Creative
wealth maximization strategies*

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Your Employer as Financial Counselor?

When two very disparate news sources identify an emerging trend in the same week, there must be something to it, right? Well, according to the trade publication *Employee Benefit News* and the national newspaper *Wall Street Journal*, here's the scoop:

Human Resources experts have concluded that the inability of employees to manage their personal finances negatively impacts a company's performance. Research suggests employees under financial strain are less productive, more likely to miss work, and have shorter job tenures. A 2014 survey of over 40,000 workers in the U.S. and Puerto Rico found that nearly 80% saw themselves as being under "moderate or high levels of financial stress," (April, 8, 2015, *WSJ* article) - that's a lot of lost productivity. To address this challenge, a number of employers are copying the format of physical-wellness programs, with HR departments offering "financial health" services and incentives for participation.

Megan Yost, a "participant engagement" executive for a company that provides administrative services for retirement plans, told *EBN* in an April 1, 2015, article that "Employees are experiencing a lot of stress related to managing their finances. One of the big themes we're seeing in the benefits space is taking a more holistic look at financial planning, generally toward financial wellness."

Typical financial wellness offerings are self-evaluations, retirement planning workshops, finance classes, and individual counseling sessions. While most of these programs address the fundamentals of personal finance, some companies may include customized options for their unique workforce. Examples: classes on foreclosure, assistance with medical and property insurance claims, even in-house videogames that encourage budgeting, paying down debt or saving for retirement. Spouses are also encouraged to participate, and many programs reward employees with additional prizes or benefits for completion (one company lowers out-of-pocket health insurance premiums for participants who accumulate enough financial-wellness points).

A big issue in these financial-wellness programs: Helping employees get a handle on personal debt. In the *EBN* article, Annamaria Lusardi of the Financial Literacy Center declared that debt management and retirement savings go hand in hand: "Employers who help employees manage their current debts will enhance the ability of those employees to make contributions to retirement in the future. For many people, it might be important to first address other savings needs before contributing to a retirement savings account."

Can Companies Solve Workers' Money Woes?

That was the title of the *WSJ* article, and it's an interesting question. This rise of financial-wellness offerings by employers is, **in part, an attempt to offset other forms of financial security many companies no longer provide for their employees.** In the heyday of the American worker after World War II, the expectation of steady employment and a lifetime pension mitigated against a lot of financial stress; "financial planning" was simply showing up for work for 30-40 years, paying your bills, and fishing a pension check out of the mailbox each month. **But globalization and technology have made it almost impossible for most companies to provide job security or a vested retirement.** Today, employees are

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much more on their own – and often ill-equipped for the task. In theory, financial wellness programs can aid individuals in making better decisions, and staying on a track that leads to financial success.

There are some concerns and criticisms. Participants may be uneasy providing their personal financial information to company-sponsored counselors. While directors of these programs insist the financial information is confidential, there is a concern that an employer might become aware of personal financial situations – such as a low credit score or bankruptcy – that could affect promotions or raises *("Do we really want to make Dave the new business manager? I heard he doesn't even pay his own bills!")*

Some employees see the financial-wellness programs as a cynical ploy by employers to avoid increasing compensation, while reinforcing individual responsibility. As one employee put it, "Want to relieve my financial stress? Just pay me more money." Another participant in a program reviewed by the *WSJ* felt the programs implied that an employee's money stress was more likely a personal management problem: simply "budget better, you'll have more money."

Yet initial assessments also suggest financial wellness initiatives have a positive impact – at least for employers. A post-program survey of 2,500 publishing house workers found that "88% of workers who reported less money stress used no sick time last year, a figure that was 10 percentage points better than for those with higher levels of money stress."

Yeah, You Could Probably Use a Financial Wellness Checkup

While some employees may have qualms about being nudged/pressured to participate in company-sponsored financial wellness programs, there are good reasons to think the actions embodied in them are beneficial for employees.

Surveys conducted in 2014 by Greenwald & Associates identified two critical components for a successful retirement. The first involved the completion of basic planning tasks: preparing a written budget and formal financial plan, developing a specific investing strategy and somewhat surprisingly, owning more than $100,000 in life insurance. The second component was professional assistance. Of those who scored highest in retirement preparation and satisfaction, 81% had worked closely with a financial professional.

Getting employees to recognize debt as an impediment to retirement saving is also relevant. Incentives such as tax deductions and employer matches can make a persuasive case for employees to invest in the company 401(k), but other issues ought to be considered as well. In the big picture, does an 8 percent annual return in a retirement account offset 18 percent interest charges on outstanding credit card debt? **If employees find they have to borrow from their qualified retirement plans, then repay the loans with after-tax dollars, it negates much of the tax advantage that prompted them to participate. In the long run, an integrated approach to personal finance promises better outcomes.**

And if nothing else, a regular financial check-up provides a measuring stick of your progress (looking forward or backward). Periodic assessments are often the catalyst for adjustments, or the chance to consider new opportunities.

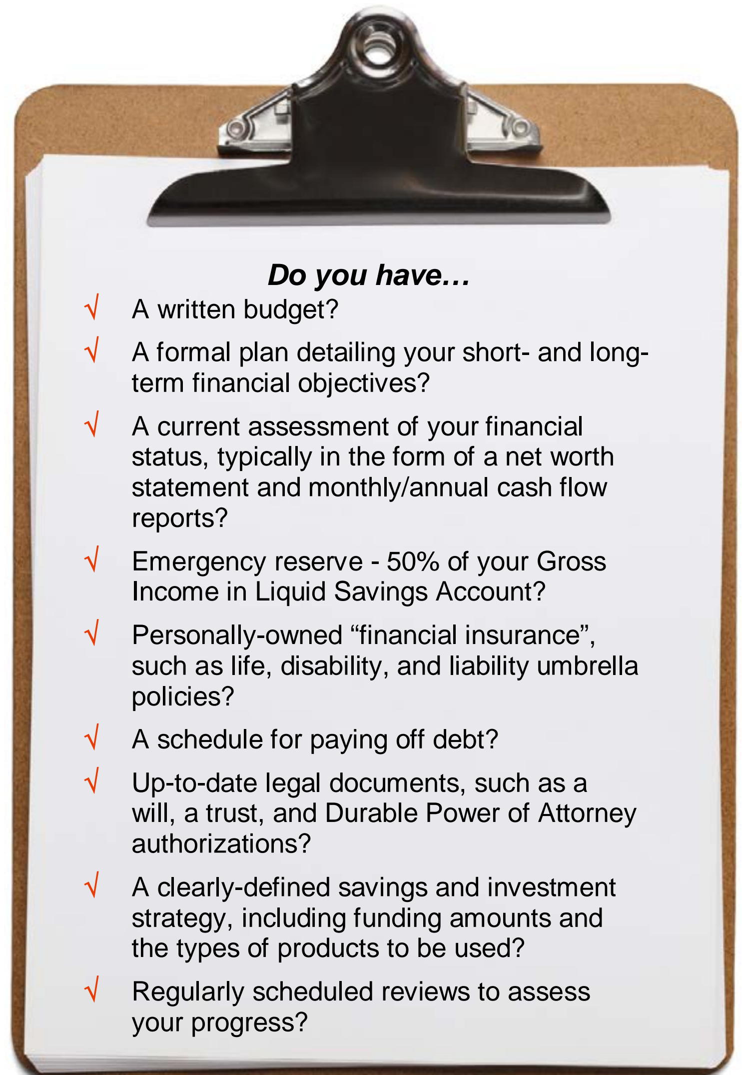
The Next Step: Your Own Wellness Program

While company wellness plans can go a long way toward helping individuals develop a holistic approach to personal finance, the assistance from company programs is inherently limited to the education and resources offered by one's employer. If you're really interested in maximizing your financial fitness and achieving your goals, **you might be better served by selecting a financial professional whose services and philosophies are the best match for your situation.**

A personal financial wellness program is not only unique, but portable. Change jobs, move, or retire, it can stay with you – and change as you do. ❖

Here's a short list of financial wellness objectives culled from various sources. Even though the items are pretty basic, it's rare for financial households to get a perfect score. How do you rate?

Your Own Financial Wellness Checklist



Do you have…

- √ A written budget?
- √ A formal plan detailing your short- and long-term financial objectives?
- √ A current assessment of your financial status, typically in the form of a net worth statement and monthly/annual cash flow reports?
- √ Emergency reserve - 50% of your Gross Income in Liquid Savings Account?
- √ Personally-owned "financial insurance", such as life, disability, and liability umbrella policies?
- √ A schedule for paying off debt?
- √ Up-to-date legal documents, such as a will, a trust, and Durable Power of Attorney authorizations?
- √ A clearly-defined savings and investment strategy, including funding amounts and the types of products to be used?
- √ Regularly scheduled reviews to assess your progress?

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percentage. And for most Americans, those transportation costs include the operation of one or more automobiles. Because reliable transportation is an essential aspect of American life, and vehicles need to be replaced on a regular basis, automobile purchases have a significant impact on transportation costs, and by extension, one's overall financial picture. While some financial experts have strong (and inflexible) opinions about what constitutes a "good" automobile purchase, there are reasonable arguments for a variety of approaches to owning or leasing a car.

Why New Car Prices Outpace Inflation

Smart decisions about automobiles are critical because the cost of owning or leasing a car has been increasing at a rate faster than inflation. In an October 17, 2014, *Forbes* article, Alex Taylor noted that when Ford introduced its original Mustang coupe in 1965, its base price was $2,247. Adjusted for inflation, that equated to $18,326 in 2014. Yet the price of a 2015 Mustang (on the market in fall 2014) was $23,600 – an increase of almost 30% over the inflation-adjusted 1965 price. The Mustang wasn't alone in having a 2015 sticker price higher than its inflation-adjusted number from an earlier era. Taylor reported an Edmunds.com survey showed similar above-inflation increases for other models, in a range between 15 and 30 percent.

At first, this increase above inflation seems counter-intuitive; in real dollars, the price of many big-ticket consumer products has dropped over the past 50 years (think televisions and computers). Why should cars go up? A primary factor in the price disparity is that 1965 cars and 2015 models are not an apples-to-apples comparison.

Today's "basic" automobiles are far superior to luxury automobiles of 50 years ago. They are safer, they handle better, get higher gas mileage, last longer, and are more comfortable to drive. But many of these upgrades have been government-mandated, rather than market-driven; ***all*** automakers had to make these improvements, even if they couldn't figure out how to do it affordably. And since (almost) ***all*** Americans need new vehicles on a regular basis, they have to pay for the compulsory changes. In terms of safety and quality, consumers get a better car, but they also pay more for it. And with more stringent regulations looming, it is expected that the "better" cars that result will continue to push price increases steeper than inflation.

The Consumer Response:
Driving Longer, Financing Longer

Consumers have adjusted in two logical ways to driving better, more expensive cars. They don't replace their vehicles as often, and when they do, they extend the payment periods.

A May 26, 2014, *Cleveland Plain-Dealer* article cited statistics from the U.S. Bureau of Labor and Statistics which found the average age of vehicles in American households was more than 11.3 years in 2012, up from 10.1 years in 2007. Currently, less than 15% of operational automobiles in the U.S. are less than 5 years old.

Longer finance terms have coincided with longer operation periods. Research from a March 6, 2015, edmunds.com article found that since 2002, the average car loan term has slowly crept past five years, and is now inching past six-and-a-half years; that's 78 months. In 2014, 62% of auto loans were for terms over 60 months, and nearly 20% were for 73- to 84-month terms.

The Personal Finance Gurus:
Wailing and Gnashing of Teeth

These trends, and the outsized impact of transportation on family budgets, have prompted a range of responses by personal finance experts. Because of the steep depreciation that occurs in the first year of a car's life, the first mantra of the "frugal money" proponents is to always buy a used vehicle. The second is to pay cash (which also means continually "saving ahead" to buy the next car). A third guideline is the purchase price should not exceed 10% to 15% of gross household income – e.g., a family with $150,000 in gross income should buy a $15,000 to $22,500 car.

But as car prices (new and used) keep rising faster than inflation, many people have a tough time saving for the first car – and they need transportation now. Financing is their only recourse. This necessity produces another set of purchase guidelines, such as the 20/4/10 rule of thumb: A down payment of approximately 20%, a finance term of approximately 4 years, with a vehicle price of approximately 10% of a household's gross income.

From a financial perspective, these parameters make sense. Shorter loan terms usually have lower interest rates, and tying the price to a percentage of income should result in affordable monthly payments. And if the car remains operational beyond the loan period, the expired monthly payment obligation could be saved, perhaps allowing for a cash purchase of the next car. The premise is logical.

But when the average price of a *new car* is over $31,000, the only people who should be buying new cars under these rules are those with "1-percenter" incomes. And there is a "trickle-up" effect for used cars: The National Auto Dealers Association reported the average selling price for *used cars* in 2014 was $16,025, a record high. Using the 10% standard, very few Americans should buy an average used car. These realities make "ideal" car purchases a challenge for many consumers.

On the Other Hand…

Transportation costs aren't just about a car's price and/or monthly payments. Fuel, insurance, and maintenance also figure in the equation. A new car with better gas mileage and a warranty may be cheaper to operate, even if it costs more to purchase.

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And financial certainty is another consideration. A used car may have a lower purchase price, but typically incurs higher repair costs. How much higher? Consumers have to subjectively evaluate this possibility. For example: Is a $500 monthly payment for a new car with a strong warranty better than a $350 payment for an older vehicle with potentially higher repair costs? You know you can afford $500/mo., but might have a hard time paying a $2,500 repair bill along with $350/mo.

Leasing presents an even higher degree of certainty. It's a vehicle under warranty, with a mileage restriction and the option to return it to the dealer or buy it at a pre-determined price at the end of the lease. There are few financial unknowns.

And paying cash may not always be the best choice, even if you can do it. Current 60-month auto loan interest rates are around 3%, and slightly higher for longer terms. Dealers occasionally offer zero percent financing to qualified buyers (like those who could pay cash). Suppose you are saving regularly, and have the resources to pay cash. If you had an accumulation account earning 5%, would it make sense to liquidate it for the purchase, or keep the funds invested, and make monthly payments?

Next Time

Vehicle purchases are becoming a progressively larger piece of the transportation allocation. And chances are, there's another vehicle transaction in your near future.

When you walk onto a car lot, the first question the salesperson often asks is "What are you looking at as a monthly payment?" That's a question that skips past most of the important issues that shape a good purchase decision. **Next time you are in need of purchasing a car, find out all of your options – cash, finance, lease, or a combination. Call me before you buy to discuss your options.** ❖

Here's an arbitrary, unofficial definition of an expert: **A person who believes he is smart enough to tell others what they should do.**

Why Don't Americans Protect Their Human Capital?

And there's a corollary: **Non-experts resist being told what to do by experts.**

For the last decade, insurance experts have been in a lather. Because the non-experts aren't paying attention. Here's an April 4, 2015, commentary from personal finance writer Jonathan Clements:

> (A)ccording to the Social Security Administration, 68% of private-sector workers don't have long-term disability insurance, which would provide them with income if illness or injury prevented them from working—and Social Security pays such benefits only in relatively dire circumstances.

DO YOU HAVE A PLAN FOR YOUR NEXT TRANSPORTATION PURCHASE?

> Meanwhile, financial-services trade association LIMRA says American adults have an average of $167,000 in life insurance coverage. That is barely three times the median household income, while one rule of thumb suggests that those with financial dependents need at least fifteen to twenty times your gross income.

Numbers from a decade of studies indicate the same thing: fewer Americans own life and disability insurance. While no insurance is perhaps more important to their long-term financial well-being than life and disability protection, it appears the message is falling on deaf ears. What's going on?

Several obvious thoughts come to mind: First, no one gets excited about discussing a career-ending accident, a terminal illness or a sudden death. Second, individuals under-estimate the risks. They know that disabilities happen, and people die young, but "it won't happen to me." So who wants to hear from an expert about a depressing possibility that probably won't happen?

Those observations are legitimate. But there's another possibility: A whole lot of Americans have never had a face-to-face, personal conversation with a knowledgeable insurance professional. Instead, they get a lot of general information, often via an impersonal Internet connection, from sources that most often are not reliable and non-scientific.

How "Comprehensive" Financial Service Sometimes Skips over Insurance

Thirty years ago, there was a clear distinction between insurance and investment companies. Insurance companies helped protect human capital, and investment companies helped grow it. Today, in a desire to provide one-stop financial services, most investment companies also sell insurance, and many insurance companies have subsidiaries that sell investments. The financial professionals that work with these "comprehensive" financial companies have the credentials to discuss and implement both insurance and investment strategies.

But it is less likely that these multi-credentialed representatives are truly well-versed in all areas. And quite often, that means consumers never really have an expert conversation about life and disability insurance.

The August 2013 issue of *Financial Advisor* uncovered some startling numbers to support this assertion. In a June 2013 survey of multi-credentialed financial professionals by Saybrus Partners, a life insurance consulting firm, a significant number of "full-service" professionals said they put minimal effort into discussing or implementing insurance programs for their clients. Among the findings:

- **30 percent** of insurance-licensed advisors did not regularly provide life insurance to their clients.
- **49 percent** said life insurance distracted attention away from their regular business.
- **17 percent** said they didn't sell life insurance because it was too complicated.
- **25 percent** felt the "abundance of paperwork required to issue a policy" was too burdensome.

In general, "People in the financial planning business tend to gravitate more toward the investment piece and away from the insurance piece," according to Kevin Kimbrough, a Saybrus manager. "When we look at what's the holdup, it seems that advisors don't have the confidence to do life insurance successfully with their clients, so they kind of skip over it."

> All financial productivity comes from ***human action***.

It All Starts with Human Capital

There is an understandable tendency to measure wealth by account balances and property values, and to consider wealth-building as a process of judiciously allocating these assets. But **the critical element in all wealth-building activities is human capital.** People – through their ideas, skills, labor, and management – create wealth; all financial productivity comes from human action. And when human capital is absent, wealth disappears. An empty home becomes a rotting shell, a stack of $100 bills in a shoe box eventually turns to dust.

The value of life and disability insurance is that it protects one's human capital, and in the event of a tragedy, preserves it or allows it to be passed on to someone else. When consumers truly understand the value of their human capital, their only issue is determining how best to obtain this protection. And that's when consumers really need some knowledgeable assistance.

Finding a Guardian for Your Human Capital

Your human capital is the key ingredient to achieving your financial objectives. Life and disability insurance can protect your human capital, but getting the best protection almost certainly means working with someone who specializes in these strategies and products. And a "comprehensive" financial professional may not be the best choice for the task.

Guardians of human capital are financial professionals who devote a significant portion of their work to presenting, implementing and maintaining life and disability insurance programs. They may have professional designations such as Certified Life Underwriter (CLU) or Chartered Financial Counselor (ChFC), but a designation does not necessarily indicate a focus on life and disability insurance – you have to know what they do.

In addition to knowing the professional's practice emphasis, it may also be helpful to identify the expertise or specialties of the office or company with which they are affiliated. Knowing one expert is good, knowing where you can find more is better.

In the financial services industry, there's a lot of controversy about how financial professionals should title their activities, and what licenses and credentials they should hold. As the insurance and investment professions cross-pollinated, the title "insurance agent" often was recast to something like "wealth creation expert" or "estate planner." Regardless of the title, consumers should be looking for someone who has the commitment and knowledge to protect their human capital. Have you had an in-depth conversation with someone who knows enough about life and disability insurance to tell you what to do to protect your human capital? ❖

WHO IS THE GUARDIAN HELPING YOU PROTECT YOUR HUMAN CAPITAL?

When the notorious mid-20th century thief Willie Sutton was asked why he continued to rob banks after repeated prison sentences, he reportedly answered, "Because that's where the money is."

Apparently, some modern-day Suttons have concluded the Internal Revenue Service is the new destination for taking other people's money. Brazenly presenting themselves in phone calls as IRS officials, these criminals threaten lawsuits, arrests, and asset seizures unless the startled respondents make immediate payment.

This scam has rippled across the country in various forms since October 2013. The following is a transcript from a message left on the office phone of a financial professional in Michigan on April 6, 2015. An automated text-to-speech converter said:

> **"Hello…**
>
> **"We have been trying to reach you. This call is officially a final notice from IRS, Internal Revenue Services. The reason of this call is to inform you that IRS is filing lawsuit against you. To get more information about this case file, please call immediately on our department number 347-762-3991. I repeat…347-762-3991. Thank you."**

Some additional info:

- The professional's 85-year-old father, who lives in the same city, received an identical call the next day. Both calls were made to land lines, not cell phones.
- An Internet search of the phone number indicated a New York City location, along with links to several message boards where hundreds of people reported the same message.
- The forum messages for this number began on April 6, 2015, and ended about April 8, 2015. Caller ID indicated the message originated from a different number, but one that was masked or nonsensical (i.e., too many numbers, non-existent area code).
- The slightly fractured grammar hints at an overseas operation, and the IRS says it suspects many of these calls may originate outside of the United States.

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A March 2015 IRS BOLO ("Be on the Lookout") notice said scammers typically demand payment with hard-to-trace prepaid debit cards. Victims load a card from their bank accounts, then are instructed to read the card numbers to scammers over the phone.

The IRS estimates more than 3,000 people have sent over $15.5 million, mostly in amounts around $5,000. But one unfortunate mark sent $500,000. Timothy Camus, a deputy inspector general whose office (Treasury Inspector General for Tax Administration) is tracking this scam, even received a call at his home. "The criminals do not discriminate," he told CNN, "they are calling people everywhere, of all income levels and backgrounds."

IRS Contact Protocol

One of the reasons this scam works is because many people have limited experience with communication from the IRS – while being somewhat terrified of the possibility. Because they dread the prospect of an audit and potential penalties, they prefer not to interact with the IRS. This ignorance makes them easy prey. But knowing a few essential facts can make consumers less vulnerable.

- According to Camus, "The IRS does not initiate contact with taxpayers by telephone. If you do owe money to the IRS, chances are you have already received some form of a notice or correspondence from the IRS in your mailbox."
- The IRS never demands payment by debit card, credit card or wire transfer. ❖

Many of the victims panicked, had no one to contact for assistance, and acted out of ignorance. If they had asked a broker, banker, accountant, attorney or other financial professional for advice, it's quite possible that someone would have known about or uncovered the scam and helped them avoid the theft.

This situation is another strong argument for establishing a network of financial professionals.

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