

Mobile Device Distraction Affects Financial Intelligence

Richard Aronwald

Financial Specialist

Before you read this article, do yourself a favor: Put your smartphone in another room. And turn it off (or at least change the settings to “silent/no vibrate” so you can’t hear that you’ve received another message, alert, or update).

Don’t have time to do it right now? Then wait until later. But remove the device from your presence.

Then, take a few minutes to read and reflect – without distractions.

The Value of a Retreat

The Latin root of the word “retreat” is “to pull back.” Since the beginning of recorded history, people have touted the benefits of voluntary retreats as a way to set aside daily distractions, see the big picture, explore new ideas, gain greater understanding, and chart a better path for the future. Retreats can be personal, like walking the Appalachian Trail, or group affairs, like corporate team-building exercises. But in every instance, the idea of a retreat is to remove distractions in order to gain insight and inspiration.

In our personal finances, many of us have a lot of distractions. It’s not just the incessant advertisements urging us to spend more for the latest product or experience. Even with financial matters, we encounter myriad distractions.

It used to be, the greatest challenge for households was the scarcity of accurate financial information upon which to make intelligent decisions. Today, the opposite is true: There is so much information we can’t focus on what’s important. Worse, it is often difficult to know the difference between accurate information and mis-information. “We are drowning in data,” says Shlomo Benartzi, a behavioral economist from UCLA. “What we lack is the ability to properly process it. The price we pay for that may be subtle, but it’s hardly insignificant. When it comes to our money, effective decision-making typically requires information, concentration and reflection.” In other words, many of us would benefit from a retreat, where we can pull back from the white noise of too much information.

And, as much as it has become a constant companion, a smartphone shouldn’t be a part of your retreat. Benartzi warns: “The evidence is mounting that if we make financial decisions on our mobile device – or within earshot of our mobile device – the decisions could be very bad ones.”



In a recent study, people who took a financial literacy test on a mobile device scored lower than those who took the same test on paper. A likely explanation: a tendency to think and read faster (and less carefully) on smartphones, because of the necessity of scrolling down the screen for more stimulation. A smartphone isn’t the best device for processing complex information.

But it isn’t just the need to scroll that impairs comprehension. By their very presence in our lives, smartphones are distracting. Per Benartzi:

“According to research, subjects with a phone nearby perform significantly worse on measures of attention, working memory and fluid intelligence than those whose phones were in another room. The researchers speculate that the effect exists because the mere proximity of a smartphone causes us to monitor it – we’re waiting for those alerts and interruptions – and that monitoring takes up additional resources.”

In This Issue...

Mobile Device Distraction Affects Financial Intelligence Page 1

Paying Down Debt is Not the Same as Saving Page 2

Getting to “Aha” with Whole Life Insurance Page 4

That’s an academic way of saying we’re becoming addicted to our devices. A 2018 consumer survey by Deloitte Global Mobile found that:

- Individuals check their mobile phones 47 times per day. Allowing for eight hours of sleep, that’s roughly three times every waking hour. (To which a Millennial responds: “only three times an hour? Slackers!”)
- 89 percent of respondents said they checked their phone the first thing in the morning. (No word on whether this was before or after using the bathroom.)
- 81 percent said they checked it within an hour of going to bed. (Yeah, we know screen light affects sleep, but hey, we have friends and followers!)
- 89 percent said they’re on their smartphone while watching TV (because two distractions are better than one!).

You could easily dismiss these cautions about the addictive nature of devices, and their effect on learning and decision-making. And then you might read (perhaps on your digital device), the following in the October, 26, 2018, *New York Times*:

“The digital gap between rich and poor kids is not what we expected. America’s public schools are still promoting devices with screens – even offering digital-only preschools. The rich are banning screens from class altogether.”

Let that comment sink in: ***The rich are banning screens from class altogether.***

The article notes that “No-screens households are now becoming a thing in Silicon Valley to such an extent, that nannies are often forced to sign contracts that agree they will not use any screens, including their own phones, around kids when it’s not explicitly authorized by the parents that employ them.”

Pulling Back, Gaining Insight

No one is saying you need to get rid of your mobile devices, or that you have a digital addiction. But when was the last time you took the time to review your financial information (Life Insurance, Retirement/Estate Plan, Wills, Auto/Home/Umbrella Insurance, Mortgage, etc.), in-depth, distraction-free (without a distraction coming from your phone)?

These can be complex topics. Topics that you likely never had any proper schooling on. Assessing which strategies might best fit your circumstances is a tough task, certainly when time is limited, and you are distracted.

As retreats go, a few hours with an accountant, money manager, insurance agent, or attorney might not be as attractive as a week in the Virgin Islands. But it should prove to be a clarifying event that helps you eliminate distractions and minimizes financial missteps.

It’s a new year, what about carving out some time to disconnect from technology for a focused review of your financial condition? Retreat to move forward.

Paying Down Debt is Not the Same as Saving.

On first hearing, this statement sounds true:

“When you make extra payments on a credit card balance with 16 percent interest, it’s like earning 16 percent.”

This simple analogy encourages consumers to pay off high-interest debt as fast as possible, even if it means reducing saving. But is it really a good idea?

The truth requires more than a simple analogy.

Start at 175 Months...

Let’s look at the terms of a typical credit-card. Assume the following:

- An \$8,000 credit card balance.
- Annual interest rate of 16%, compounded monthly.

Note: Many credit cards compound interest daily instead of monthly. As of October 2018, per Credit Card Monitor, the average credit card interest rate was 16.71%.

- Minimum monthly payments equal to 3% of the outstanding balance, or \$25.

Assuming no new purchases, here are the payments for the first 5 months:

MINIMUM MONTHLY PAYMENT (@16%)				
Month	Beginning Balance	Monthly Payment	Interest Charge	Remaining Balance
1	\$8,000.00	\$240.00	\$103.47	\$7,863.47
2	\$7,863.47	\$235.90	\$101.70	\$7,729.26
3	\$7,729.26	\$231.88	\$99.97	\$7,597.35
4	\$7,597.35	\$227.92	\$98.26	\$7,467.69
5	\$7,467.69	\$224.03	\$96.58	\$7,340.24

Because minimum payments decrease as the balance diminishes, the repayment period runs long. The final payment doesn't come until the 175th month (**14 years 7 months!**). This hardly qualifies as "speedy" debt reduction.

Take It Down to 44 Months

Instead of paying the minimum, **keep paying \$240 every month**. This reduces the payoff period to **44 months**, which is much better than 175 months, but it isn't the "accelerated" debt reduction program many experts recommend.

Accelerate to 18 Months...

To really speed up the process, make extra principal payments, perhaps using dollars previously allocated to saving or investment. **Let's add \$260, for a \$500/mo. payment.**

\$500/mo. PAYMENT (@16% interest)				
Month	Beginning Balance	Monthly Payment	Interest Charge	Remaining Balance
1	\$8,000.00	\$500.00	\$100.00	\$7,600.00
2	\$7,600.00	\$500.00	\$94.67	\$7,194.67
3	\$7,194.67	\$500.00	\$89.26	\$6,783.93
4	\$6,783.93	\$500.00	\$83.79	\$6,367.71
5	\$6,367.71	\$500.00	\$78.24	\$5,945.95
6	\$5,945.95	\$500.00	\$72.61	\$5,518.56
7	\$5,518.56	\$500.00	\$66.91	\$5,085.48
8	\$5,085.48	\$500.00	\$61.14	\$4,646.62
9	\$4,646.62	\$500.00	\$55.29	\$4,201.91
10	\$4,201.91	\$500.00	\$49.36	\$3,751.26
11	\$3,751.26	\$500.00	\$43.35	\$3,294.61
12	\$3,294.61	\$500.00	\$37.26	\$2,831.88
13	\$2,831.88	\$500.00	\$31.09	\$2,362.97
14	\$2,362.97	\$500.00	\$24.84	\$1,887.81
15	\$1,887.81	\$500.00	\$18.50	\$1,406.31
16	\$1,406.31	\$500.00	\$12.08	\$918.40
17	\$918.40	\$500.00	\$5.58	\$423.97
18	\$423.97	\$423.97	\$0.00	\$0.00

FACT: Extra payments dramatically reduce the time to payoff. In this example, making extra payments changed the payoff period to 18 months, from 175.

FACT: Extra payments significantly decrease interest costs. In the minimum-payment scenario, the total

payments are \$13,687.29, with \$5,687.29 in interest. In contrast, the total payments for the \$500/mo. plan are just \$8,923.97, an interest savings of \$4,763.32.

Accelerated paydowns appear to be as good as advertised.

Let's Try 19 Months... Because It's better.

Rather than sending an extra \$260 to the credit-card company, you could deposit that same amount into a savings account, while continuing to make \$240 monthly payments. When the savings account equals the remaining balance, you make **one lump-sum payment** to clear the debt.

Interest rates for savings accounts are very low. Some might argue you "lose money" by not applying the additional savings directly to the card balance each month. Consequently, saving in an outside account will take longer to pay off. But how much longer?

\$260/mo. SAVING (@ 1%) Plus \$240/mo. PAYMENT				
Month	Monthly Deposit	Monthly Interest	Ending Balance	Credit Card Balance
1	\$260.00	\$0.22	\$260.22	\$7,863.47
2	\$260.00	\$0.43	\$520.65	\$7,725.11
3	\$260.00	\$0.65	\$781.30	\$7,584.91
4	\$260.00	\$0.87	\$1,042.17	\$7,442.85
5	\$260.00	\$1.09	\$1,303.25	\$7,298.88
6	\$260.00	\$1.30	\$1,564.56	\$7,153.00
7	\$260.00	\$1.52	\$1,826.08	\$7,005.18
8	\$260.00	\$1.74	\$2,087.82	\$6,855.38
9	\$260.00	\$1.96	\$2,349.77	\$6,703.58
10	\$260.00	\$2.17	\$2,611.95	\$6,549.76
11	\$260.00	\$2.39	\$2,874.34	\$6,393.90
12	\$260.00	\$2.61	\$3,136.95	\$6,235.95
13	\$260.00	\$2.83	\$3,399.78	\$6,075.89
14	\$260.00	\$3.05	\$3,662.83	\$5,913.70
15	\$260.00	\$3.27	\$3,926.10	\$5,749.35
16	\$260.00	\$3.49	\$4,189.59	\$5,582.81
17	\$260.00	\$3.71	\$4,453.30	\$5,414.05
18	\$260.00	\$3.93	\$4,717.23	\$5,243.04
19	\$260.00	\$4.15	\$4,981.37	\$5,069.74

At the end of 19 months, the savings account has \$4,981.37. If you take this balance and add a payment of \$88.37 at the start of the 20th month, the credit card is paid off in less than 2 years.

Wait...only one month difference? How is that possible?

Being charged 16% interest while earning 1% should be a lopsided financial equation. But in this example, other variables make it less relevant.

The \$240 monthly payments have already shortened the amortization schedule considerably; in shorter payback periods, interest charges don't have as much time to compound. Over 18 months, the additional interest incurred by saving at 1 percent, instead of making extra payments to the credit card is just \$300.

If the payments were smaller, the amortization period was longer, or the additional principal payments were proportionately lower in comparison to the basic monthly payment, the spread between the time it takes to achieve full pay off could be much greater.

FACT: Every debt-reduction scenario is unique and deserves to be evaluated individually.

Control Your Surplus

This financial exercise highlights several important thoughts. **Paying down debt is not the same as saving.** Some financial commentators confuse the two ideas, or view them as interchangeable. They are not. **When all your surplus is put toward debt deduction, you have no capital reserves to take advantage of opportunities or meet unexpected challenges. If you need more money, you end up borrowing again, where the decision-making power lies with the lender, not you. No matter what the interest rates are, paying off debt is not "saving."**

Debt is a control issue. When you owe money, a creditor exercises a measure of control over your finances until the loan is satisfied. **Paying a debt faster (by making extra principal payments) without paying the balance in full does not remove this claim; you still must make next month's payment.**

In fact, you could argue that additional payments on debt obligations actually give more immediate control to the lender, because extra principal payments put more money in a lender's hands while also reducing the amount they might lose if you defaulted.

Department store magnate Marshall Field succinctly explained the benefits of keeping "extra" money under your control.

"A man with a surplus can control circumstances, but a man without a surplus is controlled by them, and often has no opportunity to exercise judgment."

Getting rid of debt as quickly as possible is a sound strategy. But you also need to evaluate how much

control you sacrifice by repaying more than is required. Saving to make a lump-sum payment may often be a better format for accelerated debt reduction.

If you want to implement a debt-reduction program, be sure to coordinate it with your savings plans.

Run the numbers. and get input from your financial professionals.

Getting to "Aha" with Whole Life Insurance

What's the difference between **complex** and **complicated**? "Complex" means an idea or device has multiple components, while "complicated" refers to a high level of difficulty. Most of us can master complex ideas or devices if we take the time to learn their basic components. Driving is a complex task, but once you learn the functions of the steering wheel, accelerator and brake pedal, it's not too difficult.

Unfortunately, consumers often find complex financial strategies and products too complicated. Consequently, they often dismiss options which, if considered, could substantially improve their personal finances.

This reluctance to consider complex financial items perhaps explains why life insurance, particularly whole life insurance, is frequently overlooked or avoided – even by some who present themselves as experts in personal finance. They may admit that whole life insurance can add value to a financial plan. But they frequently offset this acknowledgment with comments like "but whole life policies are too complicated."

Is whole life insurance complicated? Only if you don't understand the basic components.

Basic #1: The Older You Are, the More It Costs

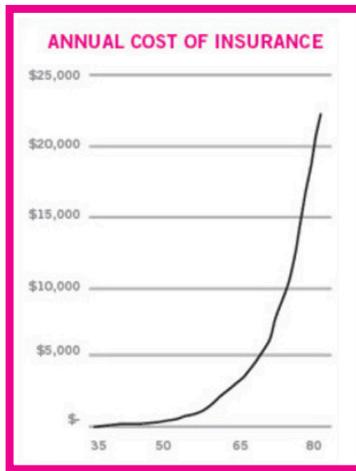
In any life insurance policy, the cost of insurance increases with age, because the odds of dying are greater. The graph below is representative of this basic component, showing 50 years of premiums for a healthy 35-year-old male, non-smoker, for \$500,000 of Term life insurance.

At age 35, the annual premium is \$265. By 50, it is \$680. After 60, the cost rises dramatically. At 65, it's \$3,150. by 84, it's \$22,580. And to keep this policy at 85, the annual premium would be \$207,990!

Yearly renewable Term premiums pose a dilemma for consumers: when they are most likely to collect the death benefit, the premium becomes cost prohibitive to keep it.

Component 2: Leveling Up

An alternative: paying a level term premium. The insurance company determines a flat rate for a specified term, typically 10, 15, 20 or 30 years. The policyowner overpays (relative to the annual cost of insurance) during the early years, then underpays on the back end. For the 35-year-old male, a 30-year level premium is \$490/yr. Compared to yearly renewable life insurance, this policy is more expensive for the first 10 years, then less expensive for the next 20. The "excess" premiums at the beginning are reserves invested by the insurance company, and are used to offset the higher cost of insurance later.



A level premium resolves the cost of insurance becoming progressively more expensive – during the term. But when the term expires, a new level premium is established, and once again, you are overpaying. (In our example, the cost to renew \$500,000 of life insurance at age 65 is \$5,025/yr. – providing the individual can prove excellent health by passing a new physical examination.)

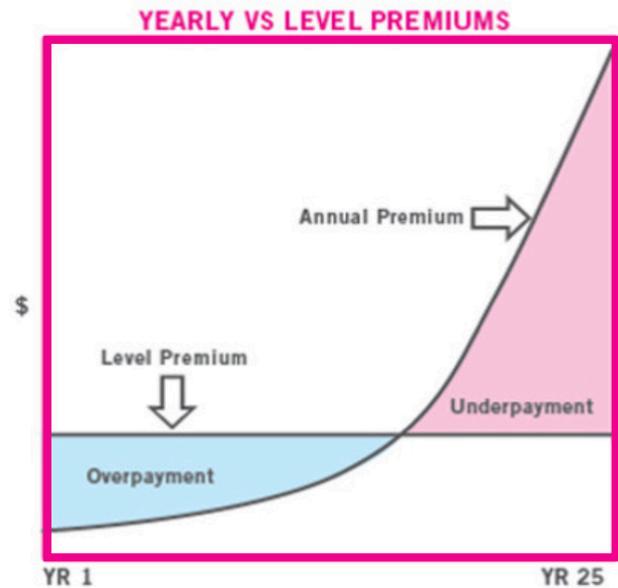
Even with good health, the term is limited to 20 years (age 85). After 85, the premiums follow the same annually increasing schedule, the one with a renewal premium of \$207,990 – a year.

Level premiums may allow consumers to keep life insurance longer, but when the term ends, there's still the same end-of-life problem: when death is most likely to occur, life insurance is often too costly to keep in force.

Component #3: Whole Life - Cash Value*

A policy with **level premiums for one's entire life** might solve the problem. But since the cost of insurance rises so steeply after age 60, a policy guaranteed to be in-force at age 100 (assumed to be one's "whole life,") requires sizable annual premiums.

For our healthy 35-year-old non-smoker, this lifetime annual premium is \$6,165/yr., more than 12 times that of the 30-year term policy. Even if you understand the concept of overpaying at the beginning to underpay during the later years, the \$5,600 difference can seem to be a lot. But you need to compare apples to apples and not apples to oranges.



Enter the concept of Whole Life - cash value insurance.

The insurance company invests the premiums to generate more capital. As an incentive for policyowners to make the long-term premium commitment, a portion of these reserves are assigned to a cash value account tied to the policy in which the policyowner has access to. After the second or third annual premium is paid, the cash value will increase approximately by the amount of the annual premium (based on guaranteed values and assuming a dividend is earned). Therefore, the annual "cost" per se is basically zero from the third or fourth policy year on (depends on the type of whole life). The policyowner can access these cash values, through a variety of transactions.

For over 150 years, people who understand these insurance basics have had "aha!" moments where they see the unique advantages in whole life insurance. Despite cries of "it's too complicated!" those who comprehend the complexities can see the opportunities.

Getting to "Aha!"

Keeping term insurance for 15 to 30 years not only results in losing \$7,000 to \$14,000 in cumulative premiums but also results in losing the \$500,000 in Death Benefit. Why not lose the \$7,000 to \$14,000 in paying the first few annual whole life premiums knowing that the increase in cash value will increase approximately the same amount of the annual premium from the third policy year on. Either way you are going to lose \$7,000 to \$14,000...why not have a death benefit that will never expire along with an asset that has guaranteed cash value that can NEVER go down in value? Aha!

A whole life policy with a guaranteed level premium and the guaranteed cash value provides economic certainty for the consumer – they know how much insurance they will have, how much it will cost, and that it will be in-force for their “whole life”.

In a typical whole life policy, cash values and dividends may, after a while, exceed the premiums paid; the policyholder not only owns an insurance benefit, but has received a positive return on the premiums.

Besides turning a life insurance policy into a guaranteed asset (whole life) instead of a likely expense (term), the cash value component opens the door to other possibilities. Dividends represent a share of the profits from the company’s investments and overall operations. Dividends may be received as tax-free income, used to pay future premiums or purchase additional paid-up insurance. Annual premiums may decrease or be suspended.

This brief overview might not result in a life insurance epiphany, at least right away. But it might prompt better discussion the next time you meet with a life insurance professional.

* The cash surrender value, loan value, and death proceeds payable will be reduced by any lien outstanding due to the repayment of an accelerated benefit under this rider. Riders may incur an additional cost or premium. Riders may not be available in all states.

Whole life insurance is intended to provide death benefit protection for an individual’s entire life. Dividends are not guaranteed and are declared annually by the issuing insurance company’s board of directors. Whole life insurance should be considered for its long term value. Early cash value accumulation and early payment of dividends depend upon policy type and/or policy design, and cash value accumulation is offset by insurance and company expenses. Consult with your representative and refer to your whole life insurance illustration for more information about your particular whole life insurance policy.

All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company.

Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain

Certified Financial Services, LLC
Richard Aronwald
Financial Specialist

600 Parsippany Road Suite 200
Parsippany, NJ 07054
973 263-0622
raronwald@cfsllc.com

Richard Aronwald is a Registered Representative of Park Avenue Securities LLC (PAS). OSJ: 52 Forest Avenue, Paramus, NJ 07652, 201-843-7700. Securities products offered through PAS, member FINRA, SIPC. Financial Representative of The Guardian Life Insurance Company of America® (Guardian), New York, NY. PAS is an indirect, wholly owned subsidiary of Guardian. Certified Financial Services LLC is not an affiliate or subsidiary of PAS or Guardian. Certified Financial Services LLC is not a registered investment advisor.

Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

Material discussed is meant for general informational purposes only and is not to be construed as tax, legal, or investment advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon only when coordinated with individual professional advice. This material contains the current opinions of the author but not necessarily those of Guardian or its subsidiaries and such opinions are subject to change without notice.