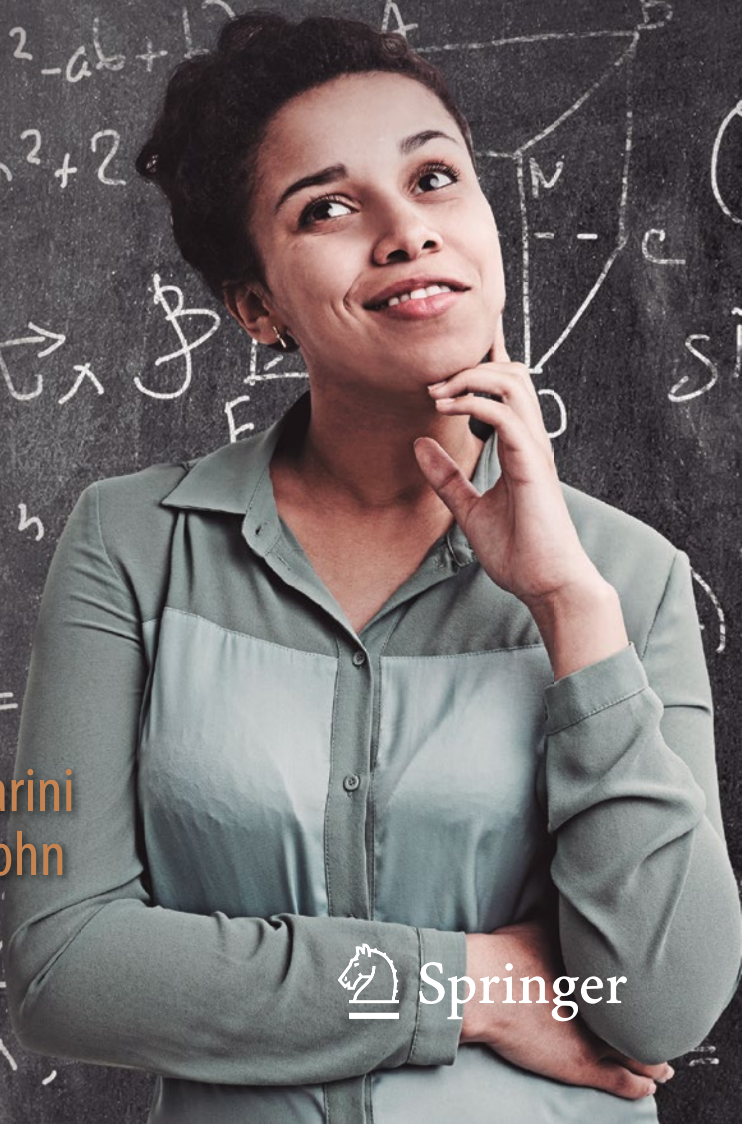
Teachers Can Be Financially Fit

Economists' Advice for Educators



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Preface

We want you to learn how to practice sound financial principles so that you can live securely and comfortably—that's why we have written this book.

We are educators and you are educators, attracted to the teaching profession for numerous reasons. Many of us wish to work with young people, others of us love our subject areas, or both. Prospective teachers enter the profession believing it offers a certain level of job security and good benefits, usually including a defined-benefit, state-funded pension. The job security and benefits become more important as teachers remain in the profession.

But things are changing. Pensions vary widely from state to state and even within school districts. Some states, such as Illinois, New Jersey, and California, have not kept pace with their pension obligations. Moreover, knowledge that a state pension awaits them in retirement may make teachers inattentive about planning aggressively for a financially sound future.

Teachers in private schools face greater difficulties in saving for retirement. Many private schools do not offer even basic 403(b) saving plans, and when they do, they are often not very generous. Much the same can be said of many charter schools and private colleges and universities.

Research indicates that teachers are not well served by the financial services industry. For example, Tara Siegel Bernard (2016) argues that teachers do not get high-quality financial advice. All too often, after learning why they might set up a 403(b) plan to boost their standard of living in retirement, teachers are then steered into high cost annuities and never learn of investment options with lower costs and higher returns. Now the Securities and Exchange Commission is investigating to determine whether violations of federal securities regulations have occurred.

What Teachers Tell Us

In preparation for writing this book, we have talked to a great many teachers. They have told us that they believe that they can become financially secure but added that it isn't going to be easy. Hard choices are involved. Several doubt that teachers can become financially secure based solely on their own income. Many feel that additional income is needed from spouses and second jobs. Others stress problems related to high levels of college debt. One teacher commented to us: "Most teachers I know, especially single ones, tend to live almost paycheck to paycheck…"

We do continuing education for teachers as part of our regular jobs, and we often hear about teachers' top financial worries. They're not so much concerned about managing their own finances but they worry about the long term. We often hear that becoming financially secure is becoming more and more of a challenge.

What are teachers' top financial worries? Most often we hear that veteran teachers are concerned about maintaining a good standard of living in retirement. Young teachers and even those still working on their degrees are concerned about their standard of living—everything from paying off student loans to wondering whether they will ever be able to afford a home. Other concerns we hear are paying children's college tuition, credit card debt, too much debt, health, inadequate emergency funds, and health insurance. Whether the economy is good or bad, a few worry about facing an economic downturn or even a financial collapse.

Many of the teachers we meet work part-time jobs to help them achieve their goals. Some of these "side hustles" are teaching-related such as camp counselor, curriculum writer, coach, and college teacher. But many part-time jobs were not education-related, such as bartender, construction worker, Uber driver, and waitress.

While teachers seem to have many of the same financial concerns as others, they also face some distinctive challenges. They believe they need to make special sacrifices to achieve their financial goals. They regard their compensation as less than adequate. Public school teachers count on state pension plans for retirement. Private and charter schoolteachers face challenges of their own. Retirement issues stand out, as do other financial worries such as managing debt and having adequate savings.

This book is designed specifically for teachers seeking to improve their overall probability of success while reducing the likelihood of financial stress—whether you teach in a public school, private school, charter school, or higher education setting.

And though the purpose of this book is to help you with your financial life, as economists we are always interested in the extra benefits that flow to others ("positive externalities"). In this case, such externalities may occur when you pass along the knowledge from this book to the students you teach. This might occur in a formal financial literacy course, but it could occur in any setting. These important life skills are relevant to most any field or area where you engage students.

In this book each chapter has a common structure, opening with a teacher case study. A narrative explaining key concepts and topics follows. Concrete examples of how to apply the concepts are infused throughout. A brief overview of the content concludes the narrative. Then we present supplementary material through questions likely to be asked by teachers, together with our concise answers. Each chapter concludes with a "Financial 911," focusing on a financial emergency related to the chapter topic. We explain how to address such emergencies while living and working as a teacher.

We have organized this book into 14 chapters. In all of the chapter-opening case studies, the experiences described are real, though we have changed names for privacy reasons and some details to make the points clearer. But in every case the math works.

In Chap. 1, you will meet Makayla, a lifetime educator who achieved a striking degree of financial success and was able to leave a continuing impact on her community.

In Chap. 2 you will meet Liam, who follows the lead of Ethel, the school custodian, to start his journey toward financial health.

In Chap. 3, Eric finds a way to take advantage of his teaching job to retire early and pursue other income-earning opportunities.

In Chap. 4, Terry and Megan choose different transportation alternatives—and Megan increases her lifetime wealth a quarter of a million dollars as a result. We'll show you how Megan's very ordinary strategy can increase your wealth more than you might have imagined.

Chapter 5's case study is about Clayton and Katrina, who learn that home ownership is a good financial move for them. At the same time, they learn to avoid the financial pitfalls of home ownership and they see why home ownership may not be for everyone.

In Chap. 6, Jose, a school human resources director, finds out that some of his staff members are facing major financial problems brought on by unwise use of credit. This chapter de-mystifies credit reports and explains how credit can be from heaven or from hell.

In Chap. 7, Emma has an amazing day. She learns that she is inheriting $20,000 from her grandmother's estate—that's the good news. The bad news is that she now must decide what to do with it. As someone with knowledge about high tech, she faces a possibility of making errors out of overconfidence, but in this chapter she learns three rules of building wealth for the long term while avoiding common pitfalls.

In Chap. 8, Tom turns out to be terrific in getting a comfortable retirement. Tom did not go into teaching to become rich, but it turns out that by making a series of good choices he has assured a comfortable retirement for himself and his family. Tom learns how to manage three key sources of income: state retirement, Social Security, and personal investments.

Chapter 9's case study introduces us to Donna, a fabulous charter school math teacher with a teacher savings retirement problem. After teaching for 15 years, Donna barely has anything to show financially for her teaching work so far. In Chap. 9 she learns about tax-advantaged savings options that can help.

In Chap. 10's case study, we meet Margaret, who is worried about her student loans and her future as an instructor in higher education. Margaret was off to a promising start in her first full-time job after getting a Ph.D., but then the reality of her student loan balance hit home.

Chapter 11's case study features Jayden and Alyssa, who do everything right about insurance but end up getting it wrong. They spend a lot of money on different types of coverage and they never suffer a big loss, and yet their wealth is well below what it could have been with better choices.

In Chap. 12, Penelope suffers a crisis unexpectedly—the loss of her husband in an accident. Nothing could have prepared her for that. And yet with sound money management and a smart relocation, Penelope finds a secure job to go on to successfully raise her son and send him to college. There was no getting around the initial loss, but Penelope and her son do find happiness.

Chapter 13's case study follows the story of Maria, who saw true poverty while serving as a Peace Corps teacher in a distant country. When she gets back, Maria learns that what makes nations prosperous is not what she expected. Understanding the basics of a market economy is important for all citizens, but particularly for those interested in making good financial choices.

In Chap. 14, we learn that Anthony's spectacular success as a multimillion-dollar entrepreneur had modest roots—an activity in his middle school classroom. Anthony's teacher Mrs. Seneca led students through the basics of sound money management and what it takes to launch a successful business. More importantly, Mrs. Seneca encouraged Anthony to take control of his own future.

That's where we're going. For now, the most important thing is for you to believe that you can do this. If you believe you can never improve your financial situation, and you make poor choices as a result, then your pessimistic belief will come true. Teachers are prone to commiserate with each other about the fact that they don't make much money. Compared with other professions, it is true that teachers frequently earn less income. But as you will discover, teachers can be financially fit.

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1

Yes, Teachers Can Be Financially Fit

1.1 Teacher Case Study: Makayla, the Unexpected Philanthropist

Makayla worked as a high school chemistry teacher for 40 years. She took a great deal of pride in her former students' accomplishments, including the student who became her family physician. This student started out as one of the shy girls in the corner of the chemistry lab, but under Makayla's instruction and encouragement became both a chemistry star and a school leader. After graduating from medical school, Makayla's student came home to practice medicine while also starting a small free clinic. Makayla became one of the clinic's most faithful donors. When Makayla retired to a sunny coast, she was missed at the clinic, but not forgotten.

In fact, Makayla is still remembered at the clinic today. When her will was read, a startled small audience in the law office heard that she was leaving \$1.2 million to the clinic. With Makayla's gift, the clinic has funded research, provided care for those who could not pay, and inspired even more young students from Makayla's town to study nursing and medicine.

Makayla's big donation was especially surprising because she had lived in a modest ranch home located within a mile of the school. She never flaunted her money. No one suspected she had the kind of money to retire comfortably, move to a warm climate for her golden years, and still have enough left to care for herself and leave a major inheritance. How had she accumulated so much wealth on a teacher's salary? If you are curious about the answer, this book is for you.

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1.2 It's Not All About the Money; It's About Happiness

They say money buys happiness. Is that true? In many ways, we think the answer is "yes." Money allows you to pursue what you value most in life. Money helps with taking good care of all of the people that you care about. It allows you to contribute to your children's education, see your friends, or even one day take your family on a luxury cruise. The point is not that money buys happiness—but instead that it enables and supports strong ties to other people, which is a key to happiness. For most people, the things they highly value are their family, friends, and children. With sound finances, you can enjoy all this and more.

When you have made good choices in life and earned and saved your money, you feel a deep sense of satisfaction. We're not writing this book to make you rich, but rather to make you happy and comfortable. When experts assess the unhappiness of major life events, such as divorce and health crises, financial problems loom large. Financial stress can negatively affect nearly every facet of our lives including:

- Marital relationships.
- Parents' relationships with their children.
- Physical health, with problems that can include lack of sleep, heart problems, or chronic illness.
- Mental health, with problems that can include anxiety, depression, or even suicide.

Financial security, in contrast, promotes happier, more fulfilling, lives.

Teachers, like some others, sometimes think that becoming wealthy means being greedy, ruthless or maybe dishonest. If this is you, we suggest that you get the greed thing out of your system. Doing good things such as donating to charity or educating the next generation will require wealth to make it happen. The desire to build wealth and eventually become financially independent does not make you greedy. If you use the money you make for greedy ends, then, sure, you can be considered greedy. But what if this financial success allows you to help your church, donate to those less fortunate, help a family member with a medical crisis or just spend more time with your family? Who could argue with such aspirations?

This book says that teachers can be financially fit—but you'll quickly learn that we do not favor single-mindedly chasing after money until you have a million dollars saved up. Instead, we favor a balanced life in which money serves you and you do not serve money. If you heed the advice in the following chapters, you will find yourself comfortable with budgeting and spending. You will find that you don't stress about big financial decisions and that you're insured against disaster. You will be more confident about investing and saving for your retirement. And, you will know a little more about how a market economy operates.

Among people who achieve a high degree of financial security, teachers are surprisingly well represented. How did so many teachers achieve financial success, given that teacher pay is notoriously lower than pay in other professions? The answers lie not in the amount of money these teachers took home in their paychecks, but in the choices they made in putting that money to work.

1.3 Finding a Financial Adviser

Although you can get a good start on your financial goals with the advice in this book, it won't be long before you need the help of a financial adviser. Here are some important things to remember as you think about getting financial advice:

- We recommend fee-based financial planners. As the name implies, these advisers provide advice in exchange for a fee. Other financial planners get a commission – that is, a percentage of the amount you invest. Although commissioned financial planners can seem to be "free," in the required disclosures you'll see that they are getting their cut. Financial planners deserve to get paid and will get paid. The question is how. In our experience it works better to pay the fee openly rather than have it occur through commissions. To find a fee-based financial planner near you, visit the National Association of Personal Financial Advisers (http://napfa.org).
- This next point is delicate: Be careful if someone comes to your school as a financial adviser but only has insurance-based financial products and services to offer. (This person may even be a retired former teaching colleague or social contact – that's why it's delicate.) To do the best, you need to be working with advisers that can handle the whole range of financial services, especially the mutual funds we will explain fully in Chap. 7. Insurance has a place in your financial future (see Chap. 11), but insurance-based financial products have definite drawbacks as investments. Choosing these insurance-based products because of friendship or other ties can literally cost you tens of thousands of dollars of lifetime wealth.