

Virtual Lunch & Learn:
Financial Well Being

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Financial Planning

Provides
sense of freedom

Provide opportunity to
obtain & protect
your financial resources

Helps in monitoring your
spending & expenses

Maintains budgets and
planning your tax
expenses



Attain your personal
financial goals

Increased sense of
awareness

Protect your family from
financial uncertainties

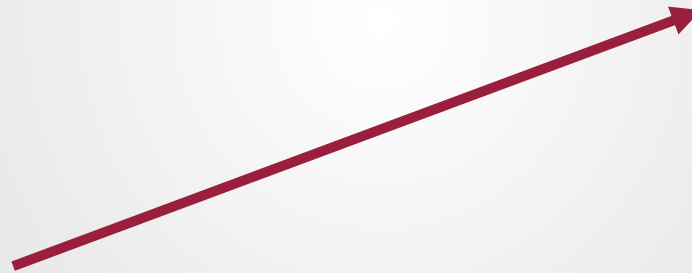
Benefits



WallStreetMojo

Where to go? How to get There!

Here



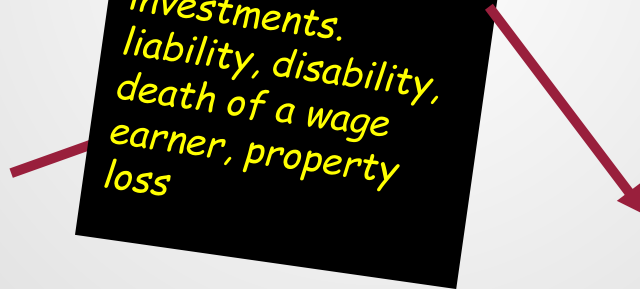
There

Where to go? How to get There!

Here

*No savings, health
issues, lose your
job, poor
investments.
liability, disability,
death of a wage
earner, property
loss*

There



Where to go, and how to get from **here** to **there**!

- Let me introduce myself
- “What do you say to a rapper?”
- “Gran Gran’s birthday party”
- “Start with the basics”

**“What do you say
to a rapper?”**

**“Gran Gran’s
birthday party”**

**96 years x 12 months
per year = 1,152 months**

**\$5 per month x 1,152
months = \$5,760**

Interest rate ?

Annual Averages per Decade

The following table shows average annual results for each decade:

	Price Change	Dividend Dist. Rate	Total Return	Inflation	Real Price Change	Real Total Return
1950's	13.2 %	5.4 %	19.3 %	2.2 %	10.7 %	16.7 %
1960's	4.4 %	3.3 %	7.8 %	2.5 %	1.8 %	5.2 %
1970's	1.6 %	4.3 %	5.8 %	7.4 %	-5.4 %	-1.4 %
1980's	12.6 %	4.6 %	17.3 %	5.1 %	7.1 %	11.6 %
1990's	15.3 %	2.7 %	18.1 %	2.9 %	12.0 %	14.7 %
2000's	-2.7 %	1.8 %	-1.0 %	2.5 %	-5.1 %	-3.4 %
1950- 2009	7.2 %	3.6 %	11.0 %	3.8 %	3.3 %	7.0 %

Interest rate 11.19%
\$5 per month, 96 years, \$5,760 total

\$2 million

\$7.5 million

\$10 million

\$15 million

\$20 million

Interest rate 11.19%
\$5 per month, 96 years, \$5,760 total

\$2 million

\$7.5 million

\$10 million

\$15 million

\$20 million

\$23.6 million

What drives this result?

1. Savings amount
2. Interest rate
3. Time

Time!

For some of you (not me) time is still your advantage.

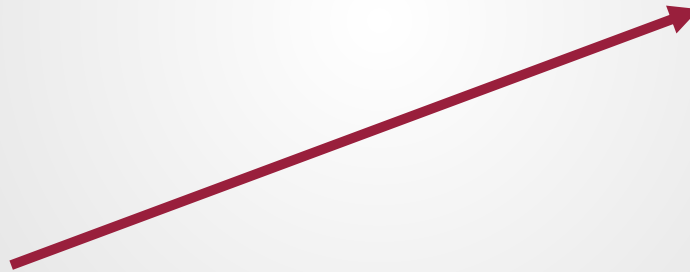
Exploit your advantage!

Unrealistic you say? What about this?

	10.00%	8.00%	10.00%	8.00%	10.00%	8.00%
	25 years	25 years	20 years	20 years	15 years	15 years
\$250	\$334,472.59	\$239,341.64	\$191,424.23	\$148,236.80	\$104,481.07	\$87,086.29
\$500	\$668,945.17	\$478,683.29	\$382,848.45	\$296,473.61	\$208,962.13	\$174,172.57
\$750	\$1,003,417.76	\$718,024.93	\$574,272.68	\$444,710.41	\$313,443.20	\$261,258.86
\$1,000	\$1,337,890.35	\$957,366.57	\$765,696.91	\$592,947.22	\$417,924.27	\$348,345.14
\$1,500	\$2,006,835.52	\$1,436,049.86	\$1,148,545.36	\$889,420.83	\$626,886.40	\$522,517.71
\$2,000	\$2,675,780.70	\$1,914,733.14	\$1,531,393.82	\$1,185,894.44	\$835,848.53	\$696,690.29

Where to go? How to get There!

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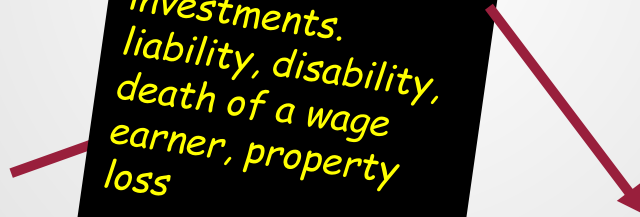
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Get a handle on your spending!

- In 2019, almost 124 million American adults – 49 percent of the U.S. adult population – said they planned to visit a casino to gamble over the next 12 months – up 20 million from 2018
- April, May, June 2020, Americans spent \$1.2 billion on gaming content and a record \$11.6 billion on video gaming as a whole.
- Americans will spend over \$64 billion on illegal drugs, \$45 billion on alcohol (college students alone spend \$5.5 billion on alcohol) and \$167 billion on smoking-attributable costs
- Americans spend \$74 billion on coffee (the average American spends about \$1,100 per year (\$92 per month) and \$16 billion on bottled water.

Get a handle on your spending!

- Americans spent \$200 billion on Valentine's Day in 2020
- Over 70% of US households at the lower end of the income scale spend more than they make
- Even in the highest income bracket – annual incomes over \$120,000 – more than 15% of households spend more than they make
- These statistics are even more alarming because soon Americans no longer may have government or corporate safety nets to pay for their retirement and health needs.

If we are overspending, then we are probably NOT saving enough!

- Nearly ½ of all workers saving for retirement have less than \$25,000 total savings.
 - 68 percent of workers from ages 25-34
 - 50 percent of workers age 35-44
 - 33 percent of all workers 45-55 and over

If we are over spending, then we are probably NOT saving enough!

- 30 year old with salary of \$50,000
- Inflation of 2.5 percent
- Can earn 7.5 percent on investments
- Will retire at age 65 and live to age 85
- ***Will need **\$1,567,064** at retirement***
 - If they receive \$2,000 in Social Security benefits, then they need **\$815,000.**

Whew...Thank Goodness we've got
Social Security...right???



Funding Social Security

A Wall Street Journal Personal Finance Poll found that a majority (65%) of respondents expect Social Security to be a primary source of income during retirement.



In 1937 there were **40** workers for every retiree.

Funding Social Security



In 1937 there were **40** workers for every retiree.



In 2013 there were **2.8** workers for every retiree.

Funding Social Security



2013

2.8
workers for
every
retiree.



2034

The best
case scenario
is **2.3**
workers per retiree.
The worst case
scenario is **2**.



***In 20xx
when you
retire, how
many
workers
will there
be???...***

***Financial success is as much about
discipline as it is about money!***

Cash management: Where are you now?

(where are you trying to get to, and where are you starting from?)

Track and categorize monthly expenses: (sounds easy)

This only takes one month to accomplish but in many ways it is the hardest part of financial planning

Track and categorize monthly expenses

Sample categories:

Rent

Groceries

Eating out

Haircut

Tithe

Gifts

Clothes

Child care?

Entertainment

Car payment/repair/maintenance

Insurance premiums (auto, health, life)

Electric, water, gas bills

Subscriptions

Student loan payments

Credit card payments (for prior charges)

Donations to MSUF

Track and categorize monthly expenses

Next...Develop a budget

Each month review each category to see if you spent more than you planned or even realized.

Certain categories can vary widely each month (clothes, entertainment)

Be sure to build in “mad money”

Track and categorize monthly expenses

Next...Build an Emergency Fund

- *It is a good idea to save the equivalent of three to six months of expenses in an emergency fund.*
- *The funds should be accessible and liquid. Maybe use a savings account.*
- *Helps when unexpected things happen: a car wreck or expensive car repairs, a layoff from work, health problems you did not expect.*
- *Provides a cushion when you need it most*

The single biggest obstacle to financial success is **procrastination!**

Many people in their 20's, 30's, and even early 40's haven't started saving for retirement!

Do you remember this?

- Nearly ½ of all workers saving for retirement have less than \$25,000 total savings.
- 68 percent of workers from ages 25-34
- 50 percent of workers age 35-44
- 33 percent of all workers 45-55 and over

Set S.M.A.R.T. Goals

- Specific
- Measurable
- Achievable
- Realistic
- Time frame

Action item: Think about goals you would like to set this year, in the next five years, and in the next 10-30 years. ***WRITE THEM DOWN.*** Make sure they are **SMART**. Commit to at least three of your goals.

A few more considerations

1. Be Automatic!

Automatically have money taken out of your paycheck and deposited in your 401(k), your Individual Retirement Account (IRA), or your Roth IRA.

Automatically pay bills by having them either set up to be charged to credit card (careful here) or drafted out of your checking account electronically.

Automatically have loan payments deducted from your checking account each month.

Set your credit card monthly balance to be automatically drafted out of your checking account each month.

A few more considerations

2. Use good Debt!

Avoid excessive debt

Avoid bad debt

Avoid charging anything that cannot be paid **In Full** each month

Clothes, food, gas...pay it off

Vehicle loans: 3 to 5 years (4 is better than 5)

Consider charging only gas on credit cards...no food, clothes, etc.
(unless you are very disciplined).

Credit Cards: “a necessary evil?”

High interest rates, watch out for scams!

A few more considerations

3. Insurance

Health insurance: Thanks Murray State University.

Auto insurance: Don't just go for cheap coverage. It may only provide you the state minimums. Get a solid policy (unless you drive a clunker).

Renters Insurance: Protects most of your personal belongings.

Life Insurance: It may be important now, if not then wait until later.

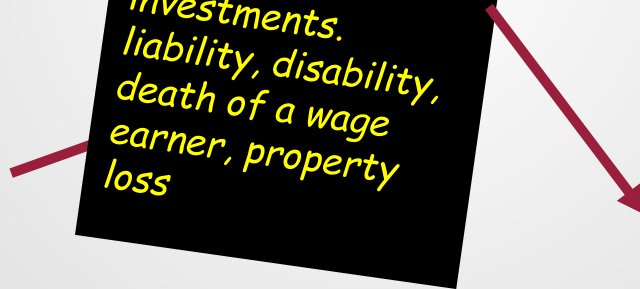
Liability: You will have some coverage already. Consider getting more.

Where to go? How to get There!

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Benchmarks: Risk Management

	Metric	Comment/Recommendation
Life Insurance	12-16 times gross pay, if needed	The amount depends on the needs of surviving dependents
Health Insurance	Unlimited lifetime benefit (Thanks Obama)	Should be guaranteed renewable with reasonable out of pocket limits
Disability Insurance	60-70% of gross pay	Should coverage both accident and sickness. Should include a hybrid or own occupation definition and an appropriate elimination period
Long-Term Care Insurance	If needed, daily or monthly benefits \geq average for appropriate facility	Benefits inflation adjusted and a benefit period \geq 36-60 months
Homeowners Insurance	Replacement value on both dwelling and content and coverage for open perils	Review coverages annually
Automobile Insurance	Full market value for comprehensive and collision	Do not over or under insure. Beware of minimum coverages.
Liability Insurance	At least a \$1,000,000 personal liability policy	We live in a very litigious society.

Benchmarks: Short Term Savings and Investing Goals

	Metric	Comment/Recommendation
Emergency Fund	3-6 times the monthly non-discretionary cash outflows	Should be coordinated with long-term disability insurance elimination period
Housing	Housing costs should be $\leq 28\%$ of gross pay	Should decline to ≤ 5 of gross pay at retirement.
Housing and Debt	The total paid for housing costs and other debt payments $\leq 36\%$ of gross pay	Such as credit cards, auto loans, boat loans, student loans

Benchmarks: Long Term Savings and Investment Goals

	Metric	Comment/Recommendation
Financial Security (Retirement)	Save 10-13% of gross pay (OK to include employer match)	Should be appropriate given the client's age and account balances.
College Education Funding	\$3,000 - \$9,000 per year	Depends on where the child is expected to attend college.
Lump-Sum Goals	Goals like 2 nd home, boat, etc. may require at least 20% of total price as a down payment	These additional goals will increase overall savings rate.
Legacy Goals	Every adult under age 50 needs basic documents. Those over 50 may need trusts and estate planning.	Basic documents include a will, durable power of attorney for healthcare, advanced medical directive (living will), and durable power of attorney for financial matters.

How much should you save?

Start immediately: Save 10% to 15% year
(my recommendation is 13%)

Should you include employer contributions? You can.

For how long? For the remainder of your working life

What should you invest in?

Stocks, bonds, CDs, real estate, international assets?

	<i>Expected Rates of Return</i>	<i>Standard Deviation of Returns</i>
Cash and Money Market Fund	2.5%	2.0%
Treasury Bonds / Bond Fund	4.0%	4.0%
Corporate Bonds / Bond Fund	6.0%	5.0%
International Bond Funds	7.0%	6.0%
Index Funds	9.0%	14.0%
Large Cap Funds / Stocks	10.0%	16.0%
Mid / Small Funds / Stocks	12.0%	18.0%
International Stock Funds	13.0%	22.0%
Real Estate Funds	8.0%	12.0%

What should you invest in?

Asset allocation: explains at least 90% of portfolio returns

Stocks are riskier, have higher expected returns

Bonds have less risk and generally lower returns

Allocation is a function of risk tolerance: age, income, net worth, experiences, education, time horizon

Rule of thumb: 100 minus your age = stock %

Risk Tolerance Questionnaires

<i>Global Portfolio Allocation Scoring System (PASS) for Individual Investors¹</i>						
Questions		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Earning a high long-term total return that will allow my capital to grow faster than the inflation rate is one of my most important investment objectives.	5	4	3	2	1
2	I would like an investment that provides me with an opportunity to defer taxation of capital gains to future years.	5	4	3	2	1
3	I do not require a high level of current income from my investments.	5	4	3	2	1
4	I am willing to tolerate some sharp down swings in the return on my investments in order to seek a potentially higher return than would normally be expected from more stable investments.	5	4	3	2	1
5	I am willing to risk a short-term loss in return for a potentially higher long-run rate of return.	5	4	3	2	1
6	I am financially able to accept a low level of liquidity in my investment portfolio.	5	4	3	2	1

1. More information can be found on Dr. Droms at <http://www.droms-strauss.com>, as well as the complete article from the Journal of Financial Planning.

Risk Tolerance Questionnaires

PASS Score

Cash and Money Market Fund

Treasury Bonds/ Bond Funds

Corporate Bonds/ Bond Funds

International Bond Funds

Index Fund

Large Cap Funds/Stocks

Mid/Small Funds/Stocks

International Stock Funds

Real Estate Funds

Total

Expected Return

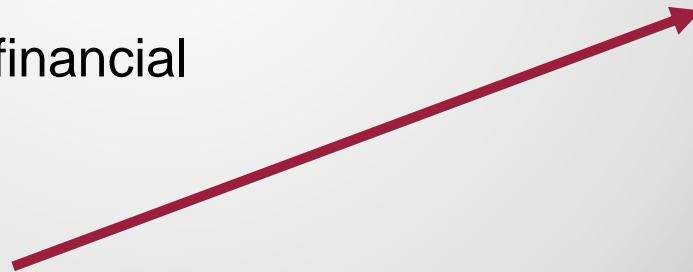
Expected Standard Deviation (est)

Short-Term Horizon				Intermediate-Term Horizon				Long-Term Horizon			
RT1	RT2	RT3	RT4	RT1	RT2	RT3	RT4	RT1	RT2	RT3	RT4
Target	Target	Target	Target	Target	Target	Target	Target	Target	Target	Target	Target
6 - 12	13 - 18	19 - 24	25 - 30	6 - 12	13 - 18	19 - 24	25 - 30	6 - 12	13 - 18	19 - 24	25 - 30
40%	30%	20%	10%	5%	5%	5%	5%	5%	5%	3%	2%
40%	30%	30%	20%	60%	35%	20%	10%	30%	20%	12%	0%
20%	30%	30%	40%	15%	15%	15%	10%	15%	10%	10%	4%
0%	0%	0%	0%	0%	5%	5%	5%	0%	5%	5%	4%
0%	10%	10%	10%	10%	15%	20%	20%	20%	20%	20%	25%
0%	0%	5%	5%	10%	10%	15%	20%	25%	20%	15%	10%
0%	0%	0%	5%	0%	5%	10%	10%	0%	5%	10%	20%
0%	0%	0%	5%	0%	5%	5%	10%	0%	5%	10%	15%
0%	0%	5%	5%	0%	5%	5%	10%	5%	10%	15%	20%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
3.80%	4.65%	5.30%	6.50%	5.33%	6.78%	7.73%	8.58%	6.93%	7.73%	8.51%	9.77%
2.79%	3.85%	4.84%	6.40%	5.13%	7.26%	8.73%	10.25%	7.75%	8.94%	10.12%	12.20%

Action Plan: Start Now...don't procrastinate!

1. Get a handle on spending. Track and categorize monthly expenses.
2. Develop a budget.
3. Set a savings goal (%) and save that amount.
4. Create an emergency fund.
5. Evaluate your insurance needs.
6. Create, update your will.
7. Consider talking with a financial planning professional

Here



There

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Thanks for this opportunity to share.

Go Racers!

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