Halloween Reckoning: Financial Fears You Must Face

By Shelly Gigante

From sinister savings shortfalls and diabolical debt … to stock market volatility that sends shivers down the spine; the financial fears that prey on many Americans would make even Edgar Allan Poe tremble in his boots.

Indeed, money-related stress is spread out among all adult age groups, regardless of net worth. A 2015 survey by the American Psychological Association (APA) found money and finances have remained the top stressor since its survey began in 2007. Some 64 percent of Americans, it found, reported that money is a "somewhat or very significant" source of stress in their home.[1]

Anxiety that stems from money (or lack thereof) can have a significant effect on both mental and physical well-being. According to medical research group Mayo Clinic, stress can lead to sleep problems, irritability, chest pain and social withdrawal, among other symptoms.

The APA study also found financial stress can negatively impact relationships: Nearly one-third of adults with partners reported that money is a major source of conflict in their relationship.

Fortunately, many financial fears can be assuaged through simple planning.

"Some people are afraid to plan because they don't want to be told they have to spend less or that they aren't on the right path, but planning takes the fear out your finances," said Jennifer Landon, president of Journey Financial Solutions in Twin Falls, Idaho. "After you have a plan in place, it's all less daunting. You suddenly have control."

Debt Doom?

Take debt burdens, for example.

The average American household carries $15,675 in credit card debt and $132,158 in total debt, according to personal finance website Nerdwallet.com.[2] That's, um, terrifying.

Don Cloud, president and founder of Cloud Financial in Huntsville, Alabama, suggests individuals who are looking to live debt-free (a worthy goal) start by analyzing their financial picture to determine how they ran up all those bills in the first place. Perhaps it's a lack of impulse control, the failure to set goals, or simply the fact that they live beyond their means. By analyzing their cash flow, he said, debtors will be better positioned to establish healthier spending and savings habits in the future.

"When you sit down and discuss budgets, it's funny how often you find waste," he said. "Human beings are always capable of spending exactly as much as we make. It takes discipline to stick to a budget that allows you to repetitiously invest for short- and long-term goals."

Next, he said, they should prioritize their debt balances. Some debt, for example, is considered "good debt," such as a home mortgage, which is tied to an appreciating asset and provides a tax deduction on the interest paid. High interest credit card debt, by contrast, is considered "bad." (Related: Setting Financial Goals: Debt)

Many credit cards charge interest of 18 percent or more, which adds significantly to the cost of borrowed money for those who carry a balance. By making only the minimum monthly payment (equal to interest plus 4 percent) on a credit card balance of $5,000, for example, it would take 134 months to pay off, and cost some $2,873.50 in interest, according to Bankrate.com's credit card calculator.

The National Foundation for Credit Counseling recommends paying at least double the minimum required payment, but Cloud suggests those with multiple credit card balances consider a more targeted debt repayment strategy. His advice: continue to make the minimum monthly payments on all your cards, while focusing any extra disposable income towards paying off the highest interest credit card first. When the first card is paid off, apply that payment towards the next highest bill until you bring your balances to zero. That helps minimize the amount of interest you will ultimately shell out.
Don't get lulled into a false sense of security as you whittle down those credit card balances, he warns. "When someone pays off the first credit card, they might think that's $50 more they can spend, but it really needs to roll right down to the next card like a snowball," said Cloud.

You may need to reduce expenses to dig out faster.

The Mummy's Tomb: Longevity Risk

By far, said Landon, the biggest fear factor facing seniors and pre-retirees is longevity risk – or, the probability of outliving their savings.

With life expectancies on the rise, and nest eggs largely underfunded, they have good reason to be spooked. A 2015 analysis by the Employee Benefits Research

Institute (EBRI) found that for those on the verge of retirement (early Baby Boomers), their savings deficit ranges from $19,302 (per individual) for married households, to $33,778 for single males and $62,734 for single females.[3]

"They're worried about increased taxes in the future, worried about having enough, and worried about Social Security changes," said Landon. (Related: Americans are Living Longer…What's Your Plan?)

Regardless of net worth, you may want to consider a traditional approach to help ensure that you have your living expenses covered by using guaranteed sources of income, which may include pensions, Social Security, and other guaranteed products..

"If there's a gap between what you have in place and what you need we try to fill it with guarantees," said Landon. "We transfer some of that risk."

Once your income needs are met, she said, retirees and pre-retirees are liberated to assume greater risk in their portfolios, if their objective is higher potential returns. "The markets will go up and down, but because we're not depending on the market to provide us the income we need to support our lifestyle anymore, we don't have to worry," said Landon.

Stock Market Volatility: Bubbling Cauldron

Indeed, in the financial category of "things that go bump in the night," stock market volatility looms large.

Many younger investors, who watched their parents' portfolios fall during the Great Recession, are unnerved by Wall Street's ebb and flow. In response, some invest too conservatively to meet their financial goals. (Related: Managing Risk)

Forty- and 50-somethings nearing retirement, meanwhile, are sometimes more inclined to knee-jerk reactions when the stock market suddenly drops, which can put their investment portfolio at risk.

And, seniors who are already in retirement with no paycheck to help replenish lost savings, could understandably get goosebumps if their portfolio value slides – especially those who rely on some or all of their equity market investments to generate income.

A good way to help counter market volatility is to develop an investment strategy that is appropriate for your age, risk tolerance, tax bracket and financial goals – and continue with your long-term strategies.

"When we lead major financial decisions with emotion rather than logic we allow ourselves to be hurt," said Landon. "That's one of the benefits of working with a professional. We help people separate emotion and focus on fact-based decisions.

The trick to dealing with market anxiety is avoiding knee-jerk reactions and staying within your comfort level."

College Tuition Terrors

If college tuition costs don't make parents hit the panic button, then nothing else will.

According to the College Board, the average published cost of tuition, fees and room and board at public four-year colleges and universities for in-state students was $19,548 in 2015-16, the most recent year for which data are available. Private nonprofit four year colleges cost $43,921.[4]

But rest assured. Parents need not feel compelled to give their kids a free ride, or, really, pay anything at all towards their degree.

Students have access to grants, scholarships and low-interest loans. They can also cut their education costs by half or more by attending a community college for the first few years, leveling down to a school with more generous financial aid, and studying abroad. (Related: 5 Easy Ways to Cut College Costs in Half or More)

Those who wish to help their kids graduate with minimal debt can certainly do so, but they should save for their own financial future first, said Cloud.

"We don't ever want an individual to put paying for their child's college above planning for their retirement," he said.

"Ideally, you can do both, but you need to take care of yourself first."

If helping to pay for their kids' college education is a priority, Landon said parents should tackle college savings like any other financial goal. Estimate how much your child will likely need, then do the math to determine how much you should set aside monthly to meet your goal.

"There is a wide variety of colleges that can be attended and costs vary hugely from one to the next," said Landon. "With enough planning ahead, the kids who are driven enough can get quite a few college credits in through AP courses in high school."

MassMutual's college costs calculator can help you determine how much you need to save for college costs. The College Board's college cost calculator can also help.

A Special Specter for Business Owners

For those in business for themselves, there may be fears as well, in particular for small business owners who do not have a succession plan in place. An unexpected

death or disability could endanger not only their family's financial future, but the value of the business itself if they were no longer at the helm.
Indeed, for many small business owners, their venture is their single largest asset and a key component to their retirement plan. To ensure its continuity, they need a succession plan.

That includes obtaining an accurate valuation of their business to measure its health, estimate retirement income, and eventually prepare it for sale.

A buy-sell agreement is also generally recommended to protect the business from a death, disability, divorce or departure of an owner or key employee. Such legally binding documents require one party to sell and another party to buy ownership interest in a business when a triggering event occurs. Funding a buy-sell agreement with insurance products, specifically life insurance and disability income buy-out insurance, can be an effective method, making it possible for the remaining owner to buy the business interest of the deceased or disabled owner, without liquidating business assets or taking cash out of the business.

Just over half of those with a buy-sell agreement in place say it is funded with life insurance, according to a 2015 MassMutual Business Owner Perspectives Study.

To ensure a seamless transition when the time comes, it is also necessary to choose (and appropriately groom) a successor to take the helm when the time comes. While most business owners have identified a successor, the MassMutual study found one in five successors have not been told they are part of the plan.

Financial fears are all too real for many Americans, but they need not rob you of rest. A little planning, an appropriate investment portfolio based on your unique financial situation, and a commitment to debt repayment can help drive a stake in the heart of the boogeyman under your bed.