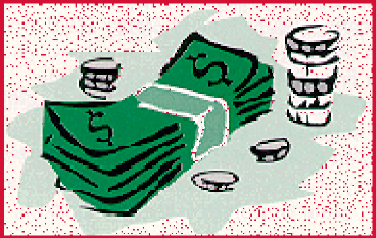

Financial Planning for a "New Normal"

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Four Topics

- “New Normal” financial realities
- 10 essential personal finance skills
- Recent Rutgers research: Differences in pre- and post-financial crisis financial practices
- Q&A and discussion

We didn’t just have a perfect storm…

…We had a perfect **TORNADO!!!**

Recent Financial Shocks

- Recession/Shrinking economy (GDP)
- Collapsed and merged investment banks
- Bank failures and government takeovers

- Mortgage defaults and high foreclosure rates
- Declining home values
- High unemployment rates
- Bear market/stock market volatility
- Increased poverty rates and rich-poor “wealth gaps”
- “The Paradox of Thrift”

The "Paradox of Thrift" (Economic Term)

What's good for individuals (saving more and spending less) is bad for the economy when everyone does it.

Many families in the Dallas area, including the Smiths, above, had to cut back on spending, hurting local businesses.

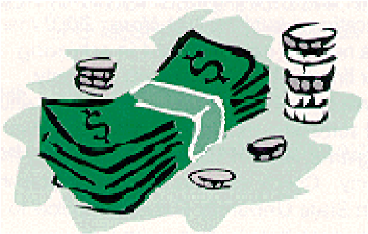
A "New Normal" Was Inevitable

- Previous economic trends were unsustainable
  - "Housing (real estate) bubble" (inflated prices)
  - "Credit bubble" (household overspending and reckless lending)
  - Securitization turned toxic (subprime mortgages)
  - Risky pools of derivative securities tied to mortgages (e.g., credit default swaps, credit default obligations)

- Increased post-crisis government oversight
- Reaction (over-reaction?) by financial services firms
- The over-leveraged, debt-driven era of severely under-priced risk is OVER (or, at least, constrained)!

Four Common Aftermaths of Financial Crises

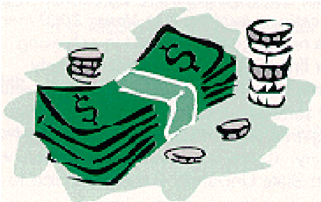
- Deep and prolonged asset market collapses
  - Housing prices
  - Stock market indices



- Profound declines in output (deleveraging)
- High unemployment (in both public and private sector)
- Explosion in government debt as tax revenues decline

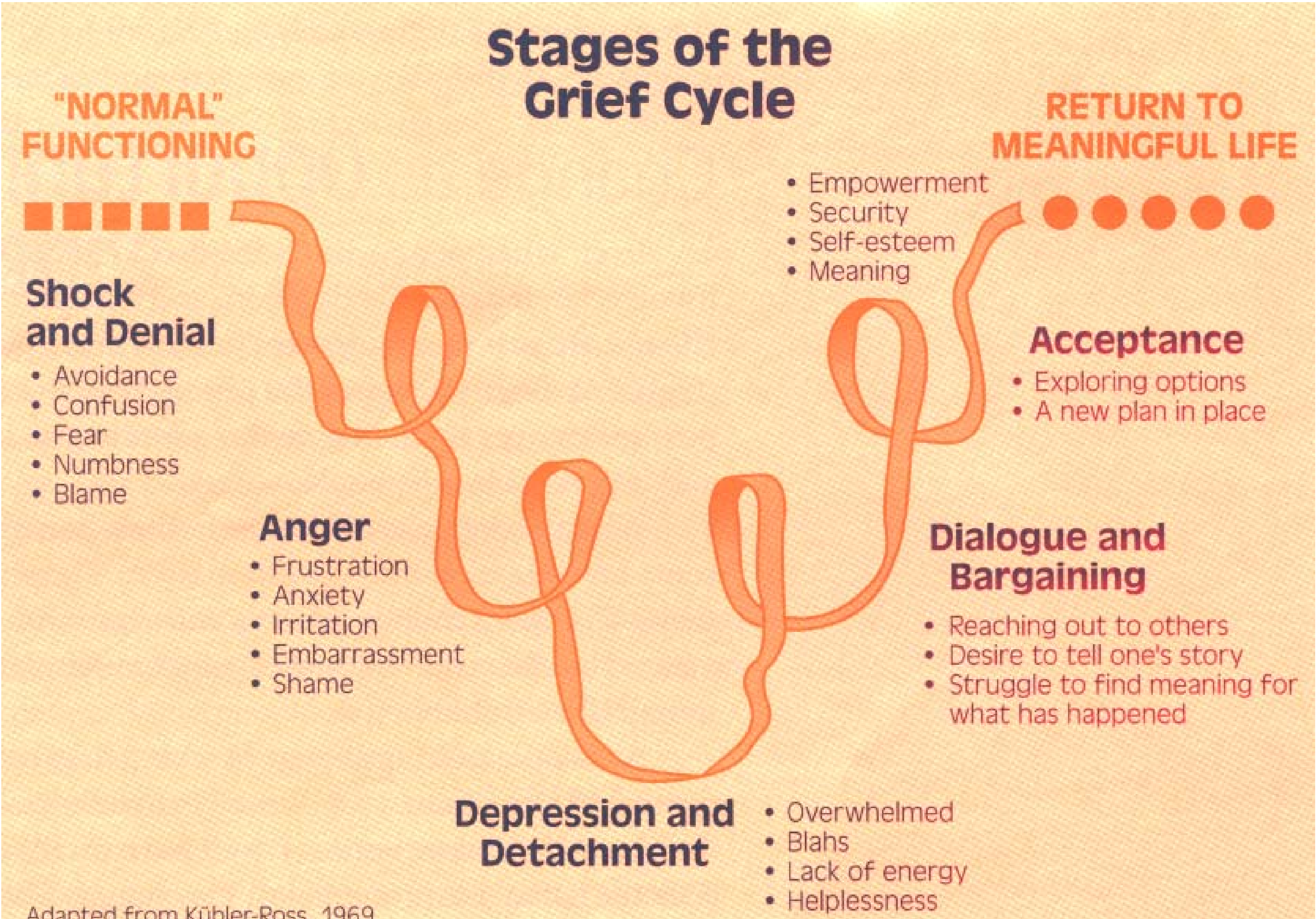
Baby Boomers and Older Gen Xers Especially Affected By the Financial Crisis

- Fully experienced, not just one asset bubble- BUT TWO- during long stretches of their working lives
  - “Tech Bubble” and extraordinary run of double-digit stock market returns in late 1990s
  - “Housing Bubble” during much of the 2000s
- Limited recovery time for battered investments
- *Money* Magazine (April 2009):



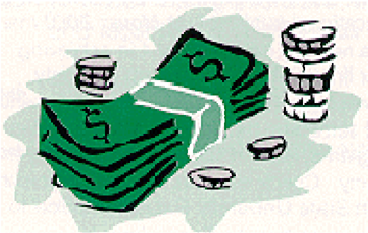
“A generation of Americans grew into middle age thinking that they had more wealth than they really did and their future was a lot more secure than it really was.”

Five Stages: How People Receive "Bad News" (Elizabeth Kubler-Ross Model)



Characteristics of the "New Normal"

An extended period of:



- Slow U.S. economic growth
- Low single-digit average annual stock returns
- Stubbornly high unemployment levels
- Precarious job security (public and private sector)
- Tightened credit standards for loans
- Increased household savings and debt repayment
- Decreased household spending

- Ultimately, when financial crisis abates, higher inflation (?) (**minority view:** "deleveraging" (paying down debt) by consumers will negate impact of government borrowing)

Additional "New Normal" Insights

- Approximately 20 million U.S. jobs have been lost
- Many are NOT coming back: employers have learned to be productive with fewer workers
- REAL unemployment rate is 17% to 20%; not 9.6%
- We can't count on ANYONE anymore to "save" us
- We need to make more out of less and create a NEW "American Dream" (less focus on spending; more gratitude)
- People who dream an American Dream that is dead will be unhappy
- No significant turn-around in the economy until 2015
- Real estate won't turn around until employment does

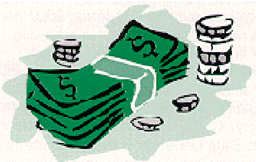
More "New Normal" Insights

- Don't feel you "have to" get a home now just because prices and interest rates are low
  - Consider job stability and mobility needs
- Check condo purchases VERY carefully; find out how many units are being rented or are in foreclosure
- Real estate prices will not increase until supply is less than demand
  - Will take years due to foreclosures and short sales
- The stock market is not the economy!!!
- Spending is all about choices- deciding what's important in your life

What to Do?

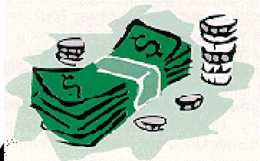
- Acknowledge (grieve) “what was,” but don’t dwell on it
- Focus on acceptance, action, and progress
- Build “financial capability” (i.e., what people do with knowledge about money)
- Develop or reassess financial goals
- Reassess post-financial crisis investment risk tolerance

Essential "New Normal" Personal Finance Skills



1. **"The Basics"** (e.g., planning, expense tracking, emergency funds, goal-setting with personal targets)
   – Planning increases control and success, reduces stress
2. **Living on a Reduced Income** (e.g., "stepping down," substitutions, reduced spending methods)
3. **Entrepreneurship Skills** (more self-employment is predicted; up to 40% of U.S. workers by 2020)
4. **Budgeting for Variable Incomes** ("cash flow calendar" with surplus and deficit months)

More “New Normal” Learning Needs



5. **Estimated Tax Withholding and Tax Forms Schedule C, SE, etc.**
   - More “Freelance Nation” workers doing self-employed tax returns

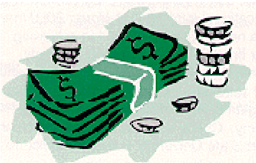
6. **Self-funded retirement plans and health insurance**

7. **Options for “Underwater” Homeowners**
   - Almost 1 in 4 (23%) of U.S. homeowners owe more than their home is worth

More "New Normal" Learning Needs

8. **Investment characteristics, techniques**
   – Higher-yielding cash assets, "true" risk tolerance

9. **"Catch-up" retirement planning strategies**



10. **Human capital investments (including personal health)**
   – Increases resilience during economic downturns

To read more about "New Normal" financial planning, see the article by O'Neill in the 2010 issue of the *Journal of Consumer Education*: http://www.cefe.illinois.edu/JCE/archives/

Research Study (O'Neill & Xiao): Are Post-Financial Crisis Financial Practices Any Different?

- Data collected from online Financial Fitness Quiz
- URL: **http://njaes.rutgers.edu/money/ffquiz/**
- Quiz includes 20 recommended financial practices
- Total quiz scores can range from 20 to 100
- "Time stamp" tells when data were collected
- N = 6,700 respondents (1/1/07 – 6/30/10)- 42 months
  - 3,212 from 1/1/07 - 11/30/08
  - 3,488 from 12/1/08 – 6/30/10)
  - Self-reported financial practices

- Chose 12/1/08 as cut-off: financial crisis was widely acknowledged; unemployment concerns

Eight Financial Practices Showed Significant- But Very Modest- Time Period Differences

Increased Frequency of Performance (5)

- Written financial goals with a date and cost
- Written spending plan (budget)
- Adequate insurance for big expenses
- Pay credit card bills in full to avoid interest
- Avoid impulse buying & recreational shopping

Decreased Frequency of Performance (3)

- Personal investment account for retirement other than employer pension
- Money spread across more than one type of investment
- Average after-tax yield on savings and investments greater than inflation rate

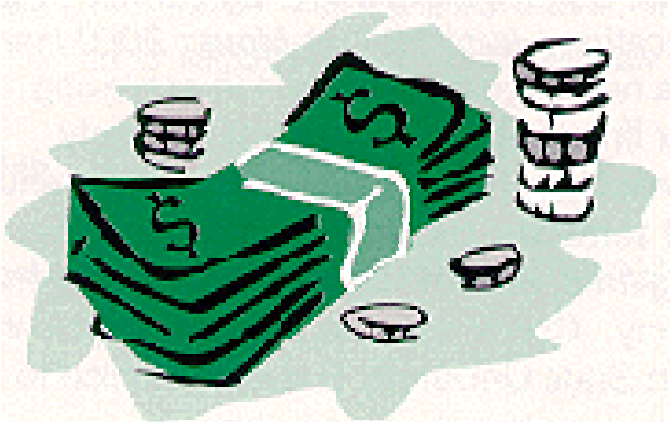
Welcome to the "New Normal": Are You Ready?

New economic patterns have been evolving in the wake of the financial crisis:

- Credit is tight
- Spending is constrained
- Investment returns are low
- Frugality is "in," (usually out of necessity, not desire)
- Contingent employment is increasing
- Unemployment rate is high
- Employee benefits are decreasing
- Lots of uncertainty on the horizon (e.g., taxes and inflation)

In times of crisis and uncertainty, knowledge is power!

Questions and Comments?



What is YOUR "New Normal" at home and at work?

Whatever it is, address it proactively with a plan!

"What we think about, we bring about"

Best wishes!