

THE BOEHLY CENTER

FOR EXCELLENCE IN FINANCE

CAREERS IN FINANCE PODCAST

EPISODE 22: PERSONAL FINANCIAL PLANNING & FINANCIAL LITERACY

Jeffrey Rich

Welcome to Careers in Finance, presented by the Boehly Center for Excellence and Finance at William & Mary's Raymond A. Mason School of Business. This podcast will explore various areas of the financial services industry, career paths in finance, and other practical insights that will help students better understand and prepare for professional success in the field of finance. Be sure to subscribe to the podcast and catch future episodes as we explore the field of finance. And now your host, Morgan Hutter.

Morgan Hutter

Well, thank you, listeners, for tuning back into the Career in Finance podcast. I'm so excited for today. I love all of our topics, but today, I think, is definitely a topic that everyone can find value in no matter where you are in your career or your life. This is something that I hope everybody will have a takeaway on. I'm happy to welcome. We have two guests with us. First, our Raymond A. Mason School of Business finance Professor Joey Smith, and second, our coordinator of our William & Mary's financial literacy program, Alex Sadid. So welcome, Professor Smith and Alex.

Joey Smith

Great to be here.

Alex Sadid

Thanks, Morgan.

Morgan Hutter

I'm glad you're here. So to kick us off today, I'm going to start and ask each of you to introduce yourself and just tell a little bit more about yourself and maybe your passion for financial literacy and our topic today on personal financial planning and financial literacy. So I'm going to go ahead and start with you, Alex.

Alex Sadid

Thank you for having me, Morgan. So I am a sophomore here at the College of William & Mary. I'm a finance major. I'm involved in some other clubs and organizations on campus. The first club that I really got involved with at the business school was the Finance Academy. I'm a big golfer. So I'm on the club golf team here at William & Mary. And then the other organization that I got into this year was the Entrepreneurship Center, and one other organization that I'm a part of is the Kappa Sigma fraternity here on campus. I'm the scribe for the fraternity. So I'm basically like a glorified secretary. It's kind of fun, but that's what makes up what I'm into here at college.

Morgan Hutter

That's great, Alex. Well, welcome fun to see that even in your second year here and kind of first-year probably really back on campus with things really moving after COVID that you're getting incredibly involved. So, Professor Smith, I know you're new to the Mason community. So this is kind of also your big debut. So we'd love to hear more about your background.

Joey Smith

Yes, Morgan, this is my first year teaching at the William & Mary and the Mason School of Business. But in a way, it's a bit of a homecoming for me because I graduated from William & Mary Law School in 2009. After graduating from the law school, I was in the Air Force as a Jag core officer for about eight years, and after leaving active duty, I got my MBA and an LLM in securities regulation and worked in corporate finance for Walmart at their headquarters in northwest Arkansas before transitioning to teaching about three or four years ago. And I couldn't be more excited to teach at William & Mary. And personal finance is actually a really big interest of mine and just a lot of the spheres of life that I've been in. I've just seen where people don't know enough, and I think that there's a lot of value in teaching that and promoting it, and so excited that the Boehly Center takes that on.

Morgan Hutter

We're glad to be taking it on. And I will say to our listeners, Professor Smith has come in and hit the ground running. He volunteered to oversee our Finance Academy. So Alex and Professor Smith will continue to work together. But we're really blessed to have you here and welcome. So we're going to shift to our topic. So again, our topic today is prepared for success, personal financial planning, and financial literacy. So, Alex, I'm coming to you to start. Why don't you tell us about how you define financial literacy and why it's so important?

Alex Sadid

So for me, defining financial literacy is pretty simple. I look at it like just having a baseline understanding of basic financial principles. You don't have to be a corporate finance wizard to understand these topics. And it's using these skills that you have learned about personal finance to make informed decisions about budgeting, investing, some basic loans that you'll take on throughout your life. And really, these topics are important to learn from a young age because these are the decisions that steer you in the right direction throughout the rest of your life.

Morgan Hutter

That makes a lot of sense. So how did your passion kind of come about to get involved with this?

Alex Sadid

So for me, in high school, we actually had an investment club at my school, and we had the opportunity to work in teams and learn about different stocks and investment choices. So I was always interested in finance topics. And then, I saw this organization as an opportunity to kind of help the student body around me. Learn more about topics related to finance and personal finance. So that's what really got me into it.

Morgan Hutter

That's great. Thank you for sharing. So, Professor Smith, taking your corporate finance background and shifting gears a little bit. Now, what are some statistics around financial literacy that listeners might find interesting?

Joey Smith

Sure let me highlight something Alex said is that some of the stuff that we'll talk about today, it's fairly basic. I think people can get intimidated a little bit with finance and think that's not for me or it's way too complicated. But there's a lot of low-hanging fruit out there. And if you do learn the basics, you really can advance a lot and be a lot more prepared than you might think. So I thought that was really a good point. Alex made some statistics. According to some JPMorgan analysis, two out of three families lack an emergency fund and would struggle to come up with six weeks of savings if they lost their job. There was a 2017 Career Builder survey that found that 78% of Americans are living paycheck to paycheck, basically meaning that after essentials are paid for, there's no money left over for saving for a rainy day. And the last statistic I'll mention is that according to FINRA, which is a regulatory body, their Investor Education Foundation, it found that only 34% of Americans could answer at least four out of five basic financial literacy questions. And when I put all that together, I'm convinced that for a majority of folks out there who don't have an emergency fund who are living paycheck to paycheck, it's not simply because they don't make enough money, but rather because they were never taught basics around personal finance.

Morgan Hutter

That's really powerful when you put the numbers in front of our listeners like that to see. I think this topic clearly is something that kind of touches everybody, right? Whether you're in that 78% or not, you can still help others or learn about others or pay it forward, right? I mean, that's so much in education. We're trying to pay it forward. So sticking with Professor Smith for a second, what is your perspective on why financial literacy is important?

Joey Smith

Yeah. I think its importance can really hardly be understated whether we're talking about major life purchases. Like Alex talked about financing a car or house, financing your own or others education, retirement planning. Understanding the basic finance behind it is crucial. And moreover, you can be really educated and skilled in certain areas like medicine, law or other areas and maybe even make a healthy salary and never have learned the basics about personal finance and struggle achieving various financial goals simply because you never learned it right. And so I think the two biggest problems around financial literacy are one too often people are never exposed to it during their formal educational studies and two socially it can be sort of a taboo topic that people just don't talk about and get help with from people in their community. And so again, that's what gets me excited about the Boehly Center, and their focus on financial literacy is that we can reach students early, expose them to the basics. And then when they leave William & Mary, they've got the tools they need to make good financial decisions.

Morgan Hutter

I feel very fortunate. My father worked on Wall Street. He was one of the ones that I guess is financially savvy. I'll say I was blessed to be exposed to it and used to always say, hey, always put something away, right? So if I was babysitting or my brother was doing the snow blowing in the winter when we're 8 9 10 11, and he was always saying okay, put half of it away. And if you want to spend half, spend half that, and that's just even for my nieces and nephews now birthday cards. When I send them \$5, I always send them five ones so they can break them up and they can save some and use some. So I appreciate you saying that. And I really thought it was powerful to talk about socially how taboo it can feel. Right then, maybe that is something that Alex is about to talk about and how we can continue to educate our students. So let's shift gears back to Alex, and we're going to talk about the financial literacy program here at William & Mary. I know that it launched in about 2018, thanks to the vision of the former center, actually Boehly Center's Executive Director and faculty member, Professor Carl Tack. So, Alex, what is the program, and how has it evolved to where it is now?

Alex Sadid

So the Financial literacy program really is a student-run organization at its core, and the mission of the program is to have student peer educators who are part of the formal team of the Financial literacy program educate our fellow peers on these topics. We work with a baseline four-session series that covers four main topics that are crucial for students to understand. And these topics are intro to personal finance, student loans, your first job, and graduate school. Really, what we're looking to do as the program evolves is just reach more students, reach people that are in different spectrums of the campus community, people that really aren't maybe as closely tied to the business school, or even take classes in the business school. Because William & Mary is such a diverse community of students, we have people studying all different types of subject matter, and these topics don't always reach them. So it's important that we can really make an effort to engage the rest of the community. So that's what the next phase of the program is really going to focus on. So we have plans to maybe start a social media site for the program to engage more students across the community and just work on our networking and outreach the different parts of the campus community to gather more people to come to our sessions and learn about these topics because they're so crucial, no matter what you plan on studying or no matter what you plan on doing after college.

Morgan Hutter

So talk to us a little bit, Alex. As a teaser, here's your marketing pitch. You know, you mentioned the four sessions. Can you just give a quick highlight of kind of what each session? Give me a summary of each session.

Alex Sadid

Yeah. So for the intro to personal finance session, we're really talking about basic budgeting and investing strategies, which are kind of like the highlight of our program. It's a really broad overview. It's the first session that we start with when we're doing the four-session series, and it gathers a lot of attention from students because these are topics that a lot of people want to learn more about – and then moving on. Each of the next sessions is a little bit more specific. So for student loans, this is something that a lot of college students grapple with, trying to figure out how to pay for their education and then moving on to the your first job presentation. We're

really taking a case study, for example, of a student after college their earning potential, how they're going to spend their money, what they have to consider when they move to a new city, and all the different factors that go into being on your own after college, and then finally, with graduate school. This topic is very pertinent to William & Mary students because I know we have a lot of people with different educational interests, and a lot of people at our school want to pursue grad school. And this topic is similar to student loans. We talk about how to afford grad school, some different solutions that people can come up with to make grad school more affordable. We kind of look at the practicalities of where different grad school paths can take you and your earning potential after that. So all the sessions blend really well into each other. I would say the intro to Personal Finance is the most broad and overarching of all the sessions when it comes to learning about the most topics that you want to achieve from financial literacy.

Morgan Hutter

So how if we have listeners, they're like, oh, my goodness. This is something I can do for my club or my program. How do they get in touch? And how do they set this up? And do they have to do all four, or can they just pick one of them? How does it work?

Alex Sadid

Yes. So first off, we have our own web page on the Boehly Center's website, and you can go onto our program. There will be a sign-up sheet, which we're going to be putting out shortly once we finalize our four-session series, which we're working through right now, getting the presentations in perfect order. When it comes to signing up, if you're a different club or organization you want us to come to present, we can really tailor any type of information that you guys would like us to present on. So we've had organizations come to us in the past that want a blend of topics. So we can create a presentation specific to your organization to talk about maybe student loans and taxes, for example. So we had some presentations like that last year presenting to different I believe a couple of sororities reached out to us last year. So we made specific presentations for their groups, and it's something that when it comes to a one-off session, which is what we call sessions that aren't a part of the four-session series. We can really tailor the content to whatever your organization is interested in and whatever your members are really interested in learning about.

Morgan Hutter

That's terrific. So for those listeners that wanted to find it again. It's on our website at the Boehly Center, which is Boehly, B-O-E-H-L-Y center.mason.wm.edu. Thanks so much for sharing that. And I love the personalized approach. It's definitely customized. So, Professor Smith, I know Alex was just sharing that they do some things about first job, grad school options. So as our listeners graduate from William & Mary and they get their first job, how important is financial literacy after graduation and in that retirement planning? Or maybe what are some crucial things everybody should know?

Joey Smith

Yeah. In a way, one might argue that the financial decisions that people make immediately after graduating from William & Mary can be the most important. Not only are you setting up habits for the future, but the money you save and invest in your younger years has the largest potential to grow by the time you reach the retirement age. So, for example, let me preface by

saying, I'm not giving specific financial advice to someone, and if you're considering your own financial situation, you might want to speak to a certified financial adviser. But if you do believe that, say, investing in the broad stock market will give you a 10% per year return on average, then a dollar then invested at 23 years old would be expected to grow to \$64 by the time you hit retirement age at 65. Now, if the same 23-year-old recent graduate has the attitude that yolo you only live once saves and invests very little in their 20s and early 30s and say, doesn't start investing until they're my age 37 years old. That same dollar is only going to be expected to grow to \$16, which isn't bad, right? A dollar going to \$60. That's not bad, but they're near the \$64 that the 23-year-old graduates one dollar became. And as far as retirement planning and things people should know, I kind of break it into two different areas. First, I want to talk about just some of the mathematical rules that are kind of aid people in quantifying how much money they're going to need in retirement and how much that will require them to save. And then second, I just want to break down in very basic terms some of the most common accounts that people might have access to in order to save for retirement. So with regards to some of these, just quick kind of back to the envelope mathematical rules to know. It's actually helpful, I find to work backward. And so when you're thinking about retirement, you want to think about there's something called a 4% rule, which is based on this famous Tree study, which says that if someone spends 4% of their retirement nest egg every year, they're very unlikely to ever run out of money in retirement. So, for example, if you had 1 million dollars in retirement assets, you could comfortably spend \$40,000 a year and face little risk of running out of money in your lifetime. And another way to look at that 4% rule is to say if you know and this is something for Alex's, those four sessions they run based on your budgeting, based on your spending habits. If you know how much money you're going to need to spend in retirement, then the converse of the 4% rule is to say, well, multiply that number that you're going to spend in retirement by 25, and that's the nest egg you need to have accumulated by retirement age. And so that kind of leads us to the second part of how much do I need to be investing? And again, for specifics on specific situations, a qualified financial planner is a good bet. But as far as some of these back-of-the-napkin calculations, another thing to know is that if you multiply the rate of return that you expect to get by the number of years that we allow an investment to grow, and that number equals somewhere between 70 and 72. Again, it's pretty rough. Then your money is going to double. So, for example, if we expect to get a rate of return of 5% on our money, we should expect that our money will double in 14 years because five the rate of return we expect times 14 equals 70. Similarly, if we expect to get a rate of return of 12% and we can expect our money to double in just six years because twelve times six is 72. So when investing just sort of broadly in the stock market, I like to use 7% as my expected rate of return, both because it's somewhat conservative and because it makes the math really easy because with an expected return of 7%, I basically expect the money to double every ten years. So under this back of the napkin calculation, if someone's got 250,000 dollars in retirement assets at age 40 and doesn't invest another dime, those assets would become roughly 500,000. They double by age 50, they become 1 million by age 60 and then 2 million by age 70. So that's kind of some of the just basic little mathematical rules that can aid you in planning. But let me now just talk about some of the basic accounts that people might have access to for retirement. And I break it into kind of just really three simple areas. First, you've got fully taxable brokerage accounts. Second, you've got traditional IRAs and traditional 401Ks. And then third, you've got Roth IRAs and Roth 401Ks. And with these fully taxable brokerage accounts they're usually the least beneficial in retirement because you're going to pay taxes twice on the assets. You're going to pay income taxes on the money you earn, and then some portion of that you'll invest in your retirement account. And

then, when you take the money out in retirement, you're going to pay capital gains taxes on the growth. Now, traditional IRAs and traditional 401Ks, they save you the taxes on the front end because the money is taken out of taxes. So you're only going to pay one taxes one time, and that's going to be at the end when you take the money out. Roth IRAs and Roth 401Ks are the opposite. You still only pay taxes once, but you pay in the beginning. You invest after-tax money and then pull the money out in retirement. And we're talking here in October 2021. And so, I'll just mention to listeners that the current tax rules allow you to invest \$6,000 in an IRA each year and \$19,500 into a 401K. And if you're over 50, you can actually even contribute more. Another thing to note that employers often match contributions, so it can make those even more attractive. The big takeaway is try to take advantage of these accounts that the government gives you special tax advantages for, and especially if your employer is going to match those.

Morgan Hutter

I just want to listeners to note that Professor Smith has rattled off all those numbers without even looking at a piece of paper. So clearly a very brilliant man here in our midst. So professor, thank you for going over all that. I'm glad you talked about the matching and the different accounts and the different options because I think there are so many times. And this goes back to the topic of financial literacy that these terms just get thrown out all the time. Right? You hear it kind of, oh, what's an IRA. What's this? What are we doing? And I think sometimes we just don't take the time to step back and just teach people what those differences are. And when you should consider one and when you should consider another, I think that's part of that education, Alex, that you talked about in that first job. I remember my first job. The company offered a financial planner, and they just broke it down. And that was so helpful. I'm going to throw a question, Professor Smith, to you that what about I remember somebody said, like, hey, don't even look at it because with the market shifts, right? So kind of, what are your thoughts on market goes up and down. If you have panic about it, do you just let it ride? What are your thoughts on that?

Joey Smith

I've heard an analogy, given that investing, especially in the long run. If we think about investing for retirement, you want to think about it in some ways as you're walking up a mountain with a yoyo. So the yoyo reflects kind of the short-term volatility that we are going to experience. But we're walking up this mountain. So even though the yoyo might kind of go lower over the long run, we're going higher and higher. And the field of behavioral finance has become really big lately because there's recognition of exactly what you're talking about, Morgan, where there's a psychology to it. I know you were a psychology major, and there are things that when markets go down, sometimes people start to sell because they get panicked. And in some ways, that can be the worst thing, because if you're investing for the long run, when you look at at least historically, in the United States, in the stock market, there's been a long-term trend up. So to get kind of freaked out about short-term deviations from that can really distract you from your long-term mission of saving for retirement.

Morgan Hutter

So how can listeners, professor, I'll just stick with you one more time? Alex, I swear I'm coming back to you. Where can listeners learn more about general financial literacy?

Joey Smith

Obviously, if they're William & Mary students? I'd highly recommend Alex's program that we've got with the financial literacy program. There's so many numerous blogs. There's YouTubers. It's actually a pretty saturated area where there's a lot of people that give great information. I don't know if I can recommend a particular source, but there really is so many information out there to seek out. But for Alex's point, a lot of the stuff, it's not super complicated. It's just a matter of learning the basics. And so sometimes I make the analogy to sort of working out where if someone's working out on a regular basis five or six days a week and they're working out for 45 minutes, they're doing the basics and sure, maybe some really advanced workout program can get them to the next level. But if they're working out five or six times a week and doing the basics, that's going to really get a lot of the essentials covered. I think the same is true with finances that they learn the basics, have the discipline to do what you're taught, and you definitely get that baseline that you need in order to kind of save meaningfully for retirement and make smart decisions, whether it's budgeting, educational, first job kind of stuff.

Morgan Hutter

I need to pick up my physical activity, Alex. So you mentioned something really neat that I want to spend a little bit of time talking about. You talked about that the financial literacy program here at William & Mary is peer taught. So talk to us a little bit what that means. And if any listeners are interested in becoming a peer educator, how can they do that?

Alex Sadid

Yeah. So I think that's one of the great parts of this program is it's students educating their fellow students. It's not like a situation where it's a professor speaking to a group of students, giving them this information, telling them what's right or wrong. I think there's value in that. But we go to class every day. We get a lot of exposure to that. So it's kind of fun to have an environment where we meet up in a group. We have students giving their expertise to other students and advising them on decisions that are really relevant. So all that goes into being a peer educator is you have to be someone that is willing to pass knowledge on to your fellow students and has ambition to really want to help others in something that's so valuable. I think when you break down the role of a peer educator, there is a lot of great experience gained from the presentation process, developing the presentation, working with your teammate in the group setting to coordinate on when you're going to meet up and work on these topics. And when you get done with the process, you really see your full body of work come together. And it's awesome because your work that you've put into the program is helping other people. And along with it, I think the experience that I gained as a peer educator from presenting to other students is invaluable. I'm going to take those experiences when I go off after college and whatever work setting I'm in and use that expertise and knowledge that I gain from those presentation experiences to help me. So in some ways, being a peer educator, you're helping others. But you're also through the process learning and gaining experience yourself, which is great. The program really offers a lot of valuable experience to both sides, the people that are coming to our presentations and the peer educators themselves.

Morgan Hutter

So two things I want to follow up with, I assume that these peer educators are trained.

Alex Sadid

Yes. So we have an orientation process that we go through when everyone signs on to be a new peer educator. It's nothing too rigorous. But I think considering that we go to such a great school and we have such an educated body of students, people really pick up on the orientation very well and hit the ground running and do a great job developing the presentations.

Morgan Hutter

And then my second question, which I don't think you mentioned, I just want to make sure it is mentioned. And if it was mentioned, I apologize that I missed it. These are paid positions, right?

Alex Sadid

They are. Yes. That's one of the key contributors to why people are interested in the program. I would say being a peer educator. It is a paid position. You get to log your own hours. It's a bit of a job, and I think it's good that it is paid because, no doubt, it is a time commitment outside of your studies. Developing presentations is a labor of love. There's a lot of back and forth that you go through with your teammate to really finalize and critique the presentation to the point where it's a very professional product that you're putting out there because, in the end, this is knowledge that we're trying to pass on that's very important to our fellow students. We want to make sure that we're giving them the best experience possible every time that they're coming to one of our presentations.

Morgan Hutter

This is just a great example to our alumni and students that listen and maybe our alumni listeners that. This is a prime example of this program of how as alumni, your support helps us. This is a program that is partially funded by an alumnus, and that is all thanks to providing students leadership experiences, being able to pay for this education, providing them some experience for their resume, and then also providing them financial support to get them through their time at William & Mary. So a huge thank you to all of our alumni that support the Boehly Center programs. If you are interested in supporting the Boehly Center further, you can find more information by contacting us or reviewing our website. But I want to close this out and just ask each of you to kind of if listeners could take one thing away from this conversation. What is that? And I'm going to start with you, Alex.

Alex Sadid

So I think the biggest thing to take away is these topics are invaluable. It doesn't matter if you want to be someone who works in the art field or if you want to be working in corporate finance. You're going to need to understand these topics because financial decisions drive a lot of our day-to-day life. And on top of it, like we were talking about, the information is not unattainable by any means. It's all out there. There's plenty of resources that are publicly available to everyone so that you can be educated on these topics. And if you take the time to really focus in while you're young and understand these, you can set yourself up for a future path of success financially and alleviate a lot of stress and anxiety from your life, because having a stable financial future is key to living a really prosperous and enjoyable lifestyle.

Morgan Hutter

Spot on. What about you, Professor Smith, any follow-up?

Joey Smith

Yeah, well, one takeaway that I hope listeners have picked up on, at least implicitly in our conversation today, is that kind of contrary to what many folks may think, everyday people whose annual income may not be gargantuan can still retire with dignity, accumulate meaningful amounts of wealth by doing the things that we've talked about. Alex and his team educate on budgeting, being savvy with student loans. And the one that I really want to foot stomp is starting early and investing right away when students get that first job.

Morgan Hutter

That's great. I, too, am not a financial planner, but I remember some advice I got at some point in this time of financial literacy for myself. It's have kind of separate funds even if you need them right. You have your emergency car funds. You have your travel funds, you have your medical emergency, whatever your house fund when it's time for that, and from your paycheck, just directly put 25 50 bucks, whatever it is that you can afford in each fund. So then, when the car breaks down, you're not in a panic to have to take it from paycheck to paycheck. You have a little cushion. So that was always something that was really helpful, and it has served me really well put something away. Thank you so much. I hope those that were listening today found value in this conversation. I think it's incredibly important. You can learn a lot more as we shared either on other websites or YouTube videos. Or please just check out the Boehly Center's website under our programs and clubs. There's a drop-down for the financial literacy program, and I know Alex will be more than happy to help and direct students that are interested to be a peer educator or to conduct either the four sessions or a customized session. So that wraps up our Careers in Finance podcast today at the Raymond A. Mason School of Business at William & Mary. Thank you again, Alex. Thank you, Professor Smith, and thank you to our listeners for listening. We'll chat soon.

Jeffrey Rich

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