THE BILL FOR FINANCIAL ILLITERACY IS PAST DUE

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If the miracles promised you by the pharmaceutical industry seem to dominate the advertising between your favorite television shows, a close second is the financial services industry with ads aplenty about how company XY or Z can miraculously help you and your family set and meet your life's goals.

Why are we bombarded by these often misleading messages? As the once legendary bank robber Willie Sutton allegedly said, "It's where the money is". Or at least it should be. While we have been blessed to work with select clients who have collaborated with professionals and who have achieved considerable success over time, these client profiles are sadly in a minority. As 10,000 baby boomers reach the age of 65 every day and an estimated four million will retire annually for the next 20 years, the vast majority of them are not financially prepared and perhaps more importantly, not financially literate.

A significant 2016 study by the Economic Policy Institute revealed that nearly half of American families had no retirement savings whatsoever. The numbers are sobering no matter the sources. Furthermore, "that makes median (50th percentile) values low for all age groups, ranging from $480 for families in their mid-30s to $17,000 for families approaching retirement in 2016. For most age groups, median account balances in 2013 were less than half their prerecession peak and lower than at the start of the new millennium." For example, as a sign of the corrosive impact of the 2008 recession, the median savings in 2013 for those in the 52 to 61- year-old cohort had dropped to $17,000 from $35,326 in 2016.

We have frequently talked about financial literacy and, in particular, how the baby boom generation either ignored or was not taught the fiscal lessons of earlier generations. This lack of literacy occurred as financial products, banking, insurance contracts, ETFs, mutual funds and markets became increasing complex and opaque. Returns in many markets were well ahead of historical averages in the 80's and 90's and still an entire generation is ill prepared. Financial literacy is far more than understanding stock market returns or the credit quality of a bond. It includes understanding time, place and fundamentals.

While prior generations grew up during the peak of defined benefit pensions, such plans have decreased dramatically from 38 percent of the American work force in 1980 to barely 13 percent today. There are zero guarantees today - so pay attention.

If boomers and other economic participants don't understand the power of compound interest – not only for the positive of long-term savings but the detriment of credit card debt – and the discipline of saving beyond IRAs and 401(k) investment platforms, they ultimately have sacrificed time, opportunity, and independence.

Financial health reflects the cumulative decisions we make throughout our lives: whether we did due diligence and serious (non-emotional) analysis of major spending decisions (i.e., home, education, family, cars, vacations) and how those decisions might impact our future wellbeing, or did we opt for immediate gratification.

Being financially literate means weighing the pros and cons of: first, your goals, plan, savings, and resources, second, knowing how an investment manager is compensated and why; and thirdly that low price choices can be a bargain without help achieve one's goals. A recent report by United Income had a good news/bad news finding. While "retail investment management fees fell more than 50 percent over the past 35 years, the benefits of lower priced products often erode as a result of non-fee costs such as higher taxes, lower investment returns and reduced money from public benefits such as Social Security and Medicare." This is where financial literacy, or the lack of it, can be critical.

The dearth of financial literacy has become a melancholy chorus of regret for too many. According to a 2017 Bankrate survey, 46 percent said their biggest financial mistakes were not saving enough for retirement, emergency expenditures or for their children's education. A Gallup survey also from 2017 reported that 43 percent of Americans aged 50 to 64 planned on having Social Security as their primary source of retirement income – despite the fact that the program was never meant to be more than a retirement income supplement and "safety net".

The bottom line is as much as you think you're saving enough, you're probably not if self-reliance is the goal. This was an unspoken financial lesson that Tom's parents and grandparents taught him decades ago: discipline, patience, a focus on delayed gratification and a plan to make one's life financially sound. It's worth noting those virtues came courtesy of hard truths learned by prior generations during the crucible of the Depression.

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