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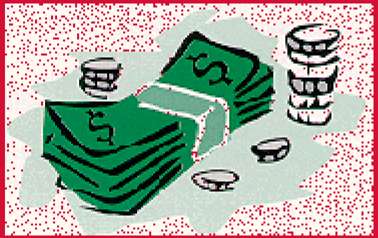


Essential Personal Finance Skills for the “New Normal”: 10 Things That Consumers Need to Know

Barbara O’Neill, Ph.D., CFP®, CFCS
Rutgers Cooperative Extension
oneill@aesop.rutgers.edu

Three Topics in 10 Minutes

- "New Normal" realities
- 10 essential personal finance skills
- Rutgers University research: Differences in pre- and post-financial crisis financial practices

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"

Four Common Aftermaths of Financial Crises

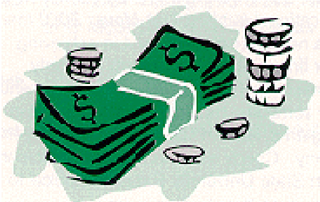
- Deep and prolonged asset market collapses
  - Housing prices
  - Stock market indices

- 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."

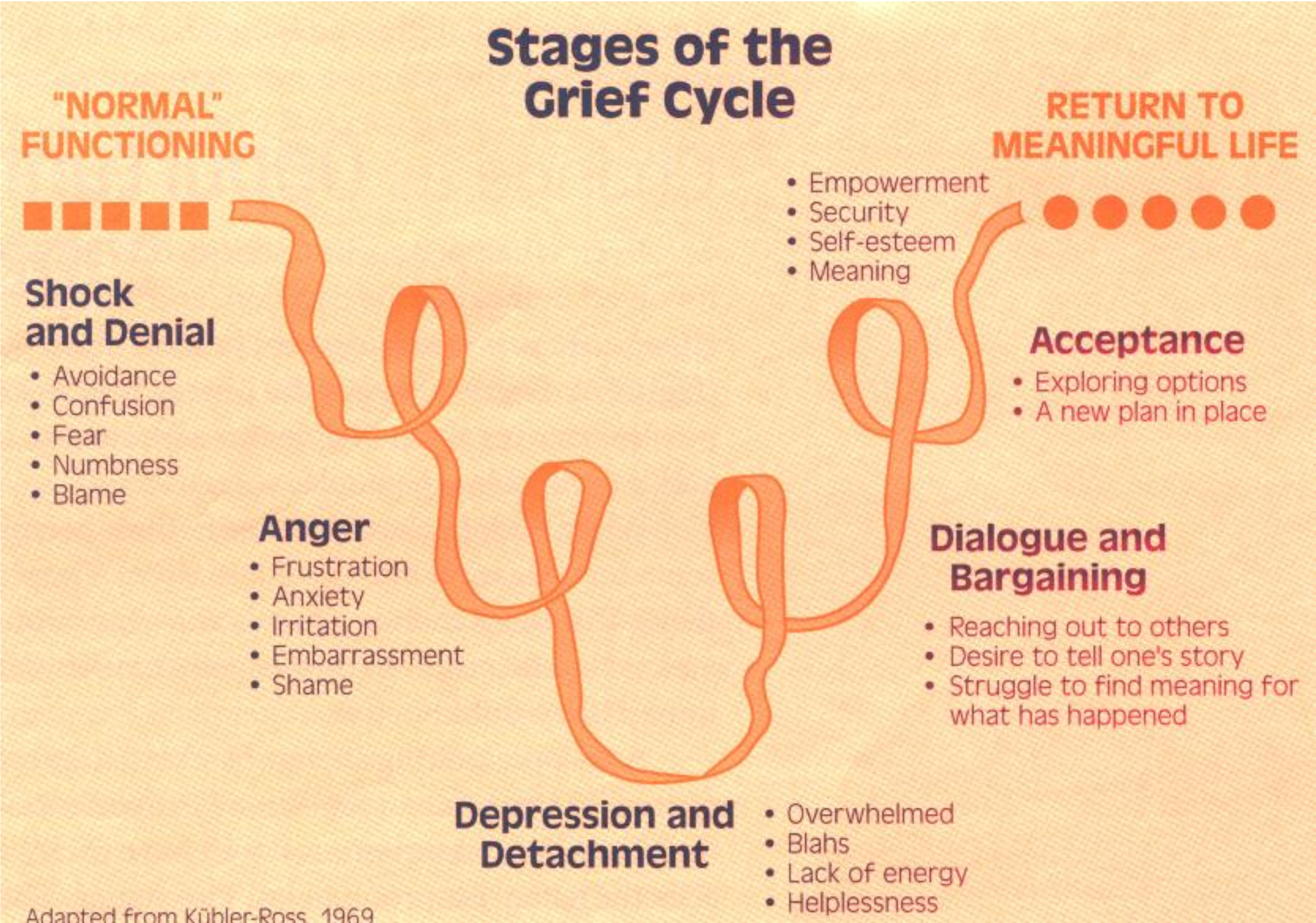
Characteristics of the "New Normal"

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

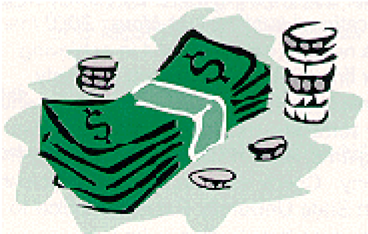
- Ultimately, when financial crisis abates, higher inflation (?) (**minority view:** deleveraging will negate government debt)

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



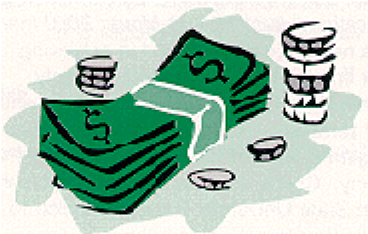
Financial Educators and Advisors Can Help Consumers Define Their "New Normal"

- 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



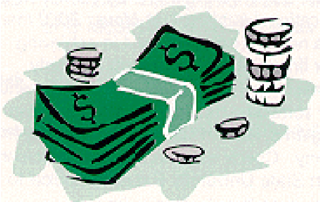
10 Key Financial Learning Needs

1. "The Basics" (e.g., expense tracking, emergency funds, goals)
2. Living on a reduced income (e.g., "stepping down," substitutions)
3. Entrepreneurship skills (increased self-employment is predicted)
4. Budgeting for variable incomes ("cash flow calendar")
5. Estimated tax withholding for "freelance nation" workers
6. Self-funded retirement plans and health insurance
7. Options for "underwater" homeowners
8. Investment characteristics and techniques
9. "Catch-up" retirement planning strategies
10. Human capital investments (including health); increases resilience



Rutgers Research Study: 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