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Time to Have "The Talk" With Your Children

By Christopher W. Beale, CFP®

No. I'm not referring to the sex talk. The talk you need to have is about college. Not just about choosing the right college academically but also financially.

The college path is not right for everyone, even if the cost was free. Success, happiness and financial security can certainly be attained without a college degree. College diplomas don't come with any written or implied guarantees of future fortune or fame...even diplomas from the most prestigious universities.

That being said, in our technologically sophisticated and complex society, advanced education and training beyond high school may be the best way to better jobs and higher lifetime earnings. According to The Center for Education and The Workforce, the average college graduate with a bachelor's degree, will earn \$2.8 million over his/her lifetime. The average high school graduate with no additional higher education will earn \$1.5 million over his/her lifetime.

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Who is Teaching our Youth Personal Finance?

By Christopher M. Lee, CFP®

As some of you know, this topic is dear to my heart as I currently volunteer my time as President of the Connecticut Jumpstart Coalition for Personal Finance (www.ctjumpstart.org). This Coalition encourages the development and implementation of programs to educate young people about personal financial management and responsibility. This includes convening conferences for students and training sessions for teachers; supporting financial education programs in-school, after-school and in conjunction with community partners.

In this article, I will discuss why teaching personal finance is so important, what new data is telling us, and some things you can do for your kids, grandkids, nieces, nephews, or other children to help them learn personal finance.

But first, why is this so important to me? When we do not teach children about personal finance – about managing household budgets or making informed decisions about larger investments in education or at home – we are condemning them to learning it largely and perhaps entirely on their own, if at all. If we teach them subjects like science, history, and math but do not teach them anything about personal finance, then we need to understand that we are making a conscious choice to release them into a financial world where they have to fend for themselves. Above all, people need to know that there are a few big moments in their lives where they are going to confront specific decisions with potentially massive consequences, such as taking out a mortgage or student loan. Do you go to school here or there? Do you buy this house or that one? How much debt do you take on, and on what terms? Do you understand the consequences? These crucial decisions have huge ripple effects in your life, lasting for years. So while I do believe that personal finance should be discussed at home, I believe that it should be mandated in the school systems.

In a survey conducted in 2012 (through the FINRA Foundation's National Financial Capability study¹) 89% of American parents surveyed thought that a course in personal finance should be a requirement for high school graduation. Even with that high number of parents in agreement, only 17 states currently require a class for high school graduation (Alabama, Arizona, Arkansas, Florida, Georgia, Idaho, Michigan, Missouri, New Hampshire, New York, New Jersey, North Carolina, North Dakota, Tennessee, Texas, Utah, Virginia).

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Time to Have “The Talk” With Your Children

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Before launching into choosing the right college for your child (or yourself), mention must be made about the college admission scandal currently in the news.

Let's separate the parents who hire a consultant to assist them and their high school student on narrowing the list of over 4,500 accredited degree granting colleges in the US to a small manageable number of schools where their child will have a greater probability for success. Nor is the scandal about paying an academic coach to raise SAT scores. This can be a topic for future discussion concerning the opportunity gap from the growing income and wealth inequality in our country.

The scandal is specifically about a small number of wealthy parents who illegally gamed the admissions system to get their children into prestigious colleges. The investigation the FBI dubbed “Operation Varsity Blues” alleges wealthy parents paid William “Rick” Singer \$25 million for cheating on entrance exams or bribing coaches to designate applicants as recruited athletes, even when the student never played the sport competitively.

My assumption is the readers of this newsletter have a moral compass and aren't the target of Operation Varsity Blues but still want help selecting the best schools for their child.

After decades of working as a Certified Financial Planner, my approach to the college selection process is a bit more structured than most. Stephen Covey in his book “The 7 Habits of Highly Effective People” taught us to begin with the end in mind. Stated another way: “What do I want from this investment called college?”

We must ask the right questions. When one of my sons presented me with a list of colleges where he wanted to play soccer, I commended him for his research. I also asked him to put other criteria before soccer. He understood after I asked him to imagine attending college in his freshman year after one week of classes and soccer practice and he got the career ending injury. Would he still want to attend that school? Only then did the right questions come into focus.

- Areas of study – what major was he looking for OR did he want a school offering many choices of majors.
- Would he want a large or small school?
- Would he be on campus or commute?
- Was it a car ride, train ride or a flight away from home?
- Did he see himself in a classroom of 20 students or a lecture hall of more than 100?
- Where would he meet professors, mentors and new friends - the people and places he otherwise would not be exposed to.
- What non-academic activities and opportunities, including internships, would be available?
- Was his only goal monetary . . .to maximize his return on his investment for his time and efforts spent?

The final question for yourself and your child is what financial resources are available from colleges as well as all other sources? I have counseled parents over the years that there is no silver bullet for paying for college. It consists of:

- The money saved beforehand (use a 529 plan and start early)
- Scholarships and grants - \$46 billion in grants and scholarships are awarded annually from the US Dept of Education and colleges and universities, \$3.3 billion in financial aid comes from private sources including foundations, non-profits and professional groups.
- Income from the child working while in college
- Redirecting current income from parents while the child is in school
- Student loans taken out by the student and the parents.
- A warning to parents: retirement savings should take priority over paying for your child's college. According to a Fidelity study, 40% of parents of 10th graders have not discussed how much their kids will be expected to contribute to the cost of college. Forbes recently reported that 44.7 million people have \$1.53 trillion (that's Trillion with a T) in outstanding student loans for an average of \$37,180 per person.

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“It is not what you do for your children, but what you have taught them to do for themselves that will make them successful human beings”

-Ann Landers:
American
advice
columnist

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According to a recent article in Barron’s, 72% of parents say they have put their children’s interest ahead of their own need to save for retirement. 68% said they would be willing to delay retirement to pay for college. This has led more seniors (ages 65-74) to have more debt. Today the number of seniors in debt has doubled to 70% versus 1992.

Well-meaning parents who feel “a cultural requirement” to pay for their kids’ college may not only be harming themselves but also may be hurting their children financially and delaying their ability to mature as responsible adults.

So, let me release you from this self-imposed mandate to get your kid into prestigious schools or any college that you can’t afford. One alternative is attending a community college for two years, which allows all credits to matriculate at state universities. This alternative would cost a fraction of what you would have spent for a private university.

I’ll let you in another secret: What your children do at college matters much more than where they go! The 2014 Gallup-Purdue Index studied 30,000 graduates and found NO correlation between college selectivity and future job satisfaction or well-being. It just makes sense that students who are engaged and study hard, will be the ones who learn and earn the most whether they attend an Ivy League school or a local community college. After all both Chris Lee and I are products of Meriden Public Schools and Connecticut State Universities! As Wall Street Journal reporter, Greg Ip recently noted, “The fact that smart, ambitious children who attend elite colleges also do well in life doesn’t mean the first caused the second”.

“Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young”

-Henry Ford: American captain of industry and business magnate

The community college option

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Some students choose to live at home and attend community college in their freshman and sophomore years.



1. J.P. Morgan Asset Management, using The College Board, 2018 Trends in College Pricing. Future college costs estimated to inflate 5% per year. Average tuition, fees and room and board for public college reflect four-year, in-state charges. Community college costs are based on tuition and fees for an in-district student.
2. Sallie Mae, How America Values College, 2018.

Who is Teaching our Youth Personal Finance?

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The good news is that we are starting to see the results from these personal finance courses in a study conducted by FINRA ² below:

Figure 4: The Effect of Personal Finance Education on Credit Scores, by State and Implementation Year Cohort

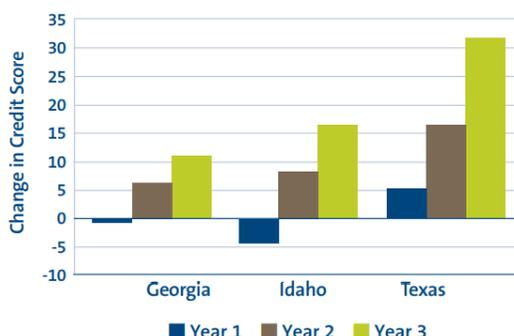
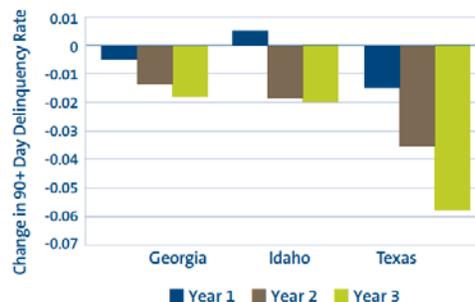


Figure 6: The Effect of Personal Finance Education on Rates of 90+ Day Delinquency, by State and Implementation Year Cohort



The study found that (by focusing the analysis on individual states with intensive mandates where the implementation is well documented) teaching personal finance can improve the credit scores and lower the probability of delinquency for young adults.

Besides making personal finance a graduation requirement, what else can we be doing at home? Below are several ideas:

CFPB's Money as your Grow Bookshelf – You can read these books together (ages 4-10) which can help facilitate conversations (and download a parent reading guide) with such books as *Curious George Saves His Pennies* by Margaret and H.A. Rey. <https://www.consumerfinance.gov/consumer-tools/money-as-you-grow/bookshelf/>

Financial Football (NFL) - Visa and the National Football League have teamed up to help teach financial concepts with Financial Football, a fast-paced, interactive game that engages students while teaching them money management skills. <https://www.financialfootball.com/>. There is also one for soccer as well at <https://www.financialsoccer.com>

Introducing 3 little piggy banks - Experts say a piggy bank—or three of them—can help teach children as young as 5 or 6 the cornerstone of financial literacy: to save and manage money. One bank collects money for spending, another collects money for saving, and the last collects money for giving. Every time your child gets cash, whether it's an allowance or birthday money, he or she can allocate a percentage to each piggy bank.

iAllowance – This app (that can be downloaded for \$2.99) shows kids how to save and spend. Whether you want to set up a weekly allowance or pay out a special reward, this app will help you do that. It also lets you add as many kids as you'd like. <http://www.jumpgapsoftware.com/allowance/index.html>

Additional free resources can also be found at <https://dfi.wa.gov/financial-education/educators/online-games-and-apps>

One thing we can count on is that when our children pass that arbitrary threshold to becoming an adult, we expect them magically to be able to operate “on their own,” and to be able to handle all the decisions (including financial decisions) that go with adulthood. These are significant occasions where you can make a terrible decision by focusing on the wrong things or failing to gather enough information. At a minimum, our young people need to understand which of these decisions are important, and not to treat them casually. As Aristotle once said, “The neglect of education does harm to the political order.”

¹ Council for Economic Education <http://www.councilforeconed.org/resources/local-affiliates/>

² <http://www.finra.org/sites/default/files/investoreducationfoundation.pdf>

“Why don't they pass a constitutional amendment prohibiting anybody from learning anything? If it works as well as prohibition did, in five years Americans would be the smartest race of people on Earth.”

-Will Rogers:
American
humorist and
entertainer

New England Capital News



Our team is growing, and we have two new faces at New England Capital! Lindsey Teach and Maggie Bochenek recently joined us, and they are great additions to our team!

Lindsey has spent the last five years working in the Wealth Management field and is a graduate of Mitchell College. She will be working as a Para-planner, assisting Chris Beale in meetings and also with customer service.

Maggie is a recent graduate of Central Connecticut State University with a Finance Degree. She will be working as a Para-planner, assisting Chris Lee in meetings and also with customer service.

Please make sure you say “Hi” to them when you are in the office or call.

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