THE GROWING DILEMMA:
Debt and Financial (In)security in the United States

Personal financial stress in the United States continues to create concern and awareness of economic instability.

- Household debt-to-income ratios and financial statistics show **40% of Americans' net worth at only $10,000** (*GOBankingRates*; March 12, 2018)
- **Retirement plans are not offered to more than 55 million employees**, according to a 2014 study from Employee Benefits Research Institute

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- Bankrate found that in 2018 a whopping **65% of Americans are not prepared for retirement, with personal savings or a retirement plan**
- A 2017 report on automation by the McKinsey Institute estimated that 25% of potential jobs today will be outsourced to technology and/or robotics over the next few years
- **Individuals budgeting paycheck to paycheck in the U.S. reached 78%** in 2017 according to CareerBuilder

As of December 31, 2018, **U.S. household debt climbed to a staggering and record setting $13.1 trillion dollars** according to the Federal Reserve. This is almost $1 trillion more than the total U.S. household debt in 2007, prior to the financial crisis, according to the Federal Reserve Bank of New York. **The average American household carries $137,063 in debt**, according to the Federal Reserve's 2017 numbers.

Student loans
$1.56 trillion

Auto notes
$1 trillion

Mortgages
$9.14 trillion

Revolving accounts or credit cards
$1 trillion

What makes up the debt and how does it differ from the past? According to the Federal Reserve:

- Revolving debt default, account application rejections, and involuntary account closures have increased, creating negative financial credibility and overall unaffordability.
- The government states these developments are "potentially concerning" given the strength of the economy and comparatively low interest rates. What created these issues of concern with revolving debt accounts? The Federal government concluded alarming trends per results in "Credit Access Survey," possibly creating credit lenders' caution with risk management. Credit rejection rates for revolving credit-card applicants came in at 20.8% in the October 2018 survey, up from 14.4% a year ago, while the rejection rate for credit-limit increases ticked up to 31.7%, compared with 24.9% the previous year.

As of February 2019 the unemployment rate sits at 3.7% according to the Bureau of Labor Statistics—its lowest mark in nearly half a century. This, along with economic growth, relatively low interest rates, and low oil prices typically impact financial stability. What will happen when we see a rise in interest rates and oil prices?

Student Loans $1.56 trillion

Student loan debt continues to rise. It's costing more to attend college, and taking longer for students to earn their degree. In addition, the cost of living goes up each year.

And that plays a role, too. Student loans are not just for college anymore. These funds are sometimes used towards lifestyle expenses, allowing job freedom, intended to provide for educational time and focus, and more. Priority and choices for these students can mean that welfare funds are often abused, creating overwhelming student debt and damaged financial creditability. Damaged financial creditability affects personal interest rates, therefore costing more to finance and limiting opportunity for asset and financial growth.

The average college debt among student loan borrowers in America was $32,731 in a 2016/2017 report by the Federal Reserve. This is an increase of approximately 20% over four years. In addition:

- 44.7 million Americans hold student loan debt
- Most borrowers have between $25,000 and $50,000 outstanding student loan debt
- More than 600,000 borrowers in the country are over $200,000 in student debt
- 100 borrowers in the country have more than $1 million in student loan debt
- 5.1 million borrowers' student loans are in default equating to $101.4 billion
- 11.5% of student loans are 90 days or more delinquent or are in default
- Average monthly student loan payment (among those not in deferment): $393

Student loan issues create questions around educational worth and affordability. Many employers are assisting repayment by offering plans that provide up to half payment matching. In fact, one company has received a private letter ruling from the IRS allowing a matching program like a 401(k) to help individuals pay their student loans.

Auto Loans: $1.65 trillion

Personal vehicles are depreciating luxuries. Owning a personal vehicle is a privilege yet considered a necessity due to life obligations and entertainment. Americans tend to exceed their vehicle budget with unpractical purposes. Defaulted auto loans often cannot be recovered by the vehicles market value. As reported by the Federal Reserve Bank of New York in February 2019, delinquent auto loans hit an all-time high where seven million Americans are at least 90 days past due. This supersedes default statistics over any historical economic crisis.

Mortgages: $9.14 trillion

According to CoreLogic in its 2018 Loan Performance Insights report, mortgage delinquencies stand at 4.4% which is the lowest rate in 10 years. September 2018 saw a rise in delinquencies bringing awareness to the possible trend. Market developments and patterns will be evident in future statistics.

Where Advisors Can Help

Financial advice could lead employees to a future of more financial security and less debt. Developing and executing financial plans and budgets, credit counseling, wealth management, investments and retirement strategies are areas where advice and assistance can help. Employers will experience greater work productivity and job appreciation with an overall positive environment.

Find Out More:

To learn more about how we can partner with your advisory business, contact your Newport Group representative at **newportgroup.com.**

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