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2021 Personal Finance Year in Review

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Connecting military family service providers
and Cooperative Extension professionals to
research and to each other through
engaging online learning opportunities

<https://militaryfamilieslearningnetwork.org>



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Today's Presenter



Dr. Barbara O'Neill, CFP®, AFC®

Distinguished Professor Emeritus at Rutgers University
Personal Finance Expert



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Disclaimer

Disclaimer Statement

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Webinar Objectives

Present a 2021 “Financial Year in Review”

- Key findings from 2021 personal finance research studies
- Key findings from 2021 government data
- Key 2021 financial events and trends and products
- Key government legislation/policies affecting personal finance
- Preview of expected 2022 personal finance changes
- Key take-aways of 2021 events for financial practitioners

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What do you think was the most significant personal finance event of 2021?



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2021 Highlights

2021 Personal Finance Events and Trends

THE GREAT RESIGNATION AND RE-EVALUATION Shortest (2-Month) Recession Announcement (NBER) *#1 Fraud: Imposter Scams* Used Car Price Appreciation

Chip Crisis Pent-Up Demand Widespread Bidding Wars for Houses WallStreetBets

Supply Chain Issues Five Eviction Moratorium Extensions NFTs and SPACs > \$25,000 Used Vehicle Average Price

2021 Charitable Contribution Deduction: \$300 (s)/\$600 (mfj) Worker Shortages > \$40,000 New Vehicle Average Price Stimulus

Pricey Homeowners and Flood Insurance Premiums "Surprise Billing" Rule Issued PSLF Student Loan Forgiveness Relief

Big CPI-U Increase (Inflation) STUDENT LOAN PAYMENT SUSPENSIONS Inflation-Hedging Series I-Bonds and TIPS

COVID-19 SCAMS **Increased Ransomware Attacks** "Lottery Investments," meme stocks, meme cryptocurrency, and FOMO

Advance Child Tax Credits DELAYED TAX REFUNDS Tax leniency on unemployment benefits Increased SNAP benefits

DJIA 125th Anniversary: 32K, 33K, 34K, 35K, 36K FIRST BITCOIN ETF American Rescue Plan Act (ARPA) "RETIREMENT RETHINKING"

Increased Number of States With Financial Education Mandates

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Key Findings from 2021 Personal Finance Research Studies

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Financial Self-Efficacy (FSE)

- Negative and significant relationship between confidence in achieving a financial goal and retirement preparation (i.e., active savings)
- Income and FSE had positive significant relationships with retirement preparation

Implications:

- Caution clients against becoming overconfident in their ability to achieve financial goals
- Foster FSE in clients; remind them of past financial accomplishments and celebrate goal achievement

Source: Sturr et al. (2021), *Journal of Financial Planning*

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Personal Financial Salience

- People who use app- and web-based products allocate “attentional resources” to their finances
- Those who sometimes and frequently use app- and web-based tools are more likely to have an emergency fund, find it easier to cover bills, save for children’s college, and plan for retirement

Implication:

- Engage learners with financial apps like Sen\$e and My Navy Financial Literacy and resources from FINRED and Military OneSource

Source: Pearson (2021), *Journal of Financial Planning*

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Gender Differences in Financial Literacy

- Financial knowledge explains 2/3 of financial literacy gender gap; remaining 1/3 is confidence levels
- Women disproportionately use “do not know” on knowledge tests but answer correctly if DNK is not available (they know more than they think they know)

Implications:

- Help instill confidence through learning experiences
- Increase outreach to female service members and spouses
 - Use the resources at <https://www.milspousemoneymission.org/>

Source: Bucher-Koenen et al. (2021), NBER Working Paper

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Financial Literacy and Financial Anxiety and Stress

- Lack of assets, high debt, and money management challenges are major contributing factors to high financial anxiety and stress
- Those who could correctly answer three basic financial literacy Qs were less likely to feel financially anxious or stressed

Implications:

- Reduce stress and build financial knowledge and resilience through installation financial trainings and counseling
- Refer clients to free resources for clinical and non-clinical counseling through installation family readiness centers and Tricare service providers

Source: Hasler et al. (2021), GFLEC research report

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Why People Don't Save

- Study: 54% of older Americans regretted not saving more money over the past 20-30 years
- Biggest reason: "unpleasant surprises"
- Tendency to procrastinate was a secondary factor

Implications:

- Meet people where they are to foster savings
- Help people identify and overcome saving obstacles

Source: Center for Retirement Research (2021)

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Student Loan Decision-Making

- Study found evidence of anchoring bias as a reference point for decisions
- People are influenced by life experiences; this could limit support for first generation students with no family college and student loan experience

Implication:

- A lack of parental college experience may necessitate greater outreach to first-gen students
- Educate service members who are first-gen students about funding options such as the GI Bill

Source: Porto et al. (2021), *Journal of Family and Economic Issues*

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Financial Risk Tolerance (FRT)

- Study explored relationship of FRT and stock market performance (recency bias)
- A decrease in FRT after market high across the sample; women took longer to “process” market data
- FRT decrease most acute for younger, nonmarried respondents with few investable assets
- Practitioners play a buffering role by calming clients

Implication:

- Educate clients about market history and risks

Source: Rabbani et al. (2021), *Journal of Financial Counseling and Planning*

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Retirement Planning

- Accurate retirement planning (starting at any age) requires assumptions about life expectancy (LE)
- Most assumptions do not incorporate “tail risk” associated with a longer potential retirement period
- Simulations: adding 5 years to projected LE for singles and 8 years to longest LE of either member of a joint household is an appropriate assumption

Implication: Revisit retirement period assumptions regularly to ensure they are timely

Source: Blanchett (2021), *Journal of Financial Planning*

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Retirement Savings

- Factors associated with calculating retirement savings need: favorable attitudes, strong social norms, and perceived behavioral control
- Factors associated with IRA ownership: calculating retirement savings need, perceived behavioral control, and having an employer retirement plan

Implications:

- Understand psychological factors behind calculating retirement savings need
- Make it easy for people to do this (e.g., TSP calculators)

Source: Magwegwe & Lim (2021), *Journal of Financial Counseling and Planning*

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Personality Traits and Financial Success

- First paper to examine relationship between “Big Five” personality traits (O.C.E.A.N.) and four financial outcomes: Financial literacy, risk tolerance, income, net worth
- Conscientiousness: (+) with RT, income, and NW
- Neuroticism: (-) with FL, income, and NW

Implication:

- Take clients’ unique personalities into account in financial coaching/counseling/education

Source: Exley et. al. (2021), *Journal of Financial Planning*

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Finances of Military Spouses

- Study examined financial boundary ambiguity among military spouses following a deployment
- Findings indicate that role flexibility and clear/open communication are related to less financial boundary ambiguity and higher marital quality

Implications:

- Include information on fostering communication around financial roles during times of transition
- Also include information about reducing stress around financial uncertainties
 - Milspouse Money Mission website has resources: <https://www.milspousemoneymission.org//>

Source: O’Neal et al. (2021), *Family Relations*

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Military-Related Stressors

- Examined associations between objective/subjective military stressors and couple/family functioning
- Subjective, but not objective (e.g., rank, deployments), indicators of military stress were associated with family well-being (for both AD and civilian partners)

Implications:

- This study indicates the importance of understanding subjective experiences of military-related stress
- Take a holistic approach to financial counseling that includes consideration of military stressors

Source: O'Neal & Lavner (2021), *Family Relations*

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Key Findings from 2021 Government Data

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2020 SHED Results (May 2021)

- Nearly ¼ of adults said they were worse off vs. 2019
- More than ¼ of adults had 1+ bills they were unable to pay in full; more than a third were one \$400 financial setback away from being unable to pay them
- 14% of adults got unemployment benefits (vs. 2% in 2019)
- Gaps in financial well-being by race, ethnicity, education
- Adults with < high school education fell further behind

Implication:

- Need targeted outreach to those hurt most by COVID-19

Source: Survey of Household Economics and Decision-Making analysis (2021)

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Census Data Analysis

- Median household income in 2020: \$67,521
 - 2.9% decrease from \$69,560 in 2019
 - First statistically significant decline since 2011
- Number of full-time workers decreased by 13.7 million between 2019 and 2020
 - 6.2 million female workers; 7.5 million males
- The official poverty rate in 2020 was 11.4% (10.5% in 2019)

Implications:

- Quantitative evidence of COVID-19 impact on American families;
- May have impacted military families with two incomes

Source: U.S. Census Bureau analysis (2021)

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**What is your biggest 2021
personal finance research
take-away?**



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**Key 2021 Financial
Events and Trends**

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Housing: Homeownership

- COVID catalyzed a rethinking of housing priorities
- 15-year high in home price growth
- Housing inventory at record-setting lows
- Record high prices of existing homes
- Median home price: \$342,350 (July); up 23% (1 yr.)
- Low appraisals upended many home sales

Implication: Military families moving during the pandemic may have been able to sell their house easier but have had difficulty securing a new home after a PCS.

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Housing: Renting

- Rental relief distribution was slow; months of delays
- “Hot” rental market; 11.5% increase (8/20-8/21)
- Increase in build-to-rent home construction
- More stringent tenant screening by landlords
- Evictions rose modestly after moratorium ended

Implication: Rental prices far exceeded BAH in some areas and leases locked in prices that affect family budgets and well-being for length of a lease

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Incomes and Jobs

- Job losses in 2020 were the worst since 1939 (2021 report)
- Worker shortages (fear of COVID, childcare, stimulus)
- Tight labor market (result: higher pay, bonuses, new perks)
- Many jobs lost will be eliminated permanently (e.g., AI)
- Big labor market bounce back (October 2021)

Implication: These trends can affect spouse employment and household income for two income military households

- Resources: <https://myseco.militaryonesource.mil/portal/>
- Training: <https://mycaa.militaryonesource.mil/mycaa/>

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Supply Chain Shortages

- Product manufacturing delays, shortages of shipping containers and laborers to offload cargo
 - Retailers had difficulty stocking shelves (e.g., bikes, outdoor gear, appliances, fitness items, and more)
- “Chip Crisis”: cars, home appliances, servers, computers/tablets, items with electronic parts
 - Unfinished products waiting for parts
- Truck driver shortage vs. freight hauling need
- U.S. economic recovery is “without historical parallel”

Implication: Military family spending may be affected by higher prices, costs, and availability of materials

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Inflation

- 6.2% increase in CPI-U (10/20-10/21)
- Biggest increase in three decades
- Inflation disproportionately hurts the poor
- Biggest expense category increase: energy
- Inflation essentially erased low-wage workers' gains
- 5.9% increase in 2022 Social Security COLA and benefits for military retirees and disabled Veterans

Implication: Inflation cuts both ways - increased income from COLAs and decreased purchasing power from higher costs

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Cars

- New vehicle price topped \$40,000 for first time (1/21)
- Supply vs. demand mismatches drove up prices
- Record price for pre-owned vehicles: \$25,463 (4/21)
- More vehicles sold above sticker prices
- Used car values increased (vs. typical depreciation)
- Car chip crisis predicted to extend for years

Implication: May need to make note of current conditions in car buying counseling and classes, even if temporarily.

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Credit

- >175 million U.S. credit card users (1/21 CFPB report)
- Risky borrowers fell behind on car payments
- More Americans tapped their homes for cash
- Record level borrowing: 39% increase in April
- Lenders are relying less on FICO scores

Implication: Financial educators may need to increase outreach about credit management as families recover

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Fraud

- 2021 FTC Report: >2.1 million fraud reports in 2020
 - Most common type of scam was imposter scams
- COVID-19 Scams
- Unemployment benefit fraud (fraudulent 1099-Gs)
- Growing number of ransomware attacks

Implication: Encourage clients to report fraud through proper channels (FTC, CFPB, IRS, etc.) if they believe they may have been affected

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Income Taxes

- Tax filing deadline extended to May 17, 2021
- Advance Child Tax Credit payments (7/21-12/21)
- Multiple state tax returns due to remote work
- \$10,200 of 2020 unemployment tax-exempt (2021 filing)
- Millions of delayed tax refunds
- 11 million “math error notices” (mostly for stimulus)
- \$300/\$600 charitable write-off in 2021 does NOT affect AGI

Implication: Seek help from MilTax service on MilitaryOneSource.mil for tax questions

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Investing

Note: This slide does NOT endorse any specific investment products and is just reporting recent trends

- Inflation fears boosted sales of U.S. government bonds
 - TIPS and Series I bonds are indexed for inflation
- “Meme” stock and cryptocurrency frenzy
- Increased demand for ESG investments
- DJIA milestones: 31k (1/21) to 36k (11/21)
- U.S. investors’ highest % of assets in stock on record
 - 41% of total financial assets

Implication: Financial counselors and educators must be aware of current investing trends to respond to client questions

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Retirement Planning

- COVID-19 triggered a widespread “retirement rethink”
- Interest in mandatory state auto-IRAs increased (good for military spouses)
- Change in TSP catch-up contributions process (age 50+)
 - No longer need to make a separate catch-up election
 - Contributions exceeding \$19,500 limit (2021) count toward catch-up

Implication: Clients who rethink their retirement plans may need assistance with planning tools and frank conversations

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Demographics: Diversity and Life Expectancy

- U.S. white population shrank for the first time in history; now < 60% of U.S. residents (2020 census)
- Second slowest U.S. census growth on record
- U.S. life expectancy fell by 1.5 years
 - More people died than born in half of U.S. states in 2020
 - U.S. population growth of 0.35% (7/19-7/20), the lowest % EVER documented

Implications:

- Increased diversity calls for more cultural sensitivity in delivering financial training or counseling
- Less population funding for Social Security may necessitate more dependence on personal assets for retirement

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**Any other interesting 2021
financial events or trends?**



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**Key Government
Legislation, Policies,
and Reports Affecting
Personal Finances**

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American Rescue Plan Act

- ARPA signed into law on 3/11/21; \$1.9 trillion cost
- \$1,400/person stimulus for *many* Americans
- Extension of extra \$300/week unemployment benefit
- One-year expansion of child tax credit; refundable
- Child and Dependent Tax Credit refundable in 2021

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American Rescue Plan Act

- \$22 billion for rental assistance
- Enhanced EITC for childless low-income workers
- COBRA continuation coverage credit
- Student loan forgiveness (e.g., if requisite # of payments)

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SECDEF Memo/DoDI 1322.34



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

NOV 17 2021

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND DOD FIELD ACTIVITY DIRECTORS

SUBJECT: Strengthening Economic Security in the Force

In March 2021, I issued a memo to DoD leadership outlining my three top priorities: defend the Nation, take care of our people, and succeed through teamwork. Since that moment, I have remained steadfast in my commitment to take care of our people, and I am proud of the work we have accomplished to date. Our people and our readiness remain inextricably linked, and we remain the preeminent fighting force in the world because we strive to continuously improve how we care for our people.

As we approach the holiday season, a critical issue I want to address is economic security. I understand that today some of our Service members and families are experiencing economic challenges related to the COVID-19 pandemic and to increasingly competitive housing markets. These challenges manifest in a number of ways, including reports of food insecurity, extended wait times for housing, drastically reduced housing inventories, and sudden, sharp increases in rental or purchase costs for housing.

While additional data collection and analysis to better understand the full scope of the issue are underway, particularly around food insecurity, I will not delay in implementing solutions to aid those who we know are in need. The Department will provide immediate relief to alleviate economic insecurity, while at the same time continuing to train and educate the Force on financial readiness. We must also eliminate the stigma that many feel when seeking help, particularly when it comes to accessing food, and we must encourage everyone to use available resources.

This is a complex problem and every level of the Department will own a piece of the solution. However, based on their proximity to the issue, I see our commanders and direct leaders as the most significant, decisive level of leadership. My intent is to move swiftly to support Military Department and Service leadership with relevant policy and resources. Therefore, I am directing the following actions:

Provide immediate relief.

- Implement temporary Basic Allowance for Housing increases for Service members in areas that have experienced greater than or equal to a 10% increase in rental costs this year.
- Implement a process for extending Temporary Lodging Expense reimbursement beyond 10 days for locations where housing shortages exist.





DOD INSTRUCTION 1322.34

FINANCIAL READINESS OF SERVICE MEMBERS

Originating Component: Office of the Under Secretary of Defense for Personnel and Readiness

Effective: November 5, 2021

Releasability: Cleared for public release. Available on the Directives Division Website at <https://www.esd.whs.mil/D3/>

Incorporates and Cancels: Directive Type Memorandum 19-009, "Financial Readiness Common Military Training Requirements," August 13, 2019, as amended

Approved by: Gilbert R. Cisneros, Jr., Under Secretary of Defense for Personnel and Readiness

Purpose: In accordance with the authority in DoD Directive 5124.02, this issuance establishes policy, assigns responsibilities, and prescribes procedures and requirements for efforts to promote and sustain the personal financial readiness of Service members.

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Government Actions and Reports Affecting Personal Finance

- 2021 NBER Report: COVID-19 recession ended in April 2020
- Big boost in food stamp benefits (effective 10/1/21); may affect some military families
- Increase in number of states with financial education mandate bills

Implication: Future service members may be more financially savvy if they take a personal finance course in HS

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COVID-19 Related Financial Impacts

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COVID-19 Financial Impacts

- COVID-19 deaths top 675,000 killed by 1918-19 Spanish Flu (9/20/21); 795,000 deaths (11/26/21)
- Unprepared young adults dealing with parents' estate plans (or lack thereof)
- Vaccination incentives and penalties
- Lifetime income loss of nearly \$600,000 for women
 - Lost income, reduced future retirement benefits

Implication: Military families may have been negatively affected by lost spousal income and COVID-19 deaths

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Preview of Expected 2022 Personal Finance Changes

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Income Taxes

- 2022 contribution limit for retirement savings plans (e.g., TSP):
 - \$20,500 (up \$1,000) and \$27,000 (age 50+)
- 2022 contribution limit for IRAs: \$6,000 (no change)
- Updated IRS life expectancy tables: smaller RMDs in 2022

Old Table: Factors for 2021 and earlier		New Table: Factors for 2022 and after	
Age	Distribution Period	Age of employee	Distribution period
70	27.4	72	27.4
71	26.5	73	26.5
72	25.6	74	25.5
73	24.7	75	24.6
74	23.8		

Annotations: An arrow labeled "Old 73" points from the old table's age 73 (24.7) to the new table's age 73 (26.5). An arrow labeled "New 73" points from the new table's age 73 (26.5) to the new table's age 74 (25.5). A large arrow labeled "Larger factor = smaller RMD" points from the new table's age 73 (26.5) to the new table's age 74 (25.5).

Source: Internal Revenue Service (IRS) uniform distribution tables

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Key 2021 Take-Aways

- Tasks related to the use of financial apps can be motivational
- Continued evidence of financial fragility and SS instability
- “The Great Re-Evaluation” (jobs, housing, personal values)
- Record prices for new/used vehicles and existing houses
- Inflationary price increases and shortages expected into 2022
- Government aid (ARPA) was a lifeline for many Americans
- SECDEF Economic Security Memo and DoDI 1322.34

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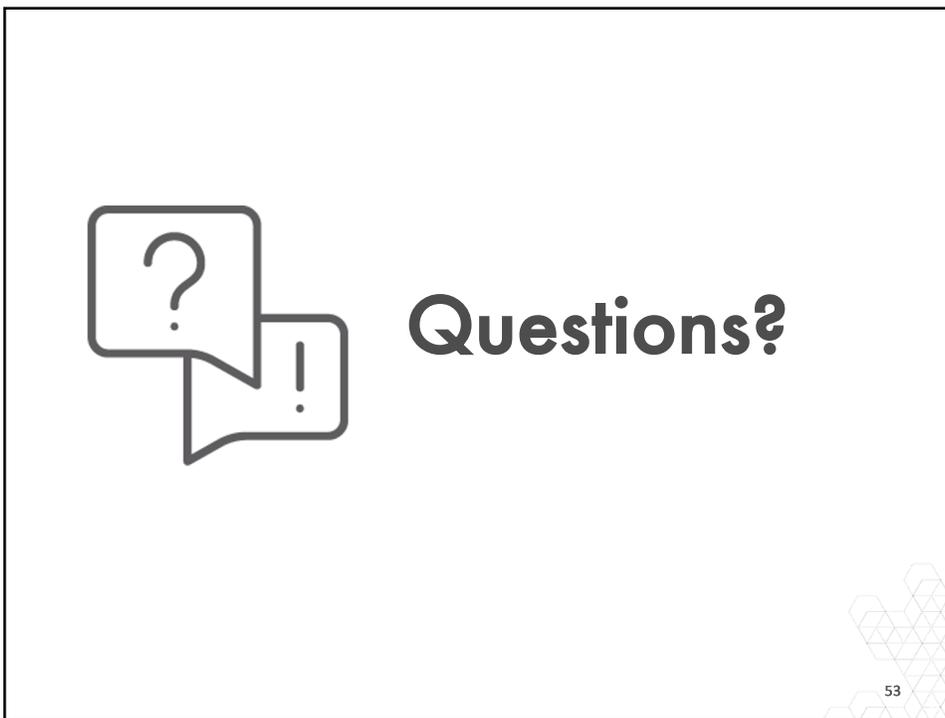
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Reflection Activity

One thing I already knew:	One thing I learned:
One thing that I will share with a client, family member, or friend:	One personal behavior change that I will make:

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Upcoming Event

Helping Gen Z Service Members Navigate Their Finances



Tuesday, January 25, 2022
11:00 a.m. – 12:30 p.m. EST

Event Page:
MilitaryFamiliesLearningNetwork.org/event/111943/

As the youngest generation of service members, those who are part of Generation Z (born after 1996) have unique life experiences and financial understanding that may present challenges for Personal Financial Managers (PFMs). In this webinar, Dr. Michael Gutter discusses differences between Gen Z and previous generations, with special emphasis on technology use and financial management. Join to discover tips and tools for working with Gen Z Service members in a financial counseling setting.

Continuing education credit will be available for this webinar!



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This webinar has been approved for the following continuing education (CE) credits:

- 1.5 CE credits from the **Association for Financial Counseling & Planning Education (AFCPE)**
- 1.5 CE credits from the **Center for Financial Certifications (FinCert)**
- 1.5 CE credits from the National Council on Family Relations for **Certified Family Life Educators (CFLE)**

Evaluation Link

Go to the event page for evaluation and post-test

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Questions?

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