NEWS REVIEW

The Heartland Institute Of Financial Education
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Financial Education Needs to Start Early

Arizona Pathways to Life Success for University Students (APLUS)

National Endowment For Financial Education, Aug. 2014

STUDY FINDS COLLEGE GRADS CONFRONT ROCKY TRANSITION TO SELF-SUFFICIENCY

Diverse Challenges Impact Young Adults' Financial Well-Being

TUCSON, ARIZONA—The majority of young adults are struggling to achieve financial security in their transition from college to adulthood, according to the latest report from a longitudinal study. Now in its 6th year, *Arizona Pathways to Life Success for University Students (APLUS)*, an investigation at the University of Arizona that follows young adults from their college years to the workforce, is discovering how this time of passage affects financial attitudes, behaviors and overall well-being.

New findings from Wave 3.0 of APLUS, co-funded by the Citi Foundation and the National Endowment for Financial Education® (NEFE®), show that 50 percent of the more than 1,000 participants continue to rely on their family for financial support after finishing school—including nearly half (49 percent) of those who are employed full time. Researchers note that it's this financial instability that is interfering with young adults' ability to achieve financial goals such as paying off student debt, making major purchases, buying a home and saving.

"Taking on part-time jobs, borrowing for graduate school and living at home make sense in a tight labor market. But how long can parents fill the financial gap for their grown children before it impacts their own financial security? Our research suggests that young adults may not be the only ones postponing their goals for financial reasons," says Joyce Serido, principal investigator with APLUS.

In their struggle to achieve self-sufficiency, young adults are redefining expectations which were long thought of as traditional goals. Many participants (28 percent) reported that marriage and having children (27 percent) were not important life goals; 19 percent feel home ownership is unimportant and 16 percent rate living on their own as irrelevant.

"The APLUS survey offers powerful insights into the factors that shape financial attitudes and behavior as young people strive to meet the demands of adult life," says Daria Sheehan, senior program officer with the Citi Foundation. "These findings reinforce the importance of building sound money management skills early in life that translate into positive financial behaviors like achieving short and long-term financial goals, selecting appropriate financial products and making choices that lead to greater financial security and help people deal with life's financial challenges."

The Chronic Impact of Debt

Total outstanding student loan debt in America has surpassed the $1 trillion mark—outpacing credit card debt and auto loan debt. And although those who have secured full-time work rate their financial life satisfaction higher compared to other study participants, debt among young adults remains a crushing obstacle. The APLUS study finds 17 percent of participants employed full time and 19 percent of part-time employed rate their financial well-being lower. But the dissatisfaction with the quality of financial life climbs to 31 percent for those who are unemployed. Also, debt is associated with 4 percent, 8 percent and 10 percent lower overall life satisfaction among those same groups respectively.

"We designed APLUS to study how financial attitudes and behaviors are affected by changing social and economic conditions," says Soyeon Shim, original principal investigator with APLUS. "But the force of the 2008 financial earthquake disrupted the financial lives of these young adults in ways that no one could have foreseen."

The Silver Lining of Cumulative Education

Reinforced through the new APLUS report is that financial education is a lifelong process. As personal and external circumstances change, individuals and families must continually adapt their financial knowledge, skills and behaviors to maintain high levels of capability.

"We know that an introduction to financial education, particularly in high school and even earlier, is critical. But what APLUS has reinforced is that this education needs to be embedded more in the financial decision making process," says Ted Beck president and CEO of the National Endowment for Financial Education. "That early education is like an inoculation, but you need to have booster shots along the way. As an industry, we need to improve methods to provide financial education interventions continuously throughout one's life."

During Wave 3.0, APLUS researchers noted that participants could be classified into one of three distinct pathways to adulthood based on the level of responsible financial behaviors they possessed as an incoming freshman.

• **High-functioning** participants (12 percent) maintained consistently high levels of responsible financial behavior through all waves of the study;

• **Rebounding** participants (61 percent) started college with moderately responsible financial behaviors that had declined by year four but rebounded by Wave 3.0 two years later;

• **Struggling** participants (26 percent) started college with poor financial behaviors, which had further declined by year four; though their behaviors had improved two years on, they still were worse than their first year of college and significantly lower than all other participants.

Researchers also note that two financial behaviors improved steadily from APLUS Wave 1.0: paying bills on time (up 7 percent overall) and learning about finances (up 5 percent overall).

Yet three behaviors that had previously fallen returned to Wave 1.0 levels: tracking expenses, saving and investing; and, spending within ones budget has steadily declined.

"Our research shows that financial capability develops one decision at a time, as young adults think through financial choices, weigh costs and benefits, make decisions and learn from the experience," says Michael Staten, director of the Take Charge America Institute for Consumer Financial Education and Research. "That's why we believe integrating personal finance examples, early and often, into the K-12 school experience will help students develop critical life skills at far lower cost than if we leave financial savvy to chance."

Embracing Partners after Parents

As noted in previous APLUS findings, parents hold the greatest influence over their children when it comes to developing positive financial attitudes and behaviors—1.5 times more than continuing financial education and more than twice the influence of their children's friends. Yet with 80 percent of APLUS 3.0 participants now in committed relationships, parents have taken a back seat to romantic partners in terms of influencing financial behaviors.

Additionally, financial professionals are gaining momentum with influence. Young adults report they now are just as likely to seek financial advice from professionals as from their parents.

Heartland Institute of FINANCIAL EDUCATION

NEWS REVIEW

The Financial Risk of Retirement Communities

What happens when a senior living community goes bankrupt?

Carole Moore, Bankrate.com, MSN Money, Aug. 2014

At the age of 102, Constance Browne expected to live out her days in a small but luxurious apartment in Harborview Towers, a high-rise located in coastal Morehead City, North Carolina.

Elderly residents paid $150,000 to $220,000 in occupancy fees to secure their places in the 50-unit complex. But when the company went belly up, those left in the partially occupied building were given a couple of weeks to relocate. Browne, like most other residents, had sold her home to finance her move into Harborview. Suddenly, at an age when she shouldn't have to worry about her future, she found herself facing homelessness.

And the blow wasn't only financial. Residents also lost their community and support networks.

The proprietors of the business told news reporters and the North Carolina attorney general's office, which investigated the closure, that the failure was not due to mismanagement. Instead, they said, the 2008 financial crisis devalued the homes of prospective residents, who subsequently couldn't afford to move, leaving Harborview with an abundance of unoccupied units and increasing overhead. The combination led to the family-owned company defaulting on contracts with about 40 seniors. Last year, the company filed for bankruptcy.

A Disturbing Pattern

The North Carolina case isn't an anomaly. Other senior living communities have gone bust over the past decade. For example, the Clare at Water Tower, a luxurious retirement and health care facility developed by the Franciscan Sisters of Chicago, was sold in a bankruptcy auction in 2012. The new managers have since turned the venture around, even amending the refund policy on units vacated by a resident's death to make it more appealing to survivors.

Certainly not all senior communities are in danger of going under, but there have been some significant bankruptcies among companies that provide higher-end living options for seniors. Others seem to thrive, such as the Covington in Aliso Viejo, California, which offers care in stages -- ranging from independent living in individual units to assisted living to skilled nursing -- all in the same community setting. Choosing the right place to invest can be critical.

Aging in Place
At a time when the senior's most important investment -- his or her home -- can be worth less than it has been in the past, many have elected to remain where they are rather than sell for less. Others simply want to remain in their own home at all costs, according to Debra Drelich of New York Elder Care Consultants.

Often, Drelich says, the cost of buying into a planned senior community can be greater than retrofitting present homes to accommodate infirmities, and hiring assistance can be a good alternative to the care offered by senior living communities.

But if it does become necessary for the senior to relocate, buyers should "do as much due diligence before signing a contract as you can," Drelich says.

Drelich also says relatives and caregivers can help by:

• Visiting facilities under consideration.
• Asking residents about their personal experiences.
• Arranging a trial stay before the senior sells his or her home.
• Checking the state's department of health website for tips on choosing a facility, as well as complaints about facilities.
• Considering hiring a geriatric case manager.

Losing Control of Cash
Like Drelich, Ben Neiburger, an attorney with Generation Law, an estate planning firm in the Chicago area, agrees on the importance of due diligence. Neiburger adds that caution is never misplaced.

"When the senior moves in, the families have to understand that they're losing control of the (senior's) cash," Neiburger says.

He says some companies will promise to apply for Medicaid, which can present a problem. Neiburger explains that if one exceeds the amount of assets necessary for Medicaid eligibility, some companies -- at least in Illinois -- can and will use the senior's deposit as a resource. That means clients must spend down their assets before they can become eligible for Medicaid. Therefore, those deposits are no longer part of the senior's future estate.

But Neiburger's not critical of continuing care retirement communities, or CCRCs. He says they're a great resource as more and more baby boomer couples filter into the marketplace and points out that when one partner enters nursing care, logistics become simpler when the other partner is on the same campus.

"When you're worried about your parents and they're declining at different rates, this (resource) can be fantastic," he says.

Buyer Beware

Former Los Angeles district attorney staffer John Lawrence Allen, a fraud prevention expert, says the elderly are frequent and easy targets for financial abuse. Allen suggests asking management how many other facilities they have operated. "I would be kind of reluctant to go into a facility with someone that has never operated one before," he says. A company that has multiple properties and years of experience operating these communities will have verifiable track records.

Allen says a facility decision shouldn't be considered an investment, but instead, a lifestyle with an associated cost. "I'd look at it as an expense. I don't care what they tell you about your kids getting money out of it," he says.

Allen reminds those considering these types of senior living communities that many times other costs are associated with buying in. He says be sure to ask about extra fees and find out exactly what's included before committing.

Based on the burgeoning senior population, Allen expects to see more and more CCRC developments ahead. He also expects additional failures, leaving elderly residents scrambling for new homes. How can families ensure they find safe communities for their elderly loved ones?

"I usually support small local businesses, but this time, I'd say to go with a large national concern and find a legitimate operator of senior facilities," Allen says.