for making wiser decisions with your money.

Small daily victories accumulate over time becoming instrumental in believing that your vision for life is possible. When personal assets grow and financial worries fade, the landscape of your life changes. On the horizon are open roads to travel as you pursue your hopes and dreams.

Treasurer Randy McDaniel

Randy McDaniel is the 19th State Treasurer of Oklahoma. He directs the investment and management of state funds and is a leading voice for sound fiscal policy. His duties include administering the state’s unclaimed property program and chairing the Oklahoma College Savings Plan Board. He also serves on the National Association of State Treasurers (NAST) Foundation Board and chairs the NAST Financial Education & Empowerment Committee.

After receiving a bachelor’s degree with honors from the University of Oklahoma, McDaniel earned a master’s degree from Cambridge University before starting his career in banking. He was a successful financial advisor for more than 20 years and holds a Certificate in Public Treasury Management from the National Institute of Public Finance.

McDaniel served for 11 years in the Oklahoma Army National Guard, where he rose to the rank of Captain. He was also elected to the state House of Representatives for six terms and served as chair of the Banking, Financial Services & Pensions Committee.

He and his wife, Julie, have two children: Grace and John.