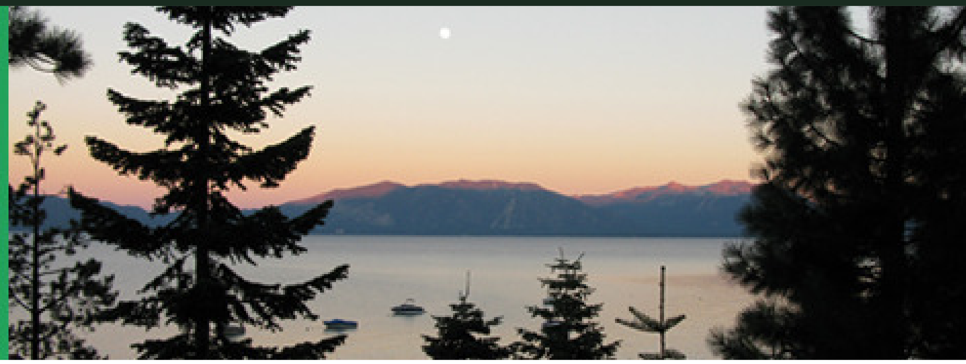
Hathaway Financial Services



Year in Review: What Happened in Personal Finance in 2018?

It seems not a day goes by without being inundated by significant newsworthy events, some days the deluge is overwhelming! In environments like this, sometimes we lose sight of other news that might not be quite as compelling, but relevant nonetheless.

The Journal of Financial Planning writes a compilation of important personal financial events of the year, some of which are interesting and may have ramifications for those of us who follow our planning closely, and some of which are just interesting.

Below is a summary of some of the key data in the relatively calm and mundane personal finance realm of 2018 that I thought were interesting; I hope you do too!

Financial Health

According to the 2018 Retirement Confidence Survey by the Employee Benefit Research Institute, 64% of workers or their spouses are saving for retirement. However, among these savers, 45% reported that they had saved less than $25,000, and a shocking 26% reported less than $1,000 in savings. Couple this with the statistic that while 79% of these respondents planned to work in retirement, only 34% of retiree respondents actually do, often due to health issues. Clearly, this makes the case for saving more and saving earlier!

A study by the AAII reinforces a mantra I repeat often to those during the financial planning process. They found that once you are in your 50s, working 3 – 4 years longer than planned has a significantly larger impact (24 – 33%) on increasing retirement resources than saving more during those years. Why? Because those 3 – 4 years increase your lifelong Social Security benefit, increase your retirement account balances, while delaying asset drawdowns and decreasing the amount of years of drawdowns. Often, the best way to make this tangible for those considering retirement is to actually put the numbers at different ages side by side for comparison purposes. The increase is usually significant.

Sadly, Americans age 65 and older filing for bankruptcy has *tripled* since 1991, while it has fallen for those younger. This is due to reductions in safety nets for the elderly, and the shift from defined pension plans to inadequately funded retirement accounts. It appears the decline in the use of pension plans is failing a large segment of Americans.

U.S. life expectancy rates declined for two years in a row, *except* for older women age 65 plus!

Women in this age group have a life expectancy of over 2 years longer than men in the same age group. You know what that means ladies: we women have to save more to fund those extra two years. Sadly, the drop in life expectancy is due to drug-related deaths in younger adults.

A 2018 study by Merrill Lynch found that 80% of parents provide some type of support to adult children, including food, cell phone service, car expenses, and vacations. Unfortunately, many of these parents spend twice as much on their children as they do saving for retirement! I can attest to the difficulty of weaning kids off our support, but it is extremely important that retirement savings take priority.

Rounding this all up in one study, the Center for Financial Services Health Pulse Study, found that only 28% of Americans are classified as “financially healthy”, based on 8 categories of measurable criteria: spending less than income, paying all bills on time, sufficient liquid savings, sufficient long-term savings, manageable debt load, prime credit score, carrying appropriate insurance, and planning ahead for expenses.

Employment

Unemployment reached 3.7% its lowest level since 1969. In addition, the gap between black and white unemployment shrank to the narrowest level ever recorded. Job gains were broad, with retail, health care, and construction adding the most jobs. Wage growth was up 3.1% (3rd quarter) with low wage workers being the biggest beneficiary. This is the biggest one-year gain since 2009.

Credit/Debt

The Federal Reserve reported a record $13.3 Trillion in consumer debt (second quarter 2018). This includes: mortgage debt, car loans, student loans, and credit cards. This was the 16th consecutive quarter with an increase. Car loans in 2018 reached new levels: the average monthly new car loan payment broke over $500 per month to an all time high of $523. The average new car loan also reached a record high of $31,453. Consumer debt now surpasses the debt level before the 2008 financial crisis.

A study by the Federal Reserve found that:
* 4 out of 10 adults would not be able to cover an unexpected expense of $400
* 1 in 10 have no retirement savings or pension whatsoever
* 3 in 10 adults participate in the gig economy, and have income that varies from month to month

Adding to the distressing implications of these numbers, 2018 saw a surge in unsecured personal loans, which now accounts for the fastest-growing U.S. consumer lending category. This “shadow banking” is especially concerning since these loans are not subject to normal banking regulations. The amount of money currently in this system is raising concerns related to the amount of risk it may pose to our financial system.

Causing additional issues for the financial health of Americans, in May of 2018, New Jersey won a U.S. Supreme Court case that removed the federal ban on sports betting across the country. This allows one to make mobile bets on casino accounts anywhere in a state that allows it. In the first month after this win, NJ took in $40.6 M in sports bets; by the end of October, more than a half-billion was bet on mobile devices alone in the state. It is anticipated that sports betting will now spread across more states in the future.

Home Ownership

Home ownership is again on the rise since 2004. Homeownership rate was 64.4% by the third quarter of October, driven by young adults entering the housing market for the first time. One of those was my daughter who, with her boyfriend, purchased their first home in June 2018. They are enjoying the joys and hard work of home ownership.

Identity Theft

Identity theft continues to grow, but with the adoption of chip credit cards, fraud has shifted online. This shift includes an increase in Social Security fraud, and for the first time ever, Social Security fraud outpaced credit card fraud.

Social Security

For the first time since 1982, Social Security costs exceeded its income in 2018, forcing the program to dip into the SS trust fund to pay benefits. It seems the race is on...

Legislation

In March 2018, the DOL Fiduciary Rule met its demise in the Fifth Circuit Court of Appeals in Texas. This rule required all financial advisors to act as a "fiduciary" i.e. in the best interests of their clients when managing retirement accounts. The SEC has taken this up now, but intense lobbying will make it unlikely that the financial industry has a real fiduciary rule anytime soon, a loss for consumers.

In May 2018, Medicare began issuing new unique individual numbers to recipients, instead of using Social Security numbers in an effort to reduce identity theft and Medicare fraud. Unsurprisingly, criminals used this event to victimize recipients. Criminals will always find a way; the only way to reduce your risk of becoming a victim is through diligence and staying pro-active.

In September, with the passage of the Economic Growth Regulatory Relief, and Consumer Protection Act, consumers gained access to free credit freezes and unfreezes and year-long fraud alerts. It also mandated that freeze requests be completed within one business day.

In June the Supreme Court ruled that states have the authority to enforce the collection of sales tax for online shopping. This will be messy for states with sales tax; but here in Oregon, this will not affect our online shopping since we have no state sales tax.

And of course, the new tax law passed in the early hours of 2018, and all the changes brought on by it, most notably the SALT deduction, whether we itemize deductions or take the standard deduction, and if we continue to benefit tax-wise for our charitable contributions. All of us will be finding out how this new law affects us this upcoming tax season!

And finally, in the category of interesting, but hopefully not relevant to any of us:

A study of Social Security claiming benefits by the Center for Retirement Research, showed the perils of woman not being involved in financial decision making. This study showed that husbands do not generally consider the amount their spouse would receive under their widower benefit when choosing when to take Social Security. Instead, they tend to rely on more immediate concerns, often causing a reduced widower benefit to their spouse if they pass first. Women, get involved!

Happy New Year to All, and thank you for your continued business!!