The Young Person's Guide to Wisdom, Power, and Life Success:

Making Smart Choices

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The Young Person's Guide to Wisdom, Power, and Life Success: Making Smart Choices

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Appendix A

What Trusted Adults Need to Know

I am not young enough to know everything.
~ J. M. Barrie, creator of *Peter Pan*

The Gist

<u>The Good:</u>

- Overwhelmingly, your kids trust you as parents
- Tribal elders are their kids' most trusted source of financial advice

<u>The Bad:</u>

- NeXters move back in with parents primarily for economic reasons
- Many young persons have been insulated from financial reality
- The dirty little secret: Boomers and NeXters face a retirement crisis
- If you don't get it, they won't get it

<u>The Reality:</u>

- The world that tribal elders knew, understood, and controlled is changing
- Young persons are "mad as hell" and don't want to take it anymore
- Boomers have belatedly discovered their financial vulnerability
- Parents, don't sacrifice your retirement to support your adult children

Introduction

And these children that you spit on
As they try to change their worlds
Are immune to your consultations
They're quite aware of what they're going through.
~ David Bowie, English musician, from *Changes*

This appendix is for parents and other trusted adults. A trusted adult is an older person with life experience who is close to a member of Generation NeXt (16 to 30 years old). Trusted adults may be a grandparent or other close relative, an educator, or maybe just a good friend. Collectively, we call these people who closely connect with young persons their "tribal elders."

About half of Gen NeXters will live to be more than 80 years old. Yet many of them will spend some or all of their golden years in poverty. This need not be preordained! The problem is many NeXters simply do not have the interest, patience, or maturity to think about their long-term personal economics. Chances are you acted the same way when you were this age. The difference is you now have the benefit of hindsight. Your task is to discuss the long-term implications of poor life-choices with young persons you care about. Share your knowledge, experiences, and wisdom with them. If you fail to comprehend the big picture, they will too.

The Good

To me, life is like the back nine in golf. Sometimes you play better on the back nine. You may not be stronger, but hopefully you're wiser. And if you keep most of your marbles intact, you can add a note of wisdom to the coming generation.
~ Clint Eastwood, actor, director

Overwhelmingly, your kids trust you as parents. Numerous studies show parents having a very significant positive influence in the lives of their children. When asked about their degree of contentment, 73 percent of 1,280 young persons ages 13–24 said their relationship with their parents made them very or somewhat happy. Roughly eight-in-ten Gen NeXters said they talked with their parents in the past day; nearly three-in-four saw their parents at least once a week; and half said they saw their parents daily. Seventy percent of 9,000 college students surveyed said they communicated "very often" with a parent or guardian, with electronic means being the most common and expect to retain close parental bonds after leaving home. In their study *Avoiding the Workforce Crisis*, The Concours Group confirmed that Generation NeXt is strikingly family-centric:

- 86 percent trust their parents;
- 90 percent of teens report being *very* close to their parents (in 1974, more than 40 percent of Boomers said they'd be better off *without* their parents);
- Parents are often cited as their heroes.

Independent in most everything else, the one area where young persons respect and listen to their tribal elders' views is money and finance. According to the NOP Research Group, the overwhelming majority of 18–24 year olds (88 percent) say their parents are an important influence on decisions regarding money. In a study by the American Savings Education Council of 1,000 students ages 16 to 22, 94 percent said they turn to their parents for financial advice on major decisions. About three-quarters of Gen NeXters say their parents have helped them financially in the past year and parent-child co-purchase decisions are common. Regardless of background or living circumstances, parents and grandparents continue to have a major impact on the finances and financial attitudes of this generation.

Reali-tude:
NeXters turn first to tribal elders for financial advice.

The Bad

I'm not a girl, not yet a woman.
~ Britney Spears, entertainer

Researchers tell us that most 18- to 25-year-old individuals do not consider themselves to be adults. A *TIME Magazine* cover story let America "Meet the Twixters," young adults who live off their parents and personal networks, try one career and then another, and fall in and out of love. According to the report, "They're not lazy…THEY JUST WON'T GROW UP" (emphasis theirs). This period, referred to by psychologist Jeffrey Arnett as "emerging adulthood," is a time of protracted adolescence and delayed entry into adulthood. It is a time of ongoing exploration of, and experimentation with, possible life directions.

That is much different from the Baby Boom generation, writes political commentator David Brooks. "People who were born before 1964 tend to define adulthood by certain accomplishments—moving away from home, becoming financially independent, getting married, and starting a family," he says. "In 1960, roughly 70 percent of 30-year-olds had achieved these things. By 2000, fewer than 40 percent of 30-year-olds had done the same."

Lacking a clear sense of direction, many NeXters return home to the nest, where the rules are murky. Often to the distress of their parents, this has allowed them to stay younger and responsibility free for longer. Old success recipes don't apply, new norms have not been established, and everything seems to give way to a less permanent version of itself. The job market is fluid. Social life is fluid. Life is fluid. This is now so common that NeXters are snarkily referred to as the *Boomerang Generation* by Boomer parents.

But the prime mover behind this mass migration of young persons is not R&R. It is lack of moolah. Experience Inc., a Boston firm that recruits at universities across the country, found more than half of the students surveyed moved in with their parents after college, and 48 percent of these said they did so to save money.

> *Contrary to popular stereotypes, the reason kids are moving back in with their parents, can't land career-path jobs, and take longer to graduate from college and settle down isn't just a widespread generational laziness or some other pervasive psychological flaw. The reason is overwhelmingly economic.*
>
> ~ Anya Kamenetz, author of *Generation Debt: The New Economics of Being Young*

Social researchers confirm this. The Pew Research Center found that almost seven-in-ten Baby Boomers with kids are supporting an adult child financially. Investigators at the University of Michigan found that parents—regardless of how much money they have—give an astoundingly large average of 10 percent of their income to their adult children. "Children are still our largest expense, well after they leave home," says economist Barry Bosworth at the Brookings Institution. Taking care of your adult children is one of those things that you don't expense for and many parents do not see how bankrolling their adult children could be hurting their own financial future.

Today's problems, yesterday's solutions?

> *In times of change, the learner will inherit the earth while the learned are beautifully equipped for a world that no longer exists.*
>
> ~ Eric Hoffer, philosopher

Okay Boomers, so your children are Klingons. This would seem to be an excellent learning opportunity to set a good example of fiscal responsibility. Are you measuring up?

In a word, no. Boomers candidly admit that they have not succeeded in their efforts to transmit their traditional values of thrift and self-discipline to their children. And the stats are not encouraging. Despite young persons' hunger for guidance, only three-in-ten American parents talk to their children regularly about personal finance and even fewer (26 percent) of 13 to 21 year olds report their parents actively teaching them how to manage money. Financial planner Mike Condrey finds that only two-in-ten young adults age 16–22 have ever had a personal finance class. This means that a lot of young persons are not getting the coaching they need to adequately prepare them for the economic realities of adulthood.

I'm a 25 year-old recent graduate and I am attempting to become financially literate—which includes learning about and contributing to my retirement, investing, and the like. I agree that our generation exhibits extremely immature behavior when it comes to saving and consuming. However, I do not place the entire blame on simply making excuses and laziness. There is a lack of awareness that should be addressed by not only students but also parents, colleges, and employers. Learning how to properly manage your money has to be taught and practiced—things our generation has gone without (at least, that was the case with me).

~ Nina S., "Downside of Youth"

Boomers, think back to 1968. That was the year that civil rights leader Martin Luther King, Jr. and former U.S. attorney general Robert F. Kennedy were assassinated. LBJ surprised the nation by choosing not to run for reelection. Richard Nixon was elected President with his sidecar, Spiro Agnew. But none of these was the most important event that year. What was significant to you then was turning eighteen! Somewhere, you have the birthday photo (complete with red eyes) that Mom took of you with her Instamatic and pop-on Flashcube to prove it.

Fast-forward to your big "SIX-OH" celebration. Today your camera might better be described as a sophisticated computer that happens to do a decent job of recording images. Consider how Alan Cooper (called the father of Visual Basic) described his latest camera:

My newest camera…is a third generation digital camera and the smartest yet. In fact, it has a full-blown computer that displays a Windows-like hourglass while it "boots up." Like some mutant fish with extra heads, its On/Off switch has now grown to have four settings: Off/ARec/MRec/Play. "ARec" means "automatic record" and "MRec" means "manual record." As far as I can tell, there is no difference. There is no "On" setting, and none of my friends can figure out how to turn it on…

~ Alan Cooper, from *The Inmates Are Running the Asylum*

What's the big deal Neil? Attention white-haired shoppers—this is not the world that you grew up in![342] The parable of the Instamatic versus the digital camera illustrates that yesterday's simplistic solutions may not be appropriate for today's complicated situations. Young persons face far more complexity today than their tribal elders did. And the better prepared young persons are to adapt and change, the better they can assert themselves and succeed.[343] Of course, this requires that they think farther than one weekend ahead and more deeply than

342 For students now entering college, phones never had cords and the computers they played with as kids are now in museums. Few incoming freshman have ever worn a wristwatch or know how to write in cursive. These are among the 75 items on the Class of 2014 Beloit College Mindset list. The list is meant to remind teachers that cultural references familiar to them might draw blank stares from college freshman.

343 The KISS principle, or *Keep It Simple Stupid*, has been attributed to 14th-century English logician and Franciscan friar, William of Ockham. Called *Ockham's (Occam's) razor*, it states that the best explanation of an event is one that "shaves away" assumptions until it is the simplest possible. Or, as Aristotle put it, "Nature operates in the shortest way possible."

140 characters. Tribal elders, your job is to help expand their minds. Timothy Leary is not dead—he is in the Ethernet.

Reali-tude:
The 4th "R" in education: reading, 'riting, 'rithmetic, and real world.

Tribal elders: helpful or hindrance?

What a drag it is getting old.
~ Mick Jagger, from *Mother's Little Helper*

Unwittingly, many tribal elders have reduced their children's ability to compete in the global marketplace. The term *helicopter parent* is a pejorative expression for Baby Boomer parents that pay extremely close attention to their child's experiences and problems. They see kids as less mature, less capable of self-management, and thus in need of more supervision. These parents, like helicopters, hover closely overhead, rarely out of reach, whether their children need them or not. The label gained popularity when American college administrators began using it in the early 2000s as Generation NeXt began reaching college age. This hyper-concern now extends into the job market with some Human Resources departments reporting that parents are beginning to intrude on salary negotiations. If you need a villain, blame it on the world's longest umbilical cord, the cell phone.

Social historian Barbara Dafoe Whitehead sees a distinction between *over-parenting* and helicopter parenting. "Over-parenting is swooping down to rescue them and not letting your kids take the consequences of their actions," she says. Social psychologist Susan Newman maintains that "when parents are making decisions for their children all the time, when they get out on their own they don't know a thing about disappointment." Adds Newman, "I've seen a lot of these children who are parented in the helicopter manner who can't make a decision. They are calling home constantly: 'I don't get along with my roommate, what should I do?' 'My roommate ate my food, what should I do?'" Psychologist Meg Jay advises parents not to rush to the rescue. Rather, they should emphasize that they believe in their child's ability to solve the problem on his or her own.

We're in a generation that was kind of shielded from a lot of financial responsibilities. The financial landscape is dramatically different today—and yet financial education has not caught up.
~ Carmen Wong, from *Gener@tion Debt: Take Control of Your Money*

Futurist Richard Watson calls this a *cotton-wool* world. Isolated by a global media that exports fear from around the world, family anxieties have been magnified and realistic perspectives banished. "This is odd because most data supports the view that the world is actually a much safer place than it was twenty, fifty, or even one hundred years ago," says Watson. Today, people tend to look at the world through the eyes of the unluckiest and view worst-case scenarios as the most likely outcomes. "In the interest of safety, helicopter parents have provided a false sense of security, or cotton-wool, to their children and this has fostered an inability to cope with uncertainty and discomfort," he says.

John Bell, co-founder of YouthBuild USA, blames "adultism," or behaviors and attitudes based on the assumption that adults are better than young people. According to Bell, adults have enormous importance in the lives of almost every young person, yet as a society we largely consider young people to be less important than and inferior to adults. Reinforced by social institutions, laws, and customs, adultism can lead to feelings of anger, insecurity, and lack of self-confidence among youth. "It is useful to reflect on our interactions with young people for signs of unintended disrespect in tone, content, or unspoken assumptions," says Bell. "Young people are often mistreated and disrespected simply because they are young."

> ***BRAIN SNACK:*** *It crawls…it creeps…it eats you alive! In the schlock sci-fi/horror cult classic,* The Blob *(1958), a shooting star falls to Earth. An elderly gentleman finds the meteorite and curiously prods it with a stick. The rock cracks open, and like a Tootsie Pop, it has a chewy center. The goop that emerges suddenly lunges up the stick, dissolves the geezer's flesh, and then moves on in search of other victims. As it absorbs more people, it gets bigger, turning red with their blood. The Blob is a monster of appetite, an absolute and voracious consumer. It cannot be killed!*[344]

Ignoring the special effects (the Blob looks like a silicone breast implant on steroids), the main plot of the movie is the failure of the establishment to trust the younger generation. Despite repeated warnings of the danger from young persons, few parents take them seriously. Later, on the brink of disaster, the community unifies to fight the monster, validating the views of the younger generation. The lesson we take from *The Blob* is that parents need to listen to their upstart but honest kids. The world that Boomers understood and controlled is over. Trust in "the way we've always done it" is eroding.[345]

Feel free to substitute your own Blob: the environment; Wall Street; health care; corporate America; Republicrats; technology; government bureaucracy; social trends. All are amorphous monsters of appetite that cannot be killed. Baby Boomers, you need to take young persons seriously, help them get a grip on reality, and convey wisdom. This is not 1968. Your time is almost over.

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344 Film star Steve McQueen finally stops the creature by freezing it with CO_2 fire extinguishers and the military transports it to the North Pole for safekeeping. With global warming, watch for a gooey comeback.

345 According to Pew Research Center, almost eight- in-ten people believe there is a major difference in the point of view of younger people and older people today. This is the highest spread since 1969, when about three-quarters reported major generational differences in conflicts over the Vietnam War and civil and women's rights. Asked to identify where older and younger people differ most nowadays, NeXters were more likely to report disagreements over lifestyle, views on family, relationships, and dating. Older people cited differences in a sense of entitlement and in manners.

Reali-tude:
If you don't get it, they won't either.

Do NeXters lack motivation?

> *The reason people blame things on the previous generation is that there's only one other choice.*
> ~ Doug Larson, humorist

With good intentions, many parents seek to insulate their children from financial pressures at an early age. In the process, however, they often fail to adequately prepare them for the economic realities of adulthood.[346] As a result, many NeXters lack a sufficient degree of personal economic maturity. Even when they realize the importance, they fail to take action. In a study of 19 to 27 year old university students, the overwhelming majority (more than 90 percent) responded that saving was "Very important" or "Important," at this stage in their life. Yet, at the behavioral level, only one-tenth reported that were responsible enough to have a monthly budget.

The root problem? They lack motivation. Let's face it—there is an abundance of quality information relating to personal finance. Private industry, government agencies, schools, periodical columns, Internet blogs, "how to" books, rich uncles, and so on provide practical information and useful guidance. But the importance of acting on this information is not registering with Generation NeXt! Their continued lack of engagement in financial matters clearly demonstrates that the challenge is more than simply obtaining the right information to make a good decision. The harder problem is behavioral—that is, actually *doing* something about it.

Why is this? The sad fact is many young persons are intellectually disengaged, preferring to blithely avoid dealing with the nettlesome complexities of real life. They lack motivation and the discipline to ask questions, extend their horizons, and gain a clearer assessment of their limitations.[347] Worse yet, some do not respond *at all*. Faced with what they perceive as an overload of information, they apathetically react only as events compel them. Nile crocodiles exist in a similarly torpid state of mind, but they only need to eat twice a year. NeXters have neither the patience nor the endurance.

> *School students understand freedom much better than they do responsibility. The only limits they recognize are red lights when they begin to drive, otherwise everything is an 'old folks' attempt to limit what they think is their 'freedom.' It is hard to*

346 Michael Ungar, author of *Too Safe for Their Own Good*, sees risk as very much a part of our lives. His research has shown that the more we try to protect ourselves from risk, the worse we deal with it and the less resilient we are.

347 In his bestseller *The World Is Flat*, Pulitzer Prize winning journalist Thomas Friedman concludes that many American college students, when compared with their counterparts in other countries, lack the drive and intellectual competencies to be competitive.

tell teenagers anything because they already know everything. When they become parents they will be outraged with their children's actions.

~ Reardon (responding to a story about hundreds of high school teenagers boycotting a Hawaiian-themed party in their high school gymnasium after a newly imposed ban on sexually suggestive dance moves)

Generation NeXt is fending for itself to figure out how to make good decisions and succeed. Ironically, this requires a considerable degree of sophistication at a time when most young persons prefer their news quantized into clever phrases, which (in their minds) is sufficient for them to become instant experts. This narrow mentality can lead them to underappreciate the complexity and seriousness of the economic issues stacked against them today. In *The Dumbest Generation*, author Mark Bauerlein contends that cyber-culture is turning young people into know-nothings. "It's the dependence factor, the unimaginability of life without new technology, that is making kids less entrepreneurial, less initiative-oriented, less independent," he says. We tribal elders are in large part responsible for not having motivated our children.

Not everyone sees the sky falling. Sociologist William Galston predicts that when the Gen NeXters do eventually settle down, they might actually "turn out to be more capable" adults than their predecessors were. Jeffrey Jensen Arnett, editor of *Emerging Adults in America*, agrees. "Thirty is the new 20," he writes. "The transition to adulthood is longer than it used to be, but it's still a temporary stage." Commenting on those who have served in the U.S. Armed Forces, former Joint Chiefs Chairman General David Petraeus refers to today's young veterans as the "next greatest generation of leaders."

Reali-tude:
They often know what to do; they just don't do it.

The bottom line:

- Tribal elders are the most trusted source of financial advice for Gen NeXters.
- Many young persons have been insulated from financial reality by their parents.
- The world that tribal elders knew, understood, and controlled is changing.
- Many NeXters are intellectually disengaged regarding personal economics.

The Reality

You're old . . . groaning like a geezer. Where you once had muscle, you've got jelly rolls, buddy, you're as ancient as the Dead Sea Scrolls. 'Cause you're old . . . man, you're old.

~ SpongeBob SquarePants, from *The Yellow Album*

Tribal elders, look in the glass (mirror). If you are not a white-haired dude(tte),[348] you soon will be. Baby Boomers, those born from 1946 to 1964, number about 78 million; the first turned 65 in 2011. There are presently more than 37 million Americans who are 65 and older and the U.S. Census Bureau estimates that this number is expected to nearly double by 2030. "The problem," says Mark Iwry, senior fellow at the Brookings Institution, "is that people often underestimate their life expectancy." Thus, many don't plan financially to live until they're 90 because they don't think they'll ever get to be 90. Adds Iwry, "They never focus on or plan for the 50 percent chance that they'll outlive the average life expectancy, the 25 percent chance that they'll outlive it by a lot and the 15 percent chance that they'll outlive it by a lot more." Indeed, many Boomers pay more attention to their sagging boobs and waistlines than their sagging financial condition.

***BRAIN SNACK:** Originally suggested by psychiatrist Carl Jung, the "midlife crisis" generally hits people in their forties, give or take a decade. A midlife crisis is a sense of worry regarding our life's direction and purpose. It can be brought on when we become bored or discontent with our lives, incur debt, or lose a loved one. Author Catherine Mayer coined the word "amortality" to describe the desire by Baby Boomers to look as young as possible and reject age-appropriate behavior. Examples include Simon Cowell (American Idol), Madonna, and Nicholas Sarkozy (former president of France). Midlife crisis can also be triggered when we become conscious of our aging body. Advances in cosmetic surgery helps Boomers lose weight, tuck a tummy, re-inflate a boob, implant a pec, remove hair or spider veins, and "youthenize" a face. Results vary from freak to fantastic.*[349]

While a sagging face can be fixed in an hour, a sagging investment portfolio cannot. And the 800 pound gorilla that no one wants to acknowledge is this country faces a retirement crisis. The American Association of Retired Persons (AARP) describes Americans as "dangerously unprepared for retirement." A 2011 survey of U.S. workers age 25 and older conducted by the nonpartisan Employee Benefit Research Institute (EBRI) found only 13 percent very confident that they will have enough money to retire comfortably. In its 2013 survey, research director Jack VanDerhei says faith in retiring with enough money and on time is at all-time lows since the start of the survey 23 years ago. Although account balances in 401(k) plans have largely recovered, one in four Boomers still working say they will never retire, about the same number as those who say they have no retirement savings. "This is a lesson for workers today," says Mathew Greenwald, co-author of the EBRI study. "Do not put off saving," he warns.

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348 Derision made famous by celebutante Paris Hilton during the 2008 Presidential campaign.

349 Explorer Juan Ponce de Leon sailed with Christopher Columbus on his second voyage to the Americas in 1493. False legend has it that de Leon tromped through the swamps of what today is Florida, searching for the verdant island of "Bimini" and its mythical water fountain that promised eternal youth. Today we have Visa or MasterCard. In 2008, Americans had 2.5m Botox injections, 355,671 breast implants, 341,144 liposuctions, 195,104 eyelid lifts and 147,392 tummy tucks.

You were planning to retire when?

I think very little about my retirement savings, because I know that thinking could make me poorer or more miserable or both.
~ Daniel Kahneman, Nobel Laureate (Economics, 2002)

The money that Boomers will live on during their sunset years comes from two principal sources: what they socked away as personal saving and investments, and what the government provides. And each of these sources has some discomfiting problems.

1. *Traditional pensions*. Some 20 million workers (about one-third) still participate in traditional pension plans, according to Boston College's Center for Retirement Research. Pensions (also called *defined-benefit* plans) have some great advantages. First, most of the saving and investing was done by employers, who also bear the risk that retirement assets will fall short of promised benefits. When compared to self-funded retirement plans, pension plans have on average shown higher contributions, better informed investment choices, lower costs, and higher rates of investment returns. Best of all (at least in theory), you stand to collect that check for as long as you live. No worries. What a country!

Um, maybe not. Clearly those lucky people with traditional pensions are sitting a lot prettier than the more than half of U.S. families that aren't covered by any kind of pension at their current jobs. But clouds are on the horizon. The financial crisis shredded employers' ability to fund such plans for the long haul and a growing number of company pensions are winding up in the hands of the Pension Benefit Guaranty Corporation (PBGC). PBGC is a government agency and payer of last resort for bankrupt pensions, but—guess what?—the agency has been underfunded to the tune of $billions and billions.

Many public pensions are not secure either. The dirty little secret is funds that pay pension and health benefits to police officers, teachers, and millions of other public employees across the country are facing a shortfall that could run into trillions of dollars. This is because the accounting techniques used by state and local governments to balance their pension books disguise the extent of the crisis facing these retirees. Unfunded entitlements today are the invisible rabbit of American politics. Billionaire investor Warren Buffett has labeled their sunny projections "accounting nonsense" adding, "Because the fuse on this time bomb is long, politicians flinch from inflicting tax pain given that problems will only become apparent long after these officials have departed." It is a sign of the times that some public pension plans have begun asking employees to begin contributing to their pensions.

2. Accounts funded by contributions from workers. When it comes to funding retirement, the buck has passed from employers to employees. According to EBRI,

individual retirement accounts (also called defined-contribution plans) 350 have largely taken the place of traditional pensions. Sixty-seven percent of workers say they have a defined contribution plan (up from 26 percent in 1988). Um, Houston, we have a problem. Too few workers realize how much they need to contribute to guarantee a decent retirement and are often ill-equipped to make decisions about financial products that extend across long periods of time.

You have a very severely harmed, injured consumer in terms of income slow-down, job uncertainly, job loss, wealth loss, inadequate savings, and high debt levels.
~ Laura Tyson, head, Council of Economic Advisors (Clinton administration)

The average U.S. defined-contribution plan underperforms a defined-benefit plan by around a percentage point a year. One reason is mutual fund 401(k) fees are bleeding you to death. Economist Robert Hiltonsmith of the think tank Demos calculates that a median-income, two-earner family household will pay, on average, nearly $155,000 over the course of their lifetime in effective total 401(k) fees. To put this in perspective, this household could have bought a house with the amount they paid in fees. *The Economist* projects that an employee who pays into an individual retirement account for 40 years may get only half the retirement income he could have expected under a pension system. When the plan member eventually discovers how low her pension really is, by then it is too late to do anything about it.

3. *Home equity*. For most people, the house they live in is their biggest retirement asset. Upon retirement, many Boomers had planned to cash in on the value of their homes by selling and then buying less expensive houses, renting, or moving in with the kids. Reverse mortgages have also become a popular vehicle for extracting equity from their homes to finance their retirement. Um, Dallas, we have a problem. Before the financial meltdown, households were on a binge—they spent and borrowed—as if there was no tomorrow. Between 2000 and 2007 the average American increased his personal consumption by 44 percent, much of which was financed by debt in the form of home equity loans. In five years, American households extracted $2.3 trillion of equity from their homes. They blew 20 percent of this on consumption, 19 percent on sprucing up their homes, and 44 percent on assets such as stocks (just before the financial meltdown). The hangover from this party continues to be long and painful.

Soon-to-retire Boomers lost a whopping $2 trillion in home equity thanks to the stock market crash and the housing market meltdown. By the end of the first quarter 2009, 27 percent of American households owed more than their homes were worth. An AARP survey found that those who were having the most difficulty

350 A defined contribution plan is a retirement plan controlled by an employee, who decides how much to contribute and how to invest the funds. Examples are 401(k), 403(b), 457, Simplified Employee Pension (SEP), and Savings Incentive Match Plan for Employees (SIMPLE) plans.

adjusting to declining home values were 45 to 54 year-olds, followed by those 55 to 64. Moody's Investors Service warns it will take 10 years before housing prices regain their peak, a huge problem for those who are relying on their home as their primary retirement savings. Many Boomers find themselves wheezing "adiós por siempre" to their "champagne wishes and caviar dreams."

4. S*avings and investments*. Until the financial maelstrom, saving was not in the lexicon of many Boomers. The U.S. Commerce Department reported that in 2005 Americans' personal savings rate dipped into negative territory (minus 0.5 percent), something that had not happened since the Great Depression. This meant that they not only spent all of their after-tax income the year prior, but they had to dip into previous savings or increase borrowing to finance purchases of cars and other big-ticket items.

As paychecks evaporated and work hours shrank during the recession, Boomers began saving more.[351] But the dollars lost were not the most worrisome aspect of the financial crisis, says financial columnist Jim Jubak. "Market losses get recouped in market rallies," Jubak points out. "What we've lost that can't be replaced is time." From its peak in October, 2007 through March, 2009, the S&P 500 Index lost almost 49 percent. Shave that off a $100,000 investment, Jubak says, and you'll need a 96 percent gain just to get back to even. Younger savers can overcome such a huge hit with time, but it's much tougher for people close to retirement and nigh impossible for retirees forced to pull money out to live on.

For many white hairs, financing a relatively comfortable retirement, which never looked easy, looks increasingly impossible. In 2014, the value of the average 55-64-year-old household's retirement account was $120,000. The Boston College Center for Retirement Research estimates that the average worker will need $420,000 in addition to social security to retire comfortably at age 65.

5. *Uncle Sam*. In 2009, applications for retirement benefits were 23 percent higher than the previous year. What happened on the way to the Forum? The recession hit and many older workers suddenly found themselves laid off with no place to turn but Social Security. They decided that a small check from Uncle Sam was preferable to no check at all. Law professor Alan J. Auerbach comments that "A lot of people who in better times would have continued working are opting to retire. If they were younger, we would call them unemployed." And depressed employment places a significant strain on a system that depends on contributions from current workers (via payroll deductions) to pay the benefits of current retirees.

The bulk of government benefits, notably Social Security and Medicare, are bestowed on people who are retired. Social Security is a pay as you go program. When American workers pay into Social Security the money does not get invested

351 The personal savings rose to 6.2 percent in May, 2009 (and has since come down). Although saving is good for the individual, it is not for the greater economy. When 79 million people—nearly a third of Americans—started spending less and saving more, companies panicked and scrambled to adjust.

somewhere so that you can draw on it twenty or thirty years later, as it would in a private pension fund. Rather, that money is used to pay current retirees. Straight from young Peter to pay old Paul. The program is one big pyramid scheme, and like any good pyramid scheme, works fine as long as there are enough workers on the bottom to continue paying the retirees at the top.

~ Charles Wheelen, author, *Naked Economics*

Um, we have another problem, Galveston. Soon there will not be enough workers on the bottom. The Baby Boom generation is so much bigger than succeeding generations, the ratio of people in the retirement years, 65 and older, to those in the working years, 20 to 64, will rise sharply. According to the U.S. Census Bureau, the ratio will increase from 20.6 percent in 2005 to 35.5 percent in 2030. As a result of this demographic shift, fewer young persons will be footing the bill for an increasing number of white-hairs. What about those "lockbox" dollars you paid the government over a lifetime of working? They are now represented by government bonds, or IOUs, that will have to be repaid as Social Security draws down its trust fund. By then, Congress will face a Faustian bargain:[352] cut benefits to retirees, sell your kids into financial slavery, or reduce the overall standard of living. What's lost on young persons is the Social Security crisis is everyone's crisis.

Well, there you have it Boomers. For many of you, the Great Recession has been the sharpest trauma since the Second World War, wiping out jobs, wealth, and hope itself. Americans wealth shrank so much, reports the Federal Reserve, that 2010 median family net worth, inflation adjusted, was no more than it had been in 1992. Many of you have been pulling money from 401(k) accounts and other investments to support your accustomed lifestyles. People are working much harder for less pay, and being highly educated is no longer a guaranteed barrier to unemployment. Those best positioned (about 30 percent) are mostly there because you worked hard, developed a long-term pattern that increased savings and reduced spending, and avoided triggering a lifebomb along the way. But even you are not immune to a financially debilitating event such as periods of unemployment, hardships associated with divorce or separation, or an unexpected health problem.

"I think a very large number of people will never have the life they had at one time.

~ David B., IT manager

In the long-run, what does the crystal ball reveal? Well, the likely choices are limited. The government is faced with reneging on its promises, inflating the currency, or most likely both, in order to manage its debt. Everyone will feel the spoiling effects of an increased supply (and thus reduced value) of stocks and bonds as Baby Boomers sell their portfolios to pay for rising living and health care costs. Especially young persons.

Welcome to the new normal. Enjoy your weekend.

352 A pact with the devil.

Reali-tude:
Some Boomers choose to continue working. Many have no choice.

The bottom line:

- Many tribal elders did not plan for an extended retirement.
- Boomers and post-Boomers are facing a retirement crisis.
- The Social Security crisis is every person's crisis.
- The rules have changed.

Doctor's Prescription (Rx)

I'M AS MAD AS HELL AND I AM NOT GOING TO TAKE THIS ANYMORE!
~ Howard Beale, fictional TV news anchorman in the movie *Network*

Not long ago, Boomers thought that they were never going to die. Filled with a self-confidence that came from a period of unprecedented prosperity, they thought markets that stumbled would always rebound more strongly than ever. After all, had not they always done so in the past?

Sorry, but no cigar this time Cecilia. The naked truth is the Baby Boom generation has buried its mistakes under a mountain of cash that Generation NeXt hasn't even earned yet. If every penny of Boomer's savings—and every other American's savings—is put to the task, NeXters will still be paying for their parents' expenses all their life. On top of personal debt, the U.S. government has issued trillions more in IOUs every year, each one emblazoned with "In Gen NeXt We Trust" on it. NeXters are not even out in the real world yet and they are getting the bill for 50 cents of every dollar the Feds spend, almost none of it earmarked for them. They are inheriting the mess that we Boomers are leaving behind.

So, NeXters are turning to the bank of last resort—Mom and Dad—but a British report from Fidelity International reveals a collision of intentions. More than half of adults under 35 are relying on a big inheritance from their parents to fund their futures instead of putting away pension savings of their own. Yet two-thirds of Baby Boomers say they plan to enjoy their lives by spending their savings and cashing in the equity in their homes. Unlike *their* parents, helicopter parents say that they are not concerned about leaving a legacy. *Young person's alert*: beware the Ghost of Christmas Future.

Gen Y's anger towards the Baby Boomers is different from the past. Previous hostility between generations usually faded as the younger generation matured. Today, I see hostility toward the older Baby Boomers growing—it's not until young person's age that we start to see the damage to this country that they and their "good intentions" have done.
~ MeadsJN, Internet blogger

What do young persons have to say about the approaching tsunami? Many, if not most, are totally in the dark. Others see the light but don't care. That leaves a few who really understand what is going on and they are seething with anger. Like Howard Beale, they are fed up and MAD AS HELL . . . and they have every right to be.

Tribal elders, here's what you can do

> *It's my generation—the Woodstock generation, the Baby Boom generation—that's largely to blame for today's kids at risk.*
> ~ Bill O'Reilly, TV journalist, teacher

Young adulthood is a period of searching as young persons look for place and purpose amid a bewildering array of new experiences and complex choices. It is a time when most young persons find themselves re-examining their earlier beliefs and assumptions as they make formative life decisions. Rather than the traditional 18 or 21 that was recognized by their parents, thirty is now seen by many as the real point of transition to adulthood. It is this milestone that young persons worry about, the benchmark date by which they feel they should have made some important decisions about accepting responsibility, making independent decisions, and becoming financially independent. This is the time they finally need to cut the umbilical cord and leave home. And for many, this is not a comfortable feeling.

Leadership professor Sharon Daloz Parks urges thoughtful adults to provide responsible strategic mentorship during this important decade in life. Lacking the knowledge, experience, and maturity of their parents, many young persons have distorted perceptions of reality and risk. *Ignorance*, not having the right knowledge to accurately judge a situation, and *ineptitude*, carelessness in applying what they know, can "trap" their better judgment and lead to bad outcomes:

- *Ignorance*. Many young persons know little about the world and themselves. Most risky are the things they think they know are true, but in fact are not true. Ignorant young persons are tempted to hold overly simplified beliefs with excessive confidence and overestimate the likelihood that what they want to happen will in fact occur. They underappreciate the degree to which they may be unknowingly manipulated by others and underestimate the long-term consequences of their present decisions.
- *Ineptitude*. Peer pressure—the perception of what is prevalent or popular among their core group of 3 to 8 friends—most influences young persons, even if they recognize the potential for negative consequences. Inept young persons are tempted to be overly confident in their own abilities and believe everything that happens to them is controllable. This stubborn, "I've made up my mind, don't confuse me with the facts" mentality can lead to impatience, impulsiveness, and a strong penchant for immediate gratification.

Whether a result of laziness, a lack of wisdom, or simple stupidity, these mental weaknesses are part of our human psyche. Indeed, all of us suffer from them in varying degrees—they can never be eliminated. What can you do as a tribal elder to improve your children's awareness of themselves, increase their knowledge of world reality, and develop the skills for making smart choices? Look in the glass. What do you see? Life experience. You've got it. They don't. Your job is to impart wisdom.

> *Young people are educated in many ways, but they are given relatively little help in understanding how a life develops, how careers and families evolve, what are the common mistakes and the common blessings of modern adulthood.*
> ~ David Brooks, cultural commentator, author

How can you ensure their speedy development? You can't because acquiring wisdom from experience takes time. But you may be able to help them compensate so they can avoid some painful pitfalls.

Use gists to help them reduce risk

> *Our kids are not going to graduate and follow the safe path. Our role is to help them provide the right amount of risk and responsibility . . . and we will help to shape them into adults that will do much better in their lives.*
> ~ Alan Kearns, founder of CareerJoy

According to psychologists Valerie Reyna and Charles Brainerd of the Center for Behavioral Economics and Decision Research at Cornell, young persons use different decision rules and view consequences differently from older generations. As people grew older and more experienced, they become more intuitive. More of their decisions are based on what Reyna calls the *gist*, or an overall sense of what is the best course of action. This approach, in which "one sees the forest more than the trees," says Reyna, enables adults to reach the bottom line more quickly, and in the process, reduce their risky behaviors.[353] Young persons can improve their decision-making, they say, if they develop certain habits of mind.

That's where you come in. Tribal elders, the nature of your relationship plays a major role in encouraging young persons to make smart choices. In formulating a gist, answer the question, "What should this information mean to my kid?" It is not your experience per se that is important. Rather, it is what you understood or learned from your experience—not verbatim facts but the bottom-line interpretation of a situation—that will help a young person recognize and deal with similar future situations. It is important that you also include your gut emotions since young persons can get the facts right and still not derive the proper meaning. This is the "secret sauce" that will help them avoid the lifebombs.

Your job is to formulate the gist and help them assess what the information means to *them*. Remember: the gist is only as good as their level of understanding.

353 Consequences of risky behaviors may not evident until later in life (consider the California woman whose driver's license was suspended for failing to pay a $59 Illinois speeding ticket 27 years earlier).

Here are some suggestions how you can facilitate the development of mature, gist-based thinking in your children:

- Use brief and consistent messages, repeated over time.
- Get them to consider the worst-case scenario, as adults do.
- Simplify complexity and distill the emotional meaning of what you learned.
- Advise them to categorically avoid dangerous risks rather than weigh them in a rational, deliberative way.
- Get a sense of what they understand by asking them.
- Explain that some things may not make sense to them at this time.

Tribal elders, read the entire *Young Person's Guide*. What you learn may surprise you. As a minimum, read the gists at the beginning of each chapter. Each gist is a capsule of the important "take-aways." Also, read the *Bottom Lines* and *Reali-tudes* (see Appendix D for a compendium). These represent "wrinkle wisdom."

Reali-tude:
Your kids will forget everything but the gists.

Touch-points offer learning opportunities

> *The simple but critical premise … is that the key to getting people to improve their financial behavior is to first give them the information which they can use to confidently engage in the desired behavior.*
> ~ Steven. J. Devlin, financial gerontologist

In a study of attitudes on retirement, a majority of older workers said what they most needed was advice on how to teach their own children about money and finances. The challenge, they said, was not so much what to provide, but how best to provide it, since most young persons simply lack interest in finances almost irrespective of source. On occasion, however, they are acutely interested. These are *touch-points*; event driven opportunities where mainstream young adults seek financial information.[354] By understanding what today's youth most value, you can determine how to most effectively engage them. Some of these are listed below.

- Touch-points for 18–20 year olds (and older):
    - § Saving for college
    - § Opening a student account
    - § Getting their first credit card
    - § Opening a new account for their first wages

354 Sourced from a British study of 18–24 year olds (2004) conducted by the Financial Services Association. This study is described as "one of the most comprehensive studies performed on young people's information needs in relation to personal finance."

- § Access to large amounts of money (e.g., student loans)
- § Saving and/or loans for vacations or car purchases

- Touch-points for 21–24 year olds:
  - § Student overdrafts
  - § Juggling costs of living (often without budgeting)
  - § Short-term saving for bigger purchases
  - § Credit card debts
  - § Loan repayments

Most NeXters turn to parents to provide nearly all of their financial information requirements. If parents are unable to help, they will ask other family members or friends in their personal networks. Tribal elders should recognize that these touch-points represent opportunities to learn. By anticipating these events, NeXters can begin to seek information themselves and, perhaps more importantly, recognize the need in the first place. Engaging young persons while they are motivated by self-interest can help improve their judgment when the stakes are higher.

Reali-tude:
Hit 'em while they're hot.

Help them change their behavior

> *A clear resource needed by young people in the 21st century is for . . . enduring relationships with caring adults who can help them through the maze of information and options.*
>
> ~ Jeylan Mortimer and Reed Larson, social scientists

Tribal elders, help your children by encouraging them to be more mature in their decision behavior. Unlike most tribal elders, young persons are not set in their ways, but getting them to change the color of their stripes can be a challenge. Merely changing their attitude is not sufficient to guarantee a change in behavior (if you have ever strutted like a rooster at a Tony Robbins seminar but felt flat as a flounder three days later, you know the story . . .). Psychologists tell us a*dult behavior modification* (ABM) can be a useful process to help change behavior, and it can be applied to everything from stopping a drug addiction to balancing a checkbook weekly. Using ABM principles, here are some things that you can do to help your kids adopt good personal economic behaviors:[355]

355 Adapted from *Understanding Adultism: A Key to Developing Positive Youth-Adult Relationships* (Bell, 1995), *Parenting Tips for Staying Close to Your Adult Child While Letting Them Go* (Burrell, 2009), and *Critical Thinking—How to Prepare Students for a Rapidly Changing World* (Paul, 1995).

- *Be an advisor*. Good advisors offer thoughtful expertise when asked, couch things diplomatically, and expect that at least half of what they say will be ignored. That's OK! Your input is just a part of what your now-grown child may be using to make a decision. Avoid hurt feelings by prefacing your advice with phrases such as "One possible solution might be . . . " or "One thing to consider is . . . "
- *Ask the right questions*. Step more into their points of view and help focus their attention on what is most important. Look for opportunities to teach personal economic lessons in the course of everyday life. Solicit their views by asking "What do you think about . . . " or "If you were faced with . . . " Listen attentively when they talk about their thoughts, experiences, and feelings.
- *Think critically*. Success comes from having a *realistic* outlook. Hold them responsible to think about and discover their own capacity to figure out life situations. Help them increase their self-awareness, identify their assumptions, and question their habitual inferences. Have them generate their own "what ifs." Tribal elders who do not themselves think critically cannot foster critical thinking in young persons.
- *It's OK to be unsure*. Many young persons feel they must always "save face" to protect their image and find it difficult or embarrassing to ask others for help. Reassure them it is alright for them to say things like, "I'm not sure;" "I don't know;" "I was wrong"; or "I have to think about that." Call attention to the extent of your own limitations and assure them that tribal elders do not have the answers to all their questions.
- *Be respectful*. Your child will probably hear implied criticism in just about everything you say. Shifting from "parental authoritarian" to "inquisitive tribal elder" creates a more positive emotional climate so you both can talk openly. Speak to the complexities in your life as well as in theirs.
- *Relax control*. Welcome their ideas and support their initiatives. By giving them more control over the gains they can make from their decisions, they will be more likely to pay attention to the consequences of the losses. Let them learn from their mistakes as long as they do not endanger their long-term success. Curb the inclination to take over—it is not your choice to make. If you truly think they are making a terrible mistake, be frank but tactful.
- *Walk the talk*. Parental behavior is a far more powerful influence on young persons than their efforts to convey the "right" information. Give them accurate information about the ways of the world. NeXters are quick to pick up on inconsistencies if what tribal elders say and what they do, do not match. If you are wealthy, motivate your kids not to coast on your affluence.
- *Be honest*. Make a conscious effort to help them welcome change and not be afraid to grow. Don't sell them short and never lie to them. In the end, character counts.

Reali-tude:
High expectations bring high results!

Young persons will always prefer black-and-white over shades of gray and hold overly simplified beliefs of a complex world. They will be overly confident in their judgment and capabilities, fail to appreciate the realities of change, and underestimate the degree to which their selfish actions today will affect their long-term happiness. They are tempted by the idea that they can control everything that happens to them. Think back to when you were their age, and then give 'em a break.

Unquestionably, as parents and tribal elders, you are in the best position to help your children acquire wisdom. Even a bad outcome from your life experience can be a great learning opportunity. If you were bone-headed and screwed up, tell 'em up front. If you have no idea what you are doing (or are not smarter than a 5th grader), admit it. If you simply do not want to talk about your past, be honest and say so. According to legendary basketball coach Bob Knight, negative thinking actually produces more positive results, in sports and in daily life. Coach Knight, the second-winningest coach in NCAA history with 902 victories, explains that victory is often attained by the team that makes the fewest mistakes. So, do whatever you have to do—lecture, encourage, or badger—to help them understand their vulnerabilities and learn how to avoid the lifebombs that can destabilize their future well-being.

Their receptivity to ask, listen, and reflect on the wisdom of tribal elders can help them secure personal economic success. Initiate conversation. Communicate to your children the gist of how the world operates, help them become aware of their own mental traps, and share wisdom so they can make life-choices in a purposeful manner rather than by default. Encourage them to ask questions big enough that will challenge them to grow and help develop their imagination and critical thinking skills. Instill in them the art of the long-view: a future into which they can project themselves with some sense that good things are indeed possible. These habits will shore up deficiencies in their everyday decision-making and help develop their confidence.

And so we come to the bottom, bottom line. Educating your children about sound personal economic behaviors is *your* responsibility. Be a catalyst, stimulate their interest, and like the Moken, warn them of the Laboon. In the final analysis, you are the app for your children. Yep. That's your job.

Reali-tude:
Be an ally in your children's success.

Postscript

Live long and prosper.
~ Mr. Spock, human-Vulcan in *Star Trek*

For Generation NeXt, the future is hopeful. In the long-run, business will regain its shine and the survivors will emerge leaner and stronger than before. The U.S. is still judged by the rest of the world as the best place to make money and pursue happiness. The American Dream—the idea that in this country anyone can rise from humble beginnings and succeed—still beckons this generation.

For you, the Baby Boomers, the sand has all but run out. It's now their turn at bat. As a final word of advice, if you find that you are working not by choice but simply to survive, if you see yourself getting older and poorer, if Fancy Feast is an entrée at your dinner table, then you need to watch out for number one. Remember the oxygen mask procedure: provide for your financial safety and well-being first, and then attend to your children's.

It's fiscally irresponsible to spend your retirement money on your children's education. It's heresy to some, but it's true: your retirement plans are more important than your children's college funds. Your kids can get through college somehow, and you will probably find a way to help them, but it's more important to plan for your retirement. Remember, your kids can get student loans, but there's no such thing as a retirement loan. It won't make you bad parents.
~ Sally Herigstad, financial advisor

Reali-tude:
The wisdom contained here is of permanent importance.

The bottom, bottom line:
- Read the guide. Let your kids read it. Start the conversation.
- Gists and touch-points represent great learning opportunities—use them.
- Have your kids formulate the habit of tapping the wisdom of tribal elders.
- Do not sacrifice your own financial plans to support your adult children.