Heartland Institute of FINANCIAL EDUCATION

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Instructor's Tutelage

Many people tell us they feel unprepared to plan for their financial future adequately and know time is running out. People want to take action to be responsible and we believe after attending one of our Financial Wellness classes that they have the confidence to accomplish that desire. People want more control over their financial futures and would like the confidence knowledge provides, allowing them to make educated financial choices. Providing the opportunity for employees to attend classes on-site will help any organizations employees take the first step to making a positive change in their financial lives.

How Financial Literacy Affects Retirement

By Krystal Bailey PFEEF January 2016

It might be assumed that of all age groups, the older generation is the most financially literate. With a lifetime of experiences, they have already made many financial decisions leading up to retirement. But the 2004 Health and Retirement Survey and the 2009 Financial Capability Study show different results. Older respondents (50 and older) were less likely than all other age groups to respond correctly to three questions on financial literacy. In the 2004 study, only one-third of this group got all three questions right.

The surprising part of these findings is that these individuals have lived through major historical economic downturns and stock market declines. But these events in and of themselves were not education enough to preclude financial mistakes in later years.

These findings were not restricted to the United States either. They were compared to an international sample group as well, only to come to the same conclusion: financial literacy declines with age.

The major disadvantage that comes with this issue is that the elderly are known to be a vulnerable population, thereby a target for scammers. Annamaria Lusardi wrote in the Journal of the American Society on Aging that our "financial landscape has become more challenging . . . [with] new products and financial services . . . accessible to the small investor" with more opportunities to borrow. This becomes a significant problem to an already vulnerable population being presented with complex financial decisions that could devastate finances in retirement.

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How Financial Literacy Affects Retirement (cont.)

Another common issue with retirees is that roughly 65 percent retire with some type of debt. But this statistic isn't surprising when the National Foundation for Credit Counseling found that over 50 percent of adults in the U.S. don't have a budget. Furthermore, 22 percent didn't have a good idea of how they spent their money. Given the lack of financial management over a lifetime, it is easy to see how debts are rampant in retirement.

Unfortunately, many baby boomers were relying on interest made off of savings and investments to carry them through retirement. But with economic downturns, interest rates have decreased, leaving seniors without the income they planned on. And with greater health costs in later years, their financial strain increases. As a result, many seniors have turned to risky investments to get by.

The Oxford University Press has released a new book on this subject entitled Financial Capability and Asset Holding in Later Life: A Life Course Perspective. This book recommends four major areas for improvement to combat this vulnerability: "build capacity at the individual and household level, create more effective institutions, design better public policies, and advance knowledge through research." While directed at anyone interested in financial affairs, the opinions given are also meant for policymakers, as gaps in current policy are discussed. These insights on policy reform could alter the precarious financial situation of seniors.

Other resources are available for seniors and anyone planning on retirement to avoid financial vulnerability. NerdWallet, a personal finance website, has information and tools to help in becoming financially literate. For example, one article on social security benefits recommends a more strategic approach to claiming social security; most rush into a system they don't understand and lose thousands of dollars as a result. But by making an effort to learn before retirement, by seeking out trusted financial advisors and tools, retirement can be a more financially stable time. While these resources may not benefit baby boomers now, we can all learn from the situation to ensure that this pattern of financial vulnerability in later life doesn't continue.

Source: http://campaign.r20.constantcontact.com/render?ca=3caa64d5-11ed-4c95-b7a4- ae94af-b34d36&c=344ffa60-5b0c-11e5-be80-d4ae529a7ef1&ch=3454b550-5b0c-11e5-be80-d4ae529a7ef1

Personal Finance and Fraud

By Joseph Calandro, Jr. PFEEF January 2016

The 1920s are known as the "roaring twenties." One reason for this is that the stock market was booming, and it seemed like money was there for the taking. A man named Charles Ponzi certainly thought so: At the very start of the decade, he was working a fraudulent investment scheme, which continues to bear his name. In recent times, the most famous "Ponzi Scheme" was conducted by Bernie Madoff, who was arrested in 2008.

Even though Ponzi schemes are well-known, their promised superior returns–frequently marketed with compelling stories–consistently find victims. For example, recent statistics have tracked between 40 to over 100 different Ponzi Schemes occurring every from 2008 to 2013.

Each Ponzi scheme can affect numerous families. Significantly, Ponzi schemes are not the only form of financial fraud that can devastate personal savings. For example, the financial frauds that caused the failures of Enron and Worldcom in the early 2000s also devastated numerous individuals' savings. In fact, financial fraud is so common that a television show called American Greed was created to profile select frauds.

One thing just about every episode of American Greed has in common is the profile of everyday people who were swindled out of their savings. How, then, to avoid financial fraud or at least mitigate its effects?

Step 1 is to adopt the mindset of every successful professional investor that I know: Radical skepticism. Fraud claims victims because the

stories fraudsters tell are compelling. Therefore, if you start out–and remain–highly skeptical as you investigate an investment opportunity, you mitigate the risk of being "sucked into" a fraudulent story.

Step 2 involves finding out why "you" have been presented–or targeted–with a particular investment opportunity. If you are not wealthy, you likely do not have money you can comfortably afford to lose. As such, you should generally have large

Personal Finance and Fraud (cont.)

corporations invest for you, absent a very compelling reason. Professional corporations have large assets of their own and ample amounts of insurance coverage as they know they will be sued if things go wrong.

Step 3 involves basic benchmarking. Warren Buffett, the Chairman and CEO of Berkshire Hathaway, is one of the most successful investors in history. He posts all of his shareholder letters online for free (http://www.berkshirehathaway.com/letters/letters.html). If you click on his 2014 letter, the first page that opens is a benchmarking page, which shows the annual percentage changes in Berkshire's net assets and stock price, as well as the S&P 500.

If an investment opportunity you are evaluating outperforms any of these benchmarks, find out specifically why. If, while doing so, you come to believe you have stumbled onto "the next Warren Buffett," you should know that there is a greater chance of winning a Powerball lottery than there is in finding "the next Warren Buffett." Therefore, you should remain very skeptical (see Step 1).

If you get this far and still want to make an investment, **Step 4** holds that you only invest a small amount of your money, so long as it can be comfortably lost. An absolute rule of personal finance is that you never put your home, livelihood or savings at risk from any investment. This is a "fail safe" in that if an investment fails, as many investments do, the loss you suffer will not be catastrophic.

If, after making an investment, you come to suspect that you may have been defrauded, **Step 5** holds that you immediately contact the authorities. The sooner you do so, the sooner you may be able to get your money back, and bring the fraudster to justice.

Source: http://campaign.r20.constantcontact.com/render?ca=3caa64d5-11ed-4c95-b7a4-ae94afb34d36&c=344ffa60-5b0c-11e5-be80-d4ae529a7ef1&ch=3454b550-5b0c-11e5-be80-d4ae529a7ef1

Personal Finance & Winston Churchill

January 18, 2016 Progress Daily

Winston Churchill is widely regarded as one of the most influential people of the 20th Century. Many political and military books have been written about him. I was therefore pleasantly surprised when I came across a recently published book that chronicled Mr. Churchill's life from a personal finance perspective.

David Lough's superb book, "No More Champagne: Churchill & His Money," gets its title from something that Mr. Churchill once said regarding the need to cut back on excessive spending, especially alcohol-related spending. For example, in a widely quoted statistic, Mr. Lough reported that Churchill spent approximately $158,688 per year (or 104,400 current British Pounds) on wine.

There is a great deal that can be learned from Mr. Lough's biography. Here are some of my observations that pertain to personal finance in general.

We live in an age of consumerism that strongly encourages spending instead of thrift. The life of Winston Churchill was in many ways a life of spending, and not just spending on wine. Mr. Churchill enjoyed gambling, trading stocks, overspending on home improvements, etc. Indeed, his leisure-based spending was so excessive that he had to go, and remain, deeply into debt to fund it.

To try to control his spending, Churchill prepared numerous personal budgets. However, he frequently overestimated his sources of income and underestimated his costs. He also did not exercise discipline to follow his budgets. Needless to say, budgets only "work" when they are as accurate as possible and when they are followed.

Churchill's excessive spending and heavy debt-loads eventually generated financial distress. In fact, his financial position was so precarious on two separate

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Personal Finance & Winston Churchill (cont.)

THE HEARTLAND INSTITUTE OF FINANCIAL EDUCATION

8301 E Prentice Ave.
Ste. 312
Greenwood Village, CO 80111

Phone: (303) 597-0197
Fax: (303) 369-3900
Email: info@hife-usa.org
www.hife-usa.org

occasions that he had to be privately bailed out to prevent bankruptcy. Celebrity and political success are no substitute for frugality and being fiscally conservative.

Churchill also occasionally sought "gifts" to mitigate his financial situation. Frankly, such behavior is not ethical. However, people under financial distress sometimes do things they would not otherwise do. For example, I know of someone who "padded" his expense account over a number of years "to pick-up a little extra money." While such "padding" may seem innocent to some people, it is stealing. This person's thefts eventually caught up to him and he was fired. If you find yourself under financial pressure, sacrifice your spending not your ethics.

Like many people, Winston Churchill gambled. To the extent that gambling is approached as entertainment and budgeted for it could have a place in a personal budget. However, many people delude themselves into believing that gambling is a source of income, instead of a cost. The science of statistics is very clear that only "the house" profits from gambling over time.

Churchill also traded stocks based on "tips" that he received from a variety of people, including preeminent traders such as Bernard Baruch. No one can trade successfully over time on tips: Churchill couldn't, and we can't either.

One area of personal finance where Mr. Churchill clearly exceled was tax management. Churchill worked incredibly hard to minimize his tax liability over time, which is a practice that we should all follow. However, many people are not knowledgeable of even the most basic aspects of tax management such as the mechanics of filing a tax return, a basic understanding of tax terms and definitions, etc.

We live in an era of ever increasing amounts of government intervention and activity so we should all have at least a basic understanding on how our governments—local, state and federal—fund their activities, and how that funding impacts us via the tax code.

Source: http://progressdaily.com/personal-finance-winston-churchill/

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