

Nefe Digest


January/February 2008

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One of the greatest fears of retirees is running out of their retirement money. It's a well-based concern: people are living longer, many have concerns about Social Security, and fewer companies offer traditional pension plans. Smart decisions about managing money can help optimize retirement income. Conversely, many people face potentially devastating consequences if they make poor financial decisions at crucial times during retirement.

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NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

NEFE Sponsors Think Tank on Retirement Income Decumulation

Retirement asset decumulation and the decisions that influence it are gaining attention as more firms move from traditional pension plans to plans that put the responsibility to save on each individual (such as 401(k)s). This change signals a shift from the classic model of a person receiving a regular source of income through retirement. Now, many Americans are responsible for saving and investing, and then face consequences if they make mistakes or receive sub-par earnings.

Because retirees can make uninformed, unwise decisions that can affect their financial well-being and standard of living in retirement, the National Endowment for Financial Education® (NEFE®) organized a landmark Retirement Income Decumulation Think Tank December 10-12, 2007. Twenty leading national authorities participated.

The experts examined the critical decisions Americans make about decumulation of retirement income and assets. Based on those key decisions, the participants discussed common messages and rules of thumb to guide Americans facing retirement soon. These messages and rules of thumb will be covered in a future issue of the *Digest*. The think tank focused on those with annual household pre-retirement incomes of \$30,000 to \$100,000, because they face greater financial risk than wealthier individuals. The participants at the think tank also considered how best to reach this audience to positively influence behavioral changes that could lead to more financially secure retirements.

“We organized this think tank for the people who are most overlooked in the retirement income decumulation discussion,” said Brent A. Neiser, CFP®, director of NEFE’s Strategic Programs and Alliances department and chief organizer of the think tank. “While these individuals normally are not on public assistance, they often earn less than those targeted by the financial services industry. Additionally, they are unlikely to pay for professional financial advice.”

In preparation for the think tank, Alicia Munnell, Ph.D., and Anthony Webb, Ph.D., of the Center for Retirement Research at Boston College reviewed academic literature to reveal what is known and not known about retirement income decumulation from economic research, behavioral finance, and survey data.

Their report covered six household decision areas: Work,



Left to right: Karen Murrell, senior research fellow at the New America Foundation; Jack VanDerhei, Ph.D., CEBS, EBRI Fellow; and Brent A. Neiser, CFP®, director of NEFE’s Strategic

Programs and Alliances, focus intently on the discussion. John Baron, founder and president of GBSM, Inc., writes down participants’ ideas during a breakout session. Kelli H. Hueler,

Social Security, Housing, Insurance Products, Defined Benefit Pension Plans, and Financial Assets. The think tank experts discussed these six areas in detail, as well as debt and fraud, which were not covered in the Boston College report.

Munnell and Webb identified key decisions for workers and retirees, including:

Work

Although some people need to retire early for health or other reasons (often involuntarily), individuals who are able to continue to work could, in many cases, benefit from delaying their retirement for two or three years. This would give them more time to earn and save money and less time to spend it once retired. Phased retirement — transitioning from full-time to part-time work to full retirement eventually — “appears to be a concept that works better in theory than in practice,” Munnell and Webb observed, due to potential changes in employee responsibilities and pay for part-time work.

Social Security

Choosing when to claim Social Security benefits can have a large impact on how much income one receives in retirement, but many factors need to be weighed. For example, long life expectancy assumptions produce drastically different scenarios than shorter assumptions. People who are likely to live longer could benefit from delaying their Social Security benefits because they’ll be rewarded with larger monthly benefits later, which will make up for the delayed benefits over time.



president and CEO of Hueier Companies, gives feedback to the entire group. Jonathan T. Guyton, CFP®, principal of Cornerstone Wealth Advisors, Inc., offers his opinion.



shift as one goes through retirement. Households, particularly those with significant wealth, must decide on asset location — specifically which assets should be placed in tax-sheltered versus taxable accounts.

Housing

Should one pay off the mortgage or preserve and grow the household's financial assets? Stay or move? Most homeowners have little or no mortgage debt upon retirement, and appear to prefer to “age in place” rather than move. Although few people use reverse mortgages, they offer retirees an income option if their income and investments are drawn down too soon or are affected by adverse market conditions.

Insurance Products

Retirees face numerous choices regarding insurance — whether to buy long-term care insurance, opt for Medicare Part B and/or D coverage, or buy Medigap insurance and life insurance. Recommendations for action depend heavily on one's personal circumstances.

Defined Benefit Pension Plans

Not surprisingly, there also are many decisions involved with defined benefit pensions. Individuals need to decide whether to accept early retirement, when to claim a pension benefit, whether to opt for a single or joint life pension, and how to address inflation risk in the case of a pension that is not indexed to inflation.

Financial Assets

Decisions on how to invest assets depend on an individual's risk tolerance and time horizon, both of which typically



It's easy to see why many people facing retirement feel overwhelmed by all the key decisions they have to make. NEFE's think tank aimed to develop

easily-understood principles to educate, empower, and enable Americans to “make good choices” with their limited retirement resources.

With the entire topic of retirement income decumulation just now emerging as a research focus, the NEFE think tank findings will likely have far-reaching impact on the field of retirement decumulation. A future *Digest* will feature additional information from the think tank.

UPCOMING GRANT DEADLINES

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| FINRA Investor Education Foundation Grants Program | February 8, 2008 |
| FINRA Investor Education Foundation Grants Program | April 11, 2008 |
| Foundation for Financial Planning (FFP) Grants Program | April 30, 2008 |
| NEFE Grants Program | June 3, 2008 |
| FINRA Investor Education Foundation Grants Program | July 12, 2008 |

For more information about these grants programs, visit www.nefe.org/grantmaking.

Maine Independent Living Project and NEFE Grant Gain National Attention



A NEFE-funded project initiated in Maine to help the state's disabled population has sparked interest from other nonprofit organizations seeking to duplicate its success. Developed by Alpha One, a center for independent living, the project teaches money management skills to individuals with disabilities so they can better access the assistive technology and services they need to live more independently. Assistive technology includes wheelchairs, accessible vans, videophones, computer software, and other devices proven to benefit individuals with disabilities, yet can be costly to purchase.

Lisa Rouelle, an independent living supervisor for Alpha One in South Portland, says that the need for such a project became apparent when Maine voters authorized a \$6.5 million loan program to help individuals with disabilities purchase assistive technology. "The problem was that people were being turned down for loans because of poor credit and an inability to repay them," she explains.

Using a \$74,167 grant from NEFE, Alpha One developed a toolkit for consumers and a professional user's guide for independent living specialists, loan officers, social workers, and others who are involved with assistive technology lending programs. "Initially, we planned to concentrate on borrowing so that we could help people have a better chance at success with the loan program. However, our focus groups told us that if we limited ourselves to that topic, we would miss an opportunity to reach people with other important money-management information," Rouelle says. "So, we broadened the scope of the toolkit to address basic money management skills that everyone needs, in addition to a section on acquiring assistive technology."



The resulting booklet, *Financial Freedom: Borrowing for Assistive Technology*, was designed for ease of reading and holding. It soon will be available in Braille and audio versions. The professional user's guide, a dedicated space on Alpha One's Web site, and free ongoing classes round out the project. "In the first three classes, everyone left with a savings account," Rouelle reports. "That was a huge success because many participants had never had a savings account before."

To date, more than 1,000 of the 2,500 booklets have been distributed to consumers, as well as to agencies that are involved in assistive technology funding in Maine and across the United States.

"In the first three classes, everyone left with a savings account."

-Lisa Rouelle

"We participated in a nationwide teleconference and several nonprofits contacted us to obtain the toolkit," Rouelle says. "One of these organizations, the Pennsylvania Assistive Technology Foundation, was so enthused that they requested permission and were approved to add a section to the toolkit

NEFE Grant Investigates Debt Consolidation Ads and Offers

Advertising of debt consolidation programs bombards consumers every day with offers to eliminate their credit problems with affordable monthly payments. Unfortunately, it is not yet known whether these loan consolidation offers might be doing more harm than good for consumers. Researchers, with a \$175,549 grant from NEFE, have set out to look at this issue and, ultimately, hope to help consumers be able to respond responsibly to these debt consolidation offers.

The research will be led by Paul Bloom, Ph.D., senior research scholar of Social Entrepreneurship and Marketing at Duke University's Fuqua School of Business, and will be divided into three consecutive phases.

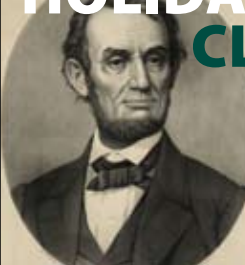
- The first phase will involve obtaining estimates of how many and which types of consumers react in harmful ways to the ads and promotions for consolidation loans. The harmful behaviors that the researchers will be looking for include: failing to modify negative financial practices that initially put the consumer in debt, and engaging in further risky behavior that could lead to more debt.
- The second phase will include the development and pilot testing of a social marketing intervention tool to reduce harm caused by debt consolidation offers.
- The last phase will consist of field testing the intervention tool to show its general applicability. During this phase, the researchers also will provide ideas on how to encourage widespread use of the intervention tool.

The project team also will include researchers Lisa Bolton, Ph.D., assistant professor of marketing at the Wharton School at the University of Pennsylvania, and Joel Cohen, Ph.D., distinguished service professor of marketing at the University of Florida and director of the Center for Consumer Research.

Future *Digests* will provide updates on this project's progress. In the meantime, learn more about the NEFE Grants program by visiting www.nefe.org/grantmaking.

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HOLIDAY CLOSINGS



NEFE will be closed on February 18 for President's Day.

about their project and then reprint it at their cost.

"We've also received interest from nonprofits that work in other areas," Rouelle continues. "The Maine Housing Authority, for example, is reviewing the toolkit to determine if it would be useful to people in managing their mortgage payments."

National attention notwithstanding, Rouelle says that her most gratifying experiences come from watching the progress made by individuals who have taken advantage of the *Financial Freedom* toolkit. "One woman, who is deaf, came to us with the challenge of living on \$630 a month," Rouelle recalls. "She was unable to meet her bills, had received a disconnect notice on her cable, and was overdrawn on her checking account. We began working with her and, within a few months, she was paying her bills on time and living within a budget that she created. Recently, we met her at her bank to help her open a savings account with \$75 she had managed to set aside. She wants to save for a new bed.

"The woman told us that she feels proud to have accomplished all this and that she does not feel 'poor' anymore," Rouelle adds. "Results like this go directly to the heart of our mission here at Alpha One."

To learn more about the *Financial Freedom* toolkit and other Alpha One activities, visit Alpha One's Web site at www.alphaonenow.org. The *Financial Freedom* toolkit also can be found at www.smartaboutmoney.org/financialfreedom.

Visit Alpha One's Web site at www.alphaonenow.org.

Collaborative Programs Department Takes a New Name

NEFE's Collaborative Programs department has changed its name to the Strategic Programs and Alliances department to underscore the natural evolution of the department. While continuing to handle many Collaborative-type projects, Strategic Programs and Alliances will be taking on various new activities.

"The old model for the Collaborative Programs department was to work one-on-one with an organization, such as with the American Cancer Society," said Brent A. Neiser, CFP®, director of Strategic Programs and Alliances. "Now, in addition to producing materials for our end users, we are identifying innovative, new ways to create teachable moments in financial education for a wide variety of Americans."

Learn more about Strategic Programs and Alliances at www.nefe.org/spa.

Digest Gets a New Look

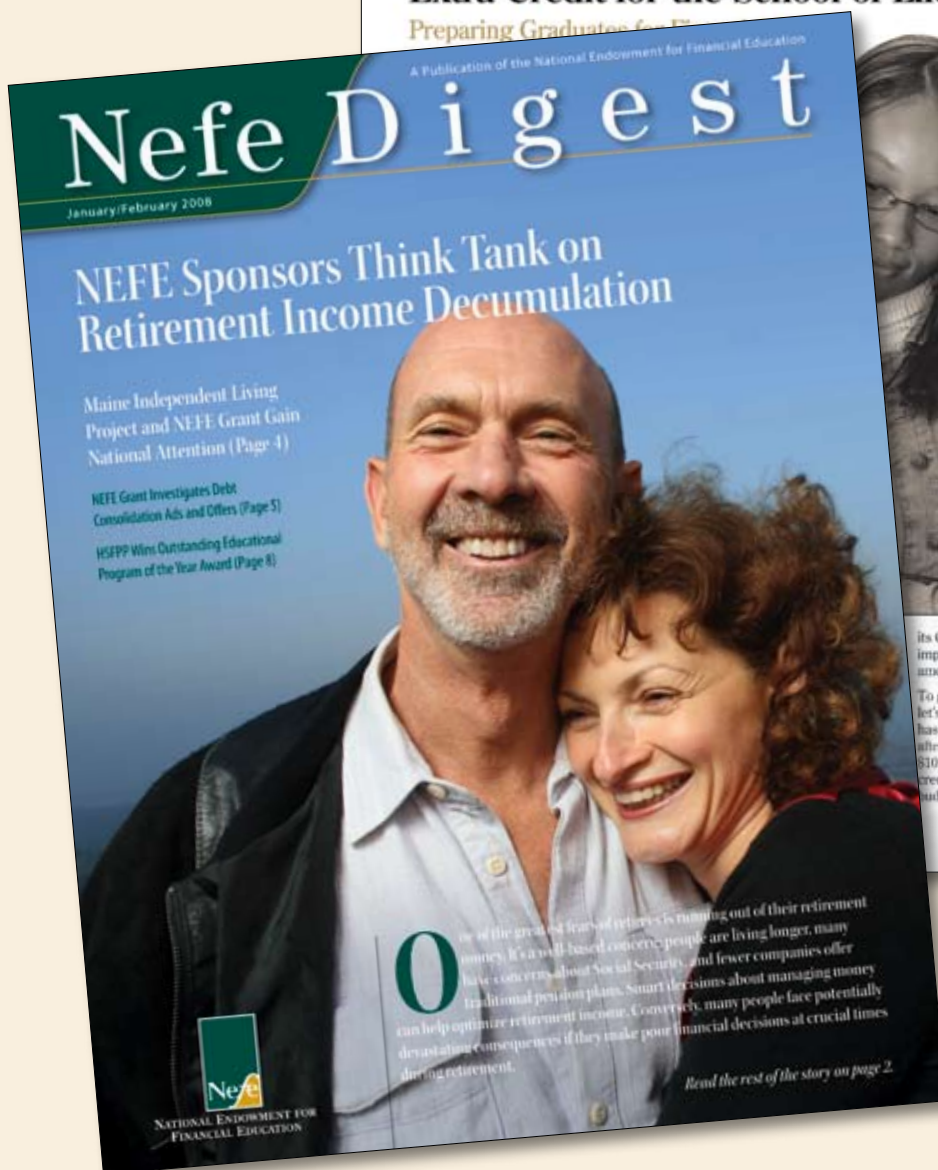
To better relate to its readership, the look of the *NEFE Digest* has been updated. The contemporary, yet classic, design of the new look has a user-friendly layout with more graphics and photos to enhance the articles. If you would like to comment on the new layout, contact Ayelet Drori at add@nefe.org.



Extra Credit for the School of Life:
Preparing Graduates for Life



Inside
Collaborative Programs Announces New Publication ... page 4
School Program Calls Volunteers page 5



NEFE: Who we are and what we do

NEFE is an independent, nonprofit foundation committed to educating all Americans on a broad range of financial topics and empowering them to make positive and sound decisions to reach their financial goals. NEFE's mission is grounded in the belief that regardless of background or income level, financially informed individuals are better able to:

- Take control of their circumstances
- Improve their quality of life
- Ensure a stable future for themselves and their families

NEFE's Guiding Principles

Initiative #1: To empower Americans to achieve their life goals through the prudent and informed management of their financial resources.

For example, NEFE has supported this initiative with its online consumer resource, the *Smart About Money* Web site. This site was designed to provide quick and easy access to personal finance topics and challenges many consumers face.

Initiative #2. To help instill in all Americans the commitment to save toward the realization of their financial goals and their future financial security.

Initiative #3. To assist consumers in understanding and actively participating in the management of their investments.

Initiative #4. To better prepare all Americans for their retirement years.

NEFE's latest focus on the topic of retirement is featured in this *Digest's* report (page 1) on the retirement income decumulation think tank held in December 2007.

Initiative #5. To encourage in the nation's young people an understanding of personal financial planning and the acquisition of sound money management skills.

Two of NEFE's programs strive to reach teens and young adults with financial education basics. The NEFE High School Financial Planning Program® (HSFPP) offers a free financial education to high school students nationwide. Additionally, CashCourse, a Web site colleges, universities, and alumni associations can offer to their students, is an easily-implemented, noncommercial financial education tool. By offering these two programs and many others, NEFE is helping create a population of fiscally responsible and self-reliant adults.

Initiative #6. To effect the financial education of individuals in special circumstances, and to support the development and delivery of programs and materials related to their unique needs.

Individuals in special circumstances often face unique financial challenges that make it difficult to use effectively the

The mission of the National Endowment for Financial Education is to help Americans acquire the knowledge and skills necessary to take control of their financial destiny.

mainstream personal financial information available to the public. In addition to their basic circumstances, these individuals may face obstacles, such as limited financial resources, language barriers, low-literacy levels, or a lack of access to technology. NEFE has identified several groups whose members could be served through a special personal financial education initiative. These include:

- Individuals who are no longer married (those both widowed and divorced, particularly women)
- People transitioning from welfare to the workplace
- Single parents
- Individuals with disabilities
- Immigrants
- Institutionalized populations (such as residents of substance abuse centers, halfway houses, and ex-offenders transitioning back into society)

Initiative #7. To expand the financial literacy body of knowledge through research in support of developing a discipline that prepares educators and other intermediaries to improve the financial well-being of the public.

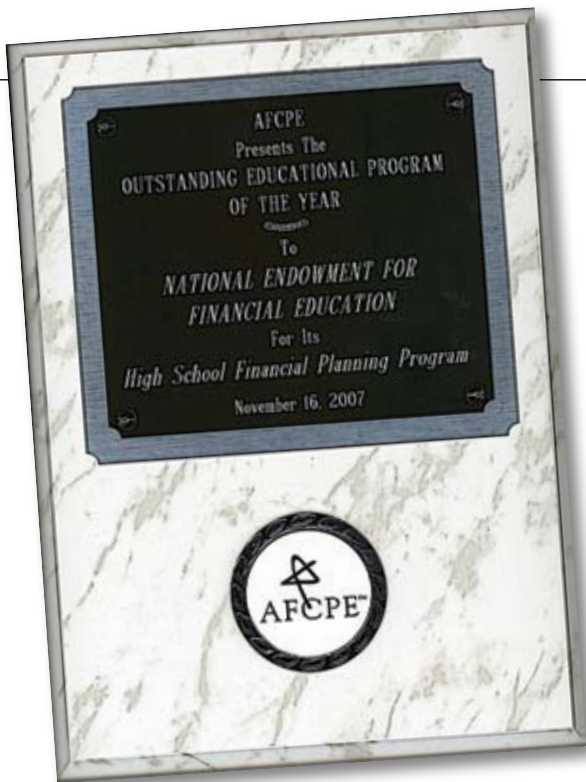
NEFE has provided grants for projects that range from studying the preparedness of teachers to teach financial education, to developing a model workplace financial education program, to creating a tool to evaluate financial education programs.

Initiative #8. To support proactive research of consumer, social, and business trends; underlying assumptions; attitudes; root causes; and related facets of financial well-being whose outcomes achieve innovative and actionable financial education solutions.

NEFE recognizes that these initiatives may require revision or expansion and is committed to maintaining dynamic, practical initiatives to guide its efforts and amplify its mission.

Learn more about NEFE at www.nefe.org.

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HSFPP Wins Outstanding Educational Program of the Year Award

The Association for Financial Counseling and Planning Education (AFCPE) recently presented the Outstanding Educational Program of the Year award to the NEFE High School Financial Planning Program® (HSFPP). The Outstanding Educational Program award honors a program's impact on the field of financial planning. AFCPE is a professional organization focused on supporting, promoting, and advancing the field of financial counseling and planning education. Learn more about AFCPE at www.afcpe.org.

Learn more about the NEFE HSFPP at hsfpp.nefe.org.

NEFE Digest is published bimonthly by the National Endowment for Financial Education, 5299 DTC Boulevard, Suite 1300, Greenwood Village, CO 80111.

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