

2016 Personal Finance Year in Review



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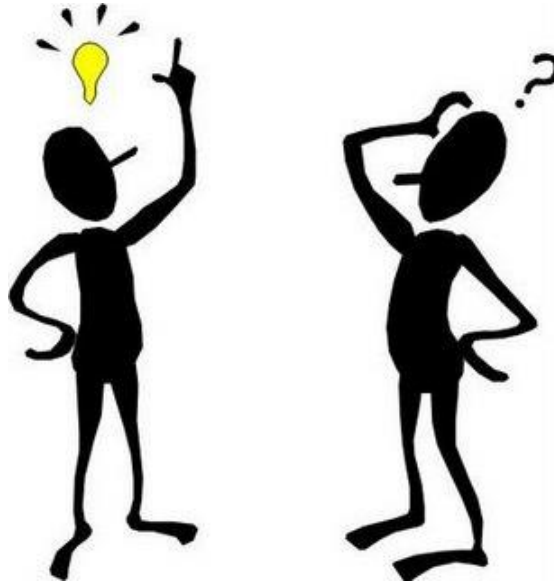
Webinar Objectives

Present a 2016 “Financial Year in Review”

- Key findings from 2016 personal finance research studies
- Key findings from 2016 government data
- Key 2016 financial events and trends and products
- Key government legislation/policies affecting personal finances
- New or revised financial education resources in 2016
- Preview of expected 2017 personal finance changes



**Q1: What Do You Think
Was the MOST
Significant *Personal*
Finance Event of 2016?**



Key Findings From 2016 Personal Finance Studies (Academic)



Propensity to Plan: A Key to Health and Wealth (3/16)

- Respondents reporting frequent planning behavior had higher health behavior scores
- Respondents reporting frequent planning behavior had higher financial behavior scores
- Respondents who had higher health behavior scores had higher financial behavior scores



<https://www.onefpa.org/journal/Pages/MAR16-Propensity-to-Plan-A-Key-to-Health-and-Wealth.aspx>

Retirement Age and Life Expectancy

- Retiring after age 65 may help people live longer
- Risk of dying (any cause) was 11% lower for a one-year delay from age 65 to 66
- Risk of dying fell further for people who retired between age 66 and 72
- Even people who retired for health reasons had lower risk of dying
- Postponing retirement may delay natural age-related declines in functioning



http://jech.bmj.com/content/early/2016/03/21/jech-2015-207097.short?g=w_jech_ahead_tab (Wu et al.)

Home Equity as a Retirement Income Strategy

- Pfau (4/16) study of use of reverse mortgages to supplement portfolio withdrawals
- Opening line of credit at start of retirement and then delaying its use until the portfolio is depleted creates the most downside protection
- Key take-aways:
 - Open RM line of credit at earliest possible age and leave it unused as long as possible
 - Lenders or government could eliminate this strategy
 - RMs are not just something to use as a last resort



<https://www.onefpa.org/journal/Pages/APR16-Incorporating-Home-Equity-into-a-Retirement-Income-Strategy.aspx>

“Safe” Retirement Spending

- “Feel Free” Retirement Spending Strategy (4/16): Spending level where you have little worry about depleting savings
- Person’s age \div 20
- Age 60: $60 \div 20 = 3\%$ of savings
- Age 70: $70 \div 20 = 3.5\%$ of savings
- Age 80: $80 \div 20 = 4\%$ of savings



<http://www.investmentnews.com/article/20160622/FREE/160629965/this-simple-retirement-spending-strategy-takes-on-the-4-rule>

Retirement Spending “Guardrails”



- Klinger (2016) studied retirement portfolio “failures” (i.e., running out of money)
- Asset returns alone were not a good early warning sign of failure
- Withdrawal rate ratio was a good indicator of future portfolio failure
- Applying a guardrail to a retirement strategy could help ensure a financially successful retirement

<https://www.onefpa.org/journal/Pages/OCT16-Guardrails-to-Prevent-Potential-Retirement-Portfolio-Failure.aspx>

Key Findings From 2016 Personal Finance Studies (Non-Academic)



“4% Rule” Withdrawal or Annuities?

- TIAA Institute Study (5/16): compared systematic withdrawals to annuitizing
- Conclusion: Do both!
 - Put half of savings into variable annuity
 - Get additional income from withdrawals from stock and bond portfolio
- Combination approach provided the best mixture of both income and ending wealth



<https://www.tiaainstitute.org/public/institute/research/lifetime-income/achieving-retirement-income-security>

2016 EBRI Retirement Confidence Survey (RCS)

- 69% of workers (or their spouse) had saved for retirement
- Considerable gap between workers' expectations and retirees' experience about leaving workforce
- 48% of workers (or spouse) had calculated retirement savings need
- 54% of workers had < \$25,000 saved (excluding value of home and DB pension)
 - Includes 26% who have < \$1,000



America Saves Week Survey

- 2016 survey: 49% of 1,004 respondents save at least 5% of income
- 43% save automatically outside of work
- 40% report good or excellent progress in “meeting their savings needs”
- Those with “a savings plan with specific goals” save more successfully than those without a plan



<http://www.americasavesweek.org/less-than-half-of-u-s-households-report-good-savings-progress-according-to-9th-annual-america-saves-week-survey/>

Cost of Child Care

New America study (9/16)

- Full-time care in a center for a child age 4 or under costs > average in-state college tuition
 - Child care center: \$9,589
 - Average college tuition: \$9,410
- One-fifth of families use a “patchwork” approach



<http://www.fa-mag.com/news/finding-good--affordable-childcare-tough-in-any-u-s--state-29212.html>

<http://www.wsj.com/articles/soaring-child-care-costs-squeeze-families-1467415411>

FINRAIEF National Financial Capability Study (NFCS)



- 2015 findings released in Summer 2016
- Continuation of some positive trends in 2015 from 2012 study (e.g., less difficulty paying bills)
- Percentage of Americans with health insurance increased from 78% in 2012 to 87% in 2015
- 34% of 27,564 respondents probably or certainly could not come up with \$2,000 for unexpected needs
- Half of respondents do not have an emergency fund of three months expenses

Key Findings From 2015 Government Data



Credit Card Debt



May 2016 Credit Card Debt Statistics:

- Average American household debt: **\$5,700**
 - Households with and without revolving balances
- Average for balance-carrying households: **\$16,048**
 - Remember, many households are carrying much more
- **38.1%** of all households carry some sort of credit card debt (Census and Federal Reserve data)

<https://www.valuepenguin.com/average-credit-card-debt>

Baby Boomer Debt

2/16 Federal Reserve Bank of NY data



- Unprecedented debt loads for older Americans
- Average 65-year old borrower has 47% more mortgage debt and 29% more auto debt than 65-year olds in 2003
- Student loan debt among 65-year olds is a growing category

<http://www.wsj.com/articles/new-york-fed-finds-large-increase-in-debts-held-by-those-over-age-50-1455289257>

Median Income Increase

9/16 Census Bureau report



- First gain in household income since 2007
- Largest annual gain since Census Bureau began releasing data in 1967
- Median household income in 2015 was \$56,516, up 5.2% (\$2,798) from a year earlier after inflation
- 2015 official poverty rate: 13.5% vs. 14.8% in 2014

<http://www.wsj.com/articles/u-s-household-incomes-surged-5-2-in-2015-ending-slide-1473776295>

Household Net Worth Increase

- Collective record of \$89.1 trillion for all U.S. households (Federal Reserve data)
- Generally driven by strong stock market and rising home values and increased bank deposits
- More than 3 million households remain underwater on mortgages



<http://www.wsj.com/articles/u-s-household-wealth-rises-to-record-1474042043>

“A Tale of Two Americas”

- National averages indicate recovery from the Great Recession
- National statistics do not reflect the experience of many people
- Income and assets of upper 10% of households are skewing data used to measure economic health
- “Hollowing out” of mid-level positions in workforce

<http://bigstory.ap.org/article/6594cedbfa2140f3a766862ae7ef13c0/memphis-and-around-us-economic-averages-miss-big-picture>



Financial Fragility

May 2016 Federal Reserve Board study:

- 46% of adults said they either could not cover an emergency expense costing \$400 or would cover it by selling something or borrowing something
- 31% of non-retired respondents had no retirement savings or pension

<http://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf>



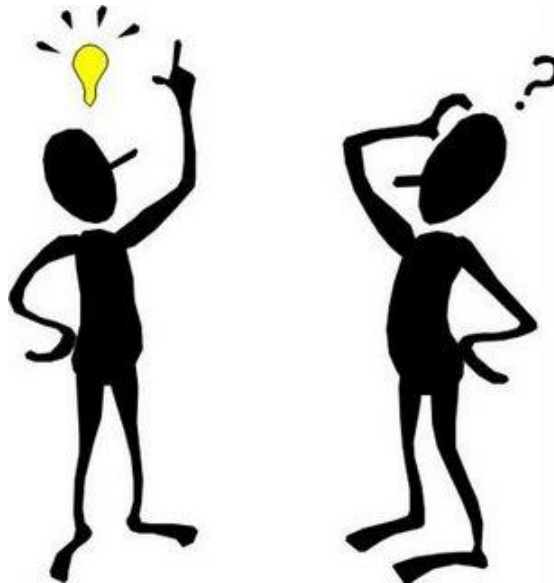
Upper Middle Class Makes Gains

- Upper middle class is larger and richer than it has ever been
 - 29.4% of population in 2014
 - 12.9% of population in 1979
- Study definition: household earnings of \$100k to \$350k for family of three



<http://www.wsj.com/articles/upper-middle-class-sees-big-gains-research-finds-1466554177>

Q2: Any Other Interesting 2016 Financial Surveys That You Remember?



Key 2016 Financial Events and Trends and Products



High-Deductible Health Insurance Plans

- In 2016, FOR THE FIRST TIME EVER, more than half of workers- 51%- have a deductible of more than \$1,000 for a plan covering a single person (vs. 46% in 2015)
- In 2017, 84% of large employers will offer high-deductible plans
 - 35% of large employers will offer ONLY high-deductible plans (Kaiser/HRET survey)



<http://www.wsj.com/articles/employers-shift-higher-health-care-costs-to-workers-1476194147>

Percentage of Uninsured Americans at Historic Low

- 2016 Survey: 8.8% of respondents lack health insurance (versus 16% in 2010)
- Translates to 27.3 million people
- 15.9% of 25 to 34 year olds were uninsured
- 8.1% of 45 to 64 year olds were uninsured
- Around 40% of those under 65 were in a high-deductible plan (versus 25.3% in 2010)



<http://www.wsj.com/articles/percentage-of-uninsured-historically-low-1473220802>

ACA Health Plan Choices Shrink

- Kaiser Foundation estimate: There could be just one option for coverage in 31% of counties in 2017 (vs. 7% of counties in 2016)
- Many insurers are losing money on ACA health plans
- Humana and Aetna have withdrawn from market
- Remaining insurers seeing sharp premium increases

<http://www.wsj.com/articles/health-insurers-pullback-threatens-to-create-monopolies-1472408338>



ACA Tax Penalties

- Called a “shared responsibility payment” by the IRS
 - In effect, an extra tax
 - Substantially higher than 2014 amount
- Taxpayers owe the GREATER OF a flat assessment or a percentage of income
- 2016 **flat assessment penalty** is \$695 per adult (\$347.50 per child) with a maximum of \$2,085 per household
- 2016 **percentage of income penalty** is 2.5% of household income, up to national average cost of a Bronze plan



<https://www.healthcare.gov/fees/fee-for-not-being-covered/>

Decline in Long Term Care (LTC) Insurance Purchases

- Americans bought 105,000 LTC policies in 2015 (vs. 750,000 in 2000); 3.2 million boomers turned 65
- 70% of people turning 65 in 2016 will need some type of LTC at some point in their lives
- 8 hours of daily care costs about \$44,000
- A year of nursing home care costs \$91,000



<http://www.fa-mag.com/news/americans-need-long-term-health-planning---will-they-get-it-29081.html>

Older Working Women

- Since 12/07, the share older working women (age 65+) has grown while the percentage of every other category of U.S. worker- by age and gender has declined or is flat
- 1 in 7 women work past 65 vs. 1 in 12 in 1992
- Projected to be 1 in 5 women by 2024
- Find job rewarding and/or financial need



<http://www.wsj.com/articles/older-women-reshape-u-s-job-market-1456192536>

Oldest Baby Boomers Turned 70

- 2.5 million living baby boomers (of 3.4 million born in 1946) hit the “Big 70” milestone in 2016
- Can expect about 15 more years of life
- Increase in age 70+ people working; will be ¼ of people age 70 to 74 by 2024
- Beginning of required minimum distributions: first RMD in 2016 or 2017
- Never before have so many 70-year olds owed money on their house



<http://www.aarp.org/politics-society/history/info-2016/baby-boomers-turning-70.html>

“Quiet Catastrophe” Report

- Smaller % of men age 25-54 are working today than near the end of the great depression!
- If labor force participation was as high today as 2000, 10 million more Americans would have jobs
- Get by on government benefits and support by others
- Spend 5.5 hours a day watching TV and movies
- Nicholas Eberstadt monograph: *Men Without Work: America's Invisible Crisis:*



https://www.washingtonpost.com/opinions/americas-quiet-catastrophe-millions-of-idle-men/2016/10/05/cd01b750-8a57-11e6-bff0-d53f592f176e_story.html?utm_term=.ca77bf920858

Millennials Living at Home

- For first time in modern era, living with parents edges out all other living arrangements for 18- to 34-year-olds (5/16 Pew Research Center Report)
- Just under a third (32.1%) of millennials live at home (almost half in NJ)
- Impact on parents' retirement savings, home downsizing plans, etc.



<http://www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/>

Student Loan Debt



- Share of borrowers defaulting on student loans has fallen modestly but remains high
- Just over 11% of 5.2 million students who left school in FY 2013 have defaulted
 - Default = go > 360 days without making a payment after leaving school
- More students are finding jobs and increased use of income-driven repayment plans that reduce payments

<http://www.wsj.com/articles/fewer-students-are-defaulting-on-loans-after-leaving-college-1475083308>

Free FICO Credit Scores

- **2013-** Discover was first major card issuer to give customers free access to FICO scores
- **2016-** Most big banks now provide credit score access to customers.
- An estimated 100 million Americans now have access to their credit score
 - Through their credit card or bank
- Does not impact credit score because people are not actively applying for new credit



Tax Fraud Scams



- Explosion of fake e-mails and calls purporting to come from IRS
- Some ask victims to pay a balance tied to the Affordable Care Act (ACA)
- Some ask for payment with a prepaid debit card
- The IRS never initiates contact by e-mail or phone

<http://www.wsj.com/articles/the-new-irs-email-scam-coming-to-your-inbox-1475143202>

Tax ID Theft Cut in Half

- Unprecedented public-private crackdown
- Tax preparation firms and IRS shared information
- Prevented millions of dollars in fraudulent refunds
- Tax identity theft dropped 50% during first nine months of the year
- More new safeguards planned for 2017



<http://www.usatoday.com/story/money/2016/11/03/irs-says-2016-crackdown-helped-slow-identity-theft-tax-refund-fraud/93234624/>

40th Birthday of First Index Fund

- 9/76- Vanguard 500 Index Fund opened (Jack Bogle) with \$11.3 million on assets
- Today: 20 million investor clients, including many “Bogleheads”: <https://www.bogleheads.org/>
- > \$3 trillion in passively managed assets



<http://www.wsj.com/articles/jack-bogle-the-undisputed-champion-of-the-long-run-1472855372>

<https://gcalhoun.files.wordpress.com/2016/09/16-09-01-wsj-happy-birthday-to-the-index-fund.pdf>

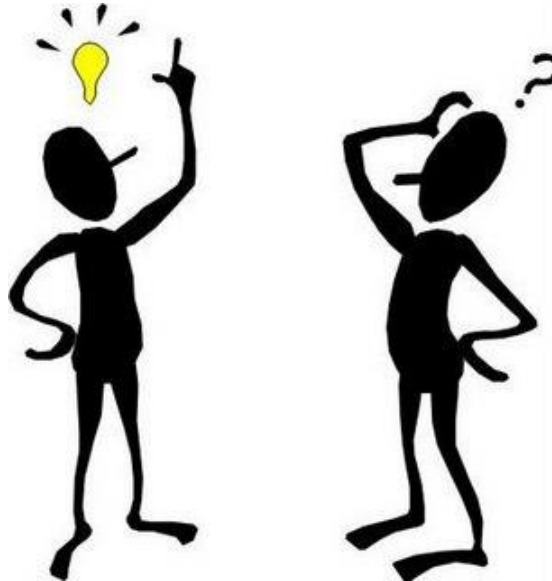
U.S. Homeownership Rate

- 7/16 Census Bureau Report- % of U.S. households that own homes matched lowest level in 51 years (1965, when the U.S. Census began tracking)
- Just 62.9% of households owned a home
- Peak of 69.2% in 2004
- Reasons include: rising property prices, high rents, stagnant pay, student loan debt



<http://bigstory.ap.org/article/7874336198a5405f8bfaa2673a56dffe/us-homeownership-rate-629-percent-matches-51-year-low>

Q3: Any Other Interesting 2016 Financial Events, Trends, or Products?



Key Government Legislation and Policies Affecting Personal Finances




IRS Waivers on 60-Day Rollover Deadline for Retirement Plans

- 2016 IRS clarification of acceptable reasons for waivers of 10% penalty and ordinary income tax
- Reasons include
 - Financial institution and postal errors
 - Misplaced distribution checks never received
 - Severe damage to principal residence
 - Death or serious illness in family
 - Incarceration of taxpayer



<https://www.irs.gov/pub/irs-drop/rp-16-47.pdf>

DoL Fiduciary Rule

- Aimed at eliminating exorbitant fees and commissions
- Financial advisors who provide guidance on retirement plan assets are required to recommend what is in the best interests of their client 
- Compensation paid to advisors must be “reasonable”
- Expect adjustments in retirement services market procedures (takes effect in April 2017)

<http://www.investmentnews.com/article/20160509/FEATURE/160509939/the-dol-fiduciary-rule-will-forever-change-financial-advice-and-the>

Changes to Social Security Claiming Strategies



- Beginning May 2016, married couples are no longer able to file for- and then suspend- receiving benefits for the purpose of making their spouse eligible to take spousal benefits
- Age 62 by 12/31/15 (born 1953 or earlier)- restricted application for spousal benefits only still allowed at full retirement age (FRA)
- Still have one-time right to withdraw application for benefits within 12 months after benefits begin

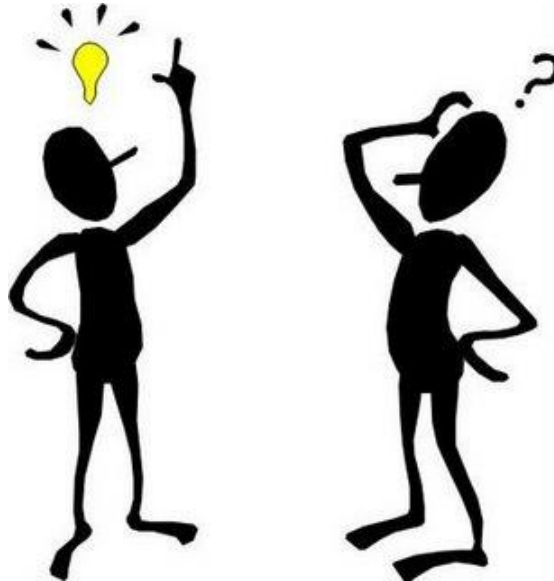
<https://www.onefpa.org/journal/Pages/JUN16-Redo-Strategies-When-Can-You-Redo-a-Prior-Social-Security-Claiming-Decision.aspx>

New FAFSA Timeline

- Free Application for Federal Student Aid (FAFSA)
- Can file as early as October 1 instead of next year
- Can use actual income tax data instead of estimated data from returns not yet filed
- May get earlier financial aid offers from colleges
- Take-aways:
 - Submit FAFSA as early as possible
 - Realize capital gains on assets before January 1 of student's sophomore year of HS to avoid having money count as income
- <http://www.kiplinger.com/article/college/T042-C000-S002-new-strategies-to-get-more-financial-aid.html>



Q4: Any Other Interesting 2016 Financial Legislation or Policies?



New or Revised Financial Education Resources in 2016



Next Gen Personal Finance

- Significant changes to several units
 - Created new Types of Credit unit
 - Revamp of Managing Credit unit revamp
- New Products:
 - Question of the Day
 - Data Crunches
 - Interactive Library
 - Forms and Statements (Coming Soon!)
- New Lessons: Entrepreneurship, Identity Theft and Philanthropy
- Expanded NGPF Assessment Bank with Pre and Post-Tests and 10 Questions Per Lesson
- Launched Professional Development opportunities
 - NGPF Summer Institute
 - Professional Learning Community
 - Q&A Forum
- Had 52 guests on the NGPF Podcast, including Barbara O'Neill!



NEFE

SAM (Smart About Money): <http://www.smartaboutmoney.org/>

- Three courses (Emergency Fund, Transportation, Housing) were added
- Five Money Basics courses were added on basic concepts such as: credit/debt, employment, insurance, investing, and spending/saving.
- Comprehensive worksheets have been added.
- Typical questions (and answers) were added to a section called Common Money Questions.
- The site is now mobile responsive and can be viewed on smartphones and tablets.



NEFE

Evaluation Toolkit: <http://toolkit.nefe.org/>

The Evaluation Toolkit Manual was revised by the Claremont Evaluation Center. The *Financial Education Evaluation Manual* helps financial educators understand the purpose and goals of evaluation and provides a basic overview of the evaluation process.

CashCourse: <https://www.cashcourse.org/>

New CashCourse content for 2016:

- 5 CashCourse coursework modules translated to Spanish
- New Budget Wizard student budgeting tool
- 7 new articles on insurance, contributed by the NAIC



NEFE White Paper on Financial Education Evaluation



Perspectives on Evaluation in Financial Education: Landscape, Issues, and Studies

10 sections about different audiences and topics for financial education

<http://toolkit.nefe.org/Portals/0/NEFE%20Evaluation%20White%20Paper%20October%202016.pdf?ver=2016-10-31-154554-707>

Jump\$tart Coalition

Making the Case for Financial Literacy 2016:

http://jumpstart.org/assets/files/Making_the_Case_2016_UpdateMay2016.pdf



eXtension Student Loan Fact Sheet Series



- College Savings Options
- Paying for Education and Training Beyond High School
- Types of Student Loans
- Student Loans: Responsible Borrowing
- Determining Your Student Loan Servicer and Loan Balance
- Choosing a Federal Student Loan Repayment Plan
- Federal Student Loan Consolidation and Forgiveness
- Recovering from Student Loan Default
- Student Loans: Later Life Impacts
- Student Loan Legislation: Changes You Need to Know

<http://articles.extension.org/pages/72895/student-loans>

Rutgers Cooperative Extension High School Lesson Plans

- [Risks and Benefits of Entrepreneurship \(85k PDF\)](#)
- [Compound Interest: Your Best Friend or Worst Enemy \(106k PDF\)](#)
- [Know the Score: Credit Score Modeling and Impacts \(360k PDF\)](#)
- [The Impact of Inflation \(128k PDF\)](#)
- [Monetary Transaction Tools \(572k PDF\)](#)
- [Civic Financial Responsibility \(511k PDF\)](#)
- [Insuring and Protecting Property Insurance \(112k PDF\)](#)
- [Comparing Insurance How Health Insurance Works \(973k PDF\)](#)
- [Values, Goals, and Financial Decisions \(252k PDF\)](#)
- [Spending Plan/Budget: Your Financial Road Map \(112k PDF\)](#)
- [Interest: The Cost of Borrowing Money \(126k PDF\)](#)

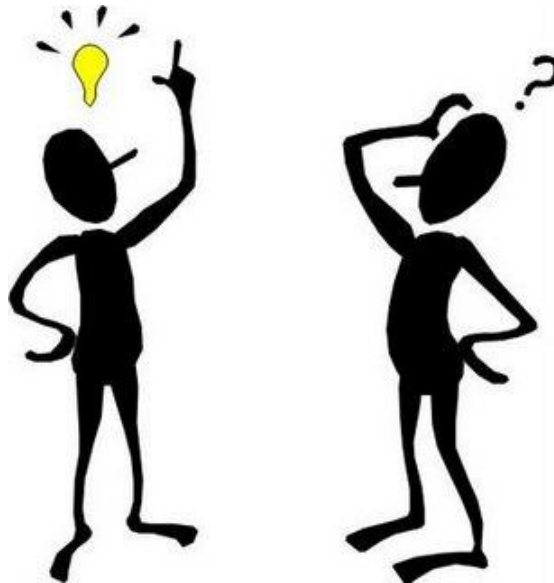
<http://njaes.rutgers.edu/money/>

Road to Financial Wellness Pit Stop Video (Phroogal)

- <https://njaes.rutgers.edu/money/road-to-financial-wellness.asp>



Q5: Any Other New Financial Education Resources Developed in 2016?



Preview of Expected 2017 Personal Finance Changes



Social Security

Social Security Feature	2017	2016
Maximum Taxable Earnings	\$127,200	\$118,500
Quarter of Coverage	\$1,260	\$1,300
Earnings Limit (for benefits < FRA)	\$15,720	\$16,920
Maximum Social Security Benefit	\$2,639	\$2,687

0.3% COLA for Social Security beneficiaries in 2017

<https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf>

Health Savings Accounts

HSA Feature	2017	2016
Contribution Limit	Self-Only: \$3,400 (+ \$50) Family: \$6,750	Self-only: \$3,350 Family: SAME
Catch-Up Contribution	\$1,000	SAME
High Deductible Health Plan (HDHP) Minimum Deductibles	Self-Only: \$1,300 Family: \$2,600	Self-Only: SAME Family: SAME

2017 Retirement Savings Plan Contribution Limits

- Increases in income phase-outs for IRA savers
- Increases in AGI limits for the saver's credit
- Increase in overall defined contribution plan limit: up to \$54,000 (from \$53,000 in 2016)
- SAME 401(k)/403(b)/TSP maximum contribution limit of \$18,000 for 2017
- Same \$6,000 maximum catch-up limit

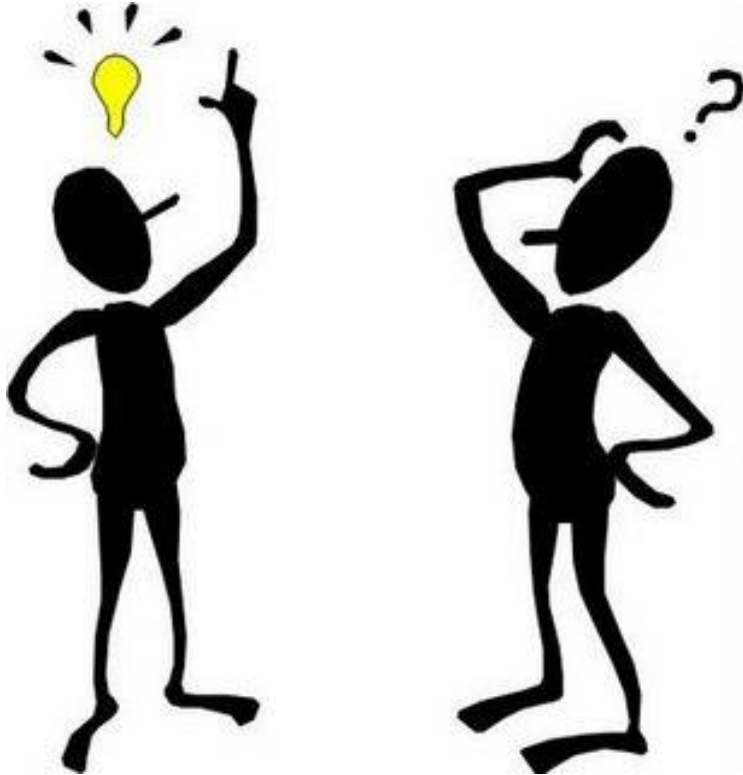
<http://www.forbes.com/sites/ashleaebeling/2016/10/27/irs-announces-2017-retirement-plans-contributions-limits-for-401ks-and-more/#6d21270556e2>

Inflation-Adjusted Limits to Take Effect in 2017

- Standard deduction for singles up \$50 to \$6,350
- Standard deduction for couples up \$100 to \$12,700
- Standard deduction for heads of household up \$50 to \$9,350
- Maximum EITC of \$6,318 (3+ qualifying children)
- Estate tax exclusion amount will rise to \$5,490,000 from \$5,450,000 in 2016

<https://www.irs.gov/uac/newsroom/in-2017-some-tax-benefits-increase-slightly-due-to-inflation-adjustments-others-are-unchanged>

Comments? Questions?



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[@moneytalk1](#) on Twitter

Have a wonderful holiday season and a great new year!