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MAKING THE MOST OF YOUR "EXTRA" YEARS

"People are happiest when they feel embedded in something larger than themselves and when they are needed."

Since the turn of the last century, improved nutrition and advances in medicine and healthcare have added 30 years to our average life expectancy. Without question, this is a remarkable achievement, but one that also requires each of us to think differently about "old age" and how we choose to live our lives.

For example, in *Working Through Demographic Change,* authors Elliott Jaques and William Zinke wrote, "People are living longer and in better health, and the meaning of adult life itself has changed: a whole new stage of mature adulthood has come onto the scene, and old age has been pushed back by many years."

Career development expert Helen Harkness, Ph.D., also believes that we should reject the view that increasing longevity extends old age. In her book, *Don't Stop the Career Clock,* she wrote, "If these extra years are handled wisely, our middle age will double dramatically into a new second midlife, while our 'old' age shrinks." For that reason, she advises that we think about these extra years as a precious gift and "take an active hand in managing our windfall."

Similarly, Laura L. Carstensen writes, "People are happiest when they feel embedded in something larger than themselves and when they are needed." Therefore, she encourages everyone living in the second half of life to envision the steps—large and small—that they can take to ensure a bright future:

> *"Invest in yourself by learning something new. Design your world so that healthy habits come naturally. Diversify your social network by befriending a person from a different generation. Start a business that puts others to work. Think creatively about ways that an unprecedented number of mature, talented, healthy adults can address society's great challenges."*[1]

As the founding director of the Stanford Center on Longevity and the author of *A Long Bright Future,* Carstensen has come to believe that the actions of today's generation of older people will set the course for decades.

Harkness also agrees that we are in a new age of learning how to live and work throughout our life spans. She writes: "By knowing what we want and doing what we love, we can continue life's journey with creativity, wisdom, power, and purpose."

[1]"The Resolution of a Lifetime" by Laura L. Carstensen, *AARP Bulletin* (Jan-Feb 2012).

THE ROLE OF FINANCIAL SELF-EFFICACY

In his long career at Stanford University, world renowned psychologist Albert Bandura has greatly contributed to our understanding of human behavior and motivation. One of his main areas of focus has been the concept of self-efficacy, a person's belief in his/her ability to succeed at specific endeavors.

In fact, Bandura's research has demonstrated that self-efficacy is the most powerful determinant of an individual's thoughts, feelings, behaviors, and accomplishments. He found that people with a strong sense of their capabilities 1) view difficult tasks as challenges to be mastered, 2) develop a deep interest in their activities, 3) set challenging goals and maintain a strong commitment to them, and 4) recover quickly from setbacks and disappointments.

In contrast, individuals with a weak sense of their capabilities 1) view difficult tasks as threats to be avoided, 2) quickly lose confidence and dwell on personal deficiencies and other obstacles to achieving desired results, 3) have low aspirations and weak commitment to goals, and 4) recover slowly from setbacks and disappointments.

Financial Self-Efficacy

Because self-efficacy has been shown to be a powerful catalyst for positive change, a number of researchers and educators have been exploring the connection between this psychological precept and higher levels of financial well-being. In fact, one researcher concluded that financial self-efficacy appears to be the missing link between knowledge and effective action.

However, it is important to understand that financial self-efficacy is not only influenced by one's level of financial literacy and skills. A number of studies have demonstrated that several subjective factors—such as personality, family history, social and cultural norms, and frames of reference—also contribute to an individual's level of financial self-efficacy.

Sources of Financial Self-Efficacy

According to Bandura, there are four major sources of self-efficacy: experiencing success, choosing good role models, responding to encouragement, and managing physical and emotional responses. Therefore, because self-efficacy is task specific, it is important to consider how these four strategies can be applied to personal finance and utilized to nurture and strengthen a sense of financial self-efficacy.

Experiencing Success

The most effective way to build a strong sense of self-efficacy is through performing a task successfully.

The most effective way to build a strong sense of self-efficacy is through performing a task successfully. One example from the world of personal finance is creating a plan to reduce spending and pay off a large credit card balance. The skills needed to manage cash flow and the discipline required to stick with the plan will inspire pride in accomplishment and motivate additional action steps toward financial well-being. In other words, successfully completing one important financial task will increase confidence in one's ability to tackle the next one!

Choosing Role Models

Witnessing friends and family members successfully completing a money management task is another important source of financial self-efficacy. According to Bandura, "Through their behavior and expressed ways of thinking, competent models transmit knowledge and teach observers effective skills and strategies for managing environmental demands." For example, if a respected friend talks about how he/she researched several auto insurance policies before making a purchase, this would likely influence others in his/her social circle to do the same type of thoughtful and effective comparison shopping.

Responding to Encouragement

Bandura also asserted that people can be persuaded to believe that they have the skills and capabilities to succeed. Therefore, hearing and accepting encouragement from others will help individuals to conquer self-doubt and to focus instead on giving their best effort to overcoming financial challenges and achieving their financial goals.

Managing Physical & Emotional Responses

Moods, emotional states, physical reactions, and stress levels can all impact how a person feels about their personal abilities in a particular situation. By learning how to minimize stress and elevate mood when facing difficult or challenging tasks, people can improve their sense of self-efficacy.

For example, paying monthly bills can be an anxiety producing activity for couples that can create tension and touch off arguments regarding each other's spending habits. However, mutually defining and committing to ground rules for financial conversations will help to facilitate respectful and productive communication, and lay the groundwork for creating shared financial and life goals.

Sources: "Behavioral Models for Driving Prosperity for Low Income People: EARN's Model of Financial Self-Efficacy" by William M. Lapp, Ph.D., *EARN White Paper,* Nov. 2010. "Development and Validation of a Financial Self-Efficacy Scale" by Jean M. Lown, *Journal of Financial Counseling and Planning Education,* Issue 2 2011. "Self-Efficacy" by Albert Bandura in *Encyclopedia of Human Behavior* (edited by V.S. Ramachaudran).

HOW CAN I TELL WHETHER IT IS A GOOD TIME TO REFINANCE MY MORTGAGE?

It may be worthwhile to refinance if you can lower your monthly payment by a significant margin and you plan to stay in your home long enough to recoup the cost of refinancing.

To Refinance or Not

Consider this example: If you had a $200,000, 30-year mortgage with an 8% interest rate, your monthly payment would be $1,468. If you refinanced at 6%, your new monthly payment would be $1,199, a savings of $269 per month. Assuming your new closing costs amounted to $2,000, it would take eight months to break even. ($269 x 8 = $2,152) If you planned to stay in your home for at least eight more months, then a refinancing would be appropriate under these conditions. If you planned to sell the house before then, you might not want to bother refinancing.

All Mortgages Are Not Created Equal

When considering whether to refinance, don't choose a mortgage based only on its stated annual percentage rate (APR), because there are many other important variables to consider.

- The term of the mortgage Shorter terms can result in significantly reduced interest costs over time. On the other hand, they may require higher monthly payments.
- The variability of the interest rate An adjustable rate may be lower initially when compared with a fixed rate, but adjustable rates are likely to move upward over time. With a fixed rate, there is greater certainty regarding your monthly payment over the life of the mortgage.
- Points Also known as origination fees, points are paid to a lender or mortgage broker at closing. One point usually equals one percent of the loan's value. Mortgages described as "no-cost" or "zero points" do not carry this upfront cost but may charge a higher interest rate, which may add to the long-term cost of the loan.
- Other mortgage-related fees When you refinance, you may pay a mortgage broker fee (assuming you do not go directly to a bank or other lender), a title insurance premium, a commitment fee, attorney or settlement fees, an appraisal fee, and other costs that add up quickly.

The amount of money you may save and how long you plan to live in your home are key variables that influence whether you should refinance your mortgage.

How Much Could You Save by Refinancing?

A homeowner with a 30-year, $200,000 mortgage charging 8% interest would pay $1,468 each month. This table illustrates the potential monthly savings and the various break-even periods (assuming $2,000 in closing costs) that would result from refinancing at different rates.

Rate After Refinancing	New Monthly Payment	Monthly Savings	Months to Break Even
7.50%	$1,398	$69	29
7.00%	$1,331	$137	15
6.50%	$1,264	$204	10
6.00%	$1,199	$269	8
5.50%	$1,136	$332	7
5.00%	$1,074	$394	6

Source: ChartSource, Standard & Poor's. Months to break even rounded up to the next highest month. Does not consider the impact of taxes. (CS0000215)

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In My Opinion…

"On the Sunny Side of the Street"

As I write this column, Spring has "sprung" in Kentucky. The redbuds and dogwoods are in full bloom and there are even tulips (normally a Kentucky Derby treat) in full bloom. All of this thanks to a record two weeks of abnormally high temperatures. In fact, two of those days we experienced all-time records. While everyone is glad to see the gloomy winter go, it will make The Derby celebration a bit unusual, since most all of Kentucky's wonderful spring colors will have transformed into summer green. Still, the shorts came out and the March Madness of the NCAA Basketball Tournament (in which the Commonwealth of Kentucky has two teams in the Final Four) just help add to gaiety that Spring is supposed to bring.

Another sort of accelerated growth has also been going on. Since mid-fall of last year, the U.S. stock market has staged quite a rally --- showing almost a 16% gain in the S&P 500. This also seems to have affected peoples' dispositions. Although there have been few reasons at which to point to explain this rally, people seem hungry to stroll in the warmth of the feeling that their wealth has increased and life is good. This, of course, is the opposite of the past few years, where the feeling was their wealth decreased and life was not good.

This mind game is all part of the all too human desire to walk on the "sunny side" of the street, reality be damned! As a Financial Life Planner, I constantly pound home the message that true wealth is multi-dimensional and financial strength is only one of those dimensions. We take for granted good health, great relationships, and living a fulfilling life. That is until the "shade" of the loss of such wealth takes them away. Then the financial aspect seems to diminish.

I am truly sad for those who are caught up in the Money Pit. These people define their very existence by their net worth and the superficial confidence about the future that it seems to promise. Over this market correction, which is going into its third year, I have watched people panic, despair and become downright depressed about the volatility they have had to experience. Every gain in the portfolio "belongs" to them and any downward fluctuation is a "loss" that must be recovered. It is an endless cycle that spawns depression as its ultimate fruit.

During this same time, those clients who have thought beyond the financial dimension have had less anxiety, enjoyed life more, and found new opportunities to grow. For the time being, it appears that both groups will be back in about the same place financially. Which lifestyle would you choose?

The purpose of Financial Planning (not investment management) is to place your life activities in a meaningful framework that produces a sense of progress and confidence about the future. Investment management is the practice of managing financial resources within that defined framework. Don't get the two confused. If you walk the walk of YOUR financial plan, then you can bet it will be, for the most part, on the "sunny side" of life.

Until next time, that's my opinion.

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