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# Scoring points for your financial future

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## Middle class barely treads water

### More are going under, even with two incomes

By Christine Dugas  
USA TODAY

Millions of middle-class families can no longer afford to live on two incomes.

A generation ago, a typical American middle-class family lived on the income of a single breadwinner. In recent years it has taken two working spouses to live the modern middle-class dream. Now, it seems even that is not enough to survive the skyrocketing cost of housing, health care and college while saving for retirement and shouldering growing debt loads.

Bill and Terry Will of Chesapeake, Va., together earn about \$70,000 a year, and yet it's a struggle to provide for their family and pay off their credit card debt. Terry, 44, is a nurse and Bill, 50, manages a warehouse that ships food and supplies to other countries.

The Wills have five children at home, ages 2 to 17. They budget every penny and have no savings, no college fund, no retirement nest egg.

Like many middle-class families — often broadly defined as those earning

\$25,000 to \$99,999 — the Wills have little room to maneuver if something unexpected comes up. They barely survived when Bill's job as an oil company sales manager was eliminated in 1999. They came close to losing their home and nearly ended up in bankruptcy before they went to a non-profit credit counseling agency for help.

What happened to the Wills is being repeated in legions of middle-class homes across the USA. With personal bankruptcy at an all-time high, it's mostly the middle class that gets trapped: 92% of the record 1.6 million filers in the year ended June 30 were middle class, according to a Harvard University study.

The Wills acknowledge that they didn't know much about managing money before they went into debt counseling, but they didn't live beyond their means.

"We didn't have cable TV before, and we still don't," Terry says. "We used credit cards to pay for diapers, food and school stuff."

It may be hard to believe, but the

average family of four spends 21% less on clothes and 22% less on food — both at home and in restaurants — than a similar family did a generation ago, according to a new book, *The Two-Income Trap*. And though families may spend more today on things like Internet services, DVDs and airline travel, those increases are offset by declines in other expenditures.

Instead of splurging on gourmet meals and designer clothing, families are spending more on essentials such as day care, housing and health insurance.

"Costs are rising quickly, and benefits that used to be provided by employers now must be provided by workers themselves, including health insurance and retirement," says Christian Weller, an economist at the Economic Policy Institute.

The average employee contribution toward health insurance premiums is \$2,412 for family coverage this year, according to the Kaiser Family Foundation. That's a 13% increase over 2002.

Housing also is eating up more of the average family's budget. About 80% of

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low- and moderate-income homeowners spent more than half of their income on housing in 2001, according to the Center for Housing Policy. Many experts say no more than 36% of gross monthly income should go toward credit card bills, car payments and mortgages combined.

Today, much of a family's second income goes to paying for a suburban home in a good school district, says Elizabeth Warren, Harvard law professor and co-author of *The Two-Income Trap*.

"Middle-class families are taking on ruinous mortgages just to find a home in the right ZIP codes," Warren says.

"The cost of living is crazy in the top-rated school district here," says Emily Derr, 25, a renter who lives in Houston with her husband, Jeremy, and their 5-month-old daughter, Madison. A house that costs \$145,000 in that neighborhood would cost \$20,000 less one suburb over, she says.

### Using credit to make ends meet

The Derrs can't afford to buy a house yet. They have struggled since Jeremy got out of college with \$16,000 in credit card bills and student loans.

Emily has a nursing degree. She had hoped that with two incomes they'd be

fine. Instead, she says, "We were making a little more than minimum payments, but it didn't seem like it was going anywhere. I thought it was going to be 40 years before we'd be able to buy a house."

To economize, they moved into a cheaper apartment and sold one of two cars. But Jeremy made only \$12,000 in his first year as a financial adviser for Morgan Stanley Dean Witter, and they paid \$500 a month for health insurance. "I felt like I was drowning," Emily says.

Credit card debt became an albatross. Eventually, the Derrs went to a credit-counseling service for help. Jeremy joined the Army and is now in officer candidate school.

Credit card debt for middle-income families is soaring — up 75% to \$5,031 between 1989 and 2001, according to a new report by Demos, a non-partisan public policy organization.

"Middle-class families are using credit cards to fill in a gap between their income and costs," says Tamara Draut, director of the economic opportunity program at Demos. "It's more about maintaining their standard of living than frivolous consumption."

At one point, when Bill Will had no income and no health insurance, he still had credit cards and continued to use

them. "I did what I had to do for my family," he says.

Average card debt declined somewhat in 2001, according to Federal Reserve data. But some experts don't see much cause for optimism. Many families traded high-interest card debt for lower-rate home equity loans. That lowers debt payments but puts homes at risk. The percentage of homeowners facing foreclosure in the second quarter was 1.12%, down only slightly from the record 1.2% in the first three months of the year, according to the Mortgage Bankers Association of America.

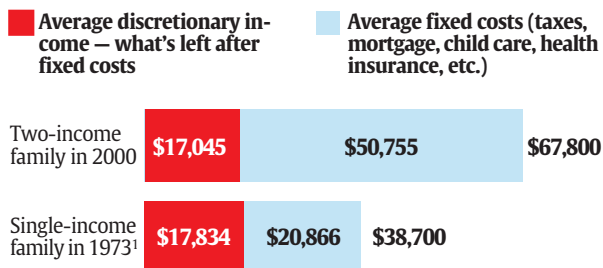
### Facing financial failure

As consumers shoulder more debt, bankruptcy filings have exploded. Nearly 90% of families with children who file for bankruptcy cite three reasons: job loss, divorce or medical problems, according to the Consumer Bankruptcy Project at Harvard University, the largest study of consumer bankruptcy in America. About one-third of the families owed an entire year's salary on their credit cards.

Single parents typically have the hardest time juggling financial obligations. A divorced woman with a child is nearly three times more likely to file for bankruptcy than a single person with no children, Warren says.

### Two incomes aren't better than one

The average two-income family of four is worse off today than a one-income family of four 30 years ago.

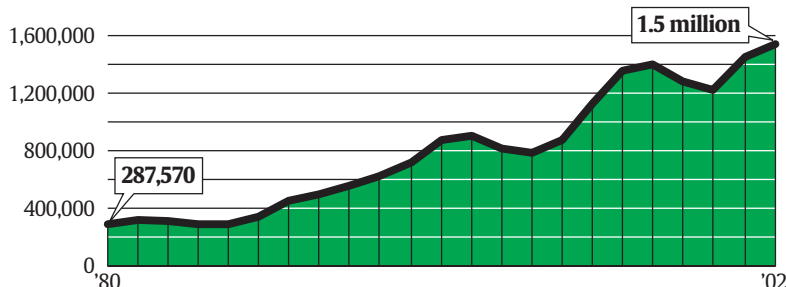


Source: Two-Income Trap

1 - Inflation adjusted in 2000 dollars

### Bankruptcy boom

The number of personal bankruptcy filings set a record high for the second consecutive year.



Source: American Bankruptcy Institute

Pamela Robbins, 36, is a single mother of three children, ages 5, 11 and 12. Her problems snowballed after she split from the children's father about 10 years ago. "There were weeks when my groceries went on my credit cards," says the Mashpee, Mass., resident. "It was a matter of survival. I had to do it to pay the gas bill so it wouldn't get shut off."

Her credit card debt grew to \$56,000. Creditors were calling. Robbins earned about \$30,000 last year working two jobs to try to keep up. She runs a home day care business and works at a grocery store. Like Emily Derr, she says she felt like she was "drowning."

With bankruptcy looming, Robbins wanted to save her home. She went to Auriton Solutions, a credit-counseling agency. They negotiated with creditors to reduce her interest payments and put her on a repayment plan.

"I am still stretched to the limit," Robbins says. "But in the last six months I've noticed the debt is going down. It's going to take a few years, but eventually it's going to get cleared up."

#### Putting retirement at risk

Many people like Robbins manage to avoid bankruptcy by going to a credit-counseling agency. Even then, it can take years to climb out of debt. Saving for retirement usually gets put on hold.

"I have no savings account," Robbins says. "I have no IRA — no retirement

plan." And the need to save for college could put retirement further out of reach.

Most workers are on their own when saving for retirement as fewer companies offer traditional pensions. Nearly two-thirds of middle-income families in 2001 had only a 401(k) type of plan at work, according to a recent report by the Employee Benefit Research Institute. The median plan balance for families earning \$25,000 to \$49,999 was just \$7,000.

Though many employers provide a matching contribution to 401(k) plans, during the economic downturn many suspended or reduced contributions.

Recent efforts in Congress to improve retirement programs have focused on increasing the maximum amount that workers can contribute each year to 401(k) plans and IRAs. "But if they can't afford to put in \$2,000, they're not going to take advantage of the \$3,500 limit," says Cindy Hounsell, executive director of the Women's Institute for a Secure Retirement.

"Workers not only have to save for retirement, but they have to make wise financial decisions," Weller, the economist, notes. The nearly three-year stock market downturn underscored the potential for investment losses in nest eggs.

And during the mortgage refinancing boom, many families depleted their

biggest asset: home equity. Last year alone, about \$200 billion of home equity was cashed out as homeowners refinanced, according to economist Mark Zandi.

"The large mortgage payments will prevent many middle-income workers from retiring when they want," says Steve Brobeck, executive director of the Consumer Federation of America.

Despite their financial woes, middle-class families are often in a Catch-22 situation. They typically make too much to qualify for federal aid programs, and yet they don't earn enough to benefit much from expanded retirement plan limits, tax cuts on dividend income, capital gains and the like, consumer advocates say.

Bill and Terry Will, meanwhile, are doing the best that they can to remain positive. It will take the couple another three to five years to get rid of their debts.

They also have to think about college for their son, Michael, who is a senior in high school. And they have no retirement savings. Terry does not contribute to her 401(k) plan at work now because all their money is going to paying off their debt.

"If we worried about all of this we'd be physically sick," Terry says. "We just have to trust in God to help us."

## Middle class barely treads water

### Objectives:

Students groups will:

- investigate a personal finance issue mentioned in the USA TODAY article “Middle class barely treads water.”
- analyze their research, and identify information that a financially literate American should know.
- organize their research into a clear, concise format.

### Concepts:

- Savings
- Debt
- Retirement
- Income
- Credit
- Bankruptcy

### Preparation:

- Organize the class into groups of four. (If some groups are larger or smaller, simply adjust the number of required interviews and sources.)
- Give each group one set of the attached graphic organizers (“Research,” “Anecdotal evidence” and “Essential information”). Stress that the graphic organizers are only for the final product. Groups should proof and edit their work before transferring it to the appropriate sheet. If they prefer, students can use a computer to compile their information, as long as it duplicates the format of the graphic organizers.

### Activity at a glance:

- Grade level: 9-12
- Subjects: Social studies, personal finance, language arts
- Estimated time for this activity: 1-2 hours in class; 2-4 hours, homework

### Materials:

- Reading: “Middle class barely treads water” (one copy per student)
- Graphic organizers for research, interviews and summary activity (attached)



## Middle class barely treads water, cont.

Ultimately, all groups' work will be compiled into a booklet that addresses important issues in personal finance.

- Ask students to read the article. After, discuss the questions below – either as a class, or in groups.

### Discussion:

What is the broad definition of middle class? Why are some middle-class families unable to survive on two incomes? What can happen when a family has no savings? Do today's households spend more or less on clothes and food than those in the previous generation? What kind of "trap" can two incomes create for families?

How are middle-class households using credit cards? What does the number of bankruptcy filings indicate? What are the most common reasons for declaring bankruptcy? Where can consumers with large debts get help? In your opinion, are most people prepared to make the financial decisions that life in the U.S. requires?

### Activity:

Currently, Americans face an overwhelming number of financial decisions, even though most have received little, if any, schooling on money management. In this Net Gain introductory lesson, student groups will gather facts and anecdotal evidence about basic financial issues. Students will record the final results of their investigations on the attached graphic organizers. The class will then compile the graphics into a booklet entitled, "Making Wise Financial Decisions" (or a title of your choice). The booklet can be distributed to students, parents, the library, etc.

1. Divide the class into groups (preferably of four), and assign each one of the following topics: income; mortgages; health care; retirement; college; credit cards; personal bankruptcy.
2. Have students reread the article and highlight information in it that pertains to their topic. Ask them to jot down any questions relevant to the subject that the article raises. Then, groups should brainstorm a list of other questions about their topic until they have at least 10.
3. Review each group's list. If needed, augment or substitute a group's questions with those suggested on the following page.

### Additional resources:

- Goodpayer.com offers a handbook entitled "Learn Now or Pay Later" that helps young adults understand the basics of credit and debt. Visit [www.goodpayer.com](http://www.goodpayer.com). The book is available in PDF format. To order a copy, call 800-756-4912.

### Activity extensions:

- Direct students to think about how the U.S. can help make citizens more adept at financial planning. What courses should high school students be required to take?
- Ask a financial planning professional to review your booklet and evaluate its accuracy and thoroughness.

## Middle class barely treads water, cont.

4. Using these questions as a guide, each individual group member will gather information about their topic from one reputable Web site or other source. After, students will share their findings with the group. The group will then determine which information from the pool is the most important – i.e., necessary to maintaining or planning for financial health. This information should be recorded on the “Research” graphic organizer.

5. Next, each individual will gather *anecdotal* evidence about their topic by interviewing one adult who has some experience with their issue. Each student should develop at least five interview questions prior to talking with their interviewee. After all group members have completed their interviews, the group will determine which questions and responses from each interview contain the most useful anecdotes or advice. These questions and responses should be recorded on the “Anecdotal evidence” graphic organizer.

6. Groups will analyze all of the data they collected and condense it into five to 10 bulleted items. These should be recorded on the “Essential information” graphic organizer.

7. (Optional) Ask each group to check another group’s final work for accuracy and thoroughness. Direct groups to detail their findings in a written evaluation.

8. Compile all group’s graphic organizers (or, just the “Essential information” pages) into a booklet and distribute it to students. If appropriate, develop additional activities, quizzes, questions, etc., based on the student-generated material.

### SUGGESTED QUESTIONS:

#### Income

What is the median family income for whites, blacks, Hispanics, etc. in the U.S.? Why isn’t it the same for everyone? What is the poverty threshold? How much would a full-time minimum wage worker earn in a year? What is the relationship between education and earnings?

#### Mortgages

What are the different types of mortgages? How many years does the typical mortgage last? How much do you need for a down payment on a home? What are the average home prices in your area? What is settlement? What fees are associated with it?

#### Health care

What can happen when you don’t have health insurance for yourself or your family? Who foots the bill for the health care costs of the uninsured? Do all employers offer health care? How much does the typical employee have to pay for company-sponsored health insurance? Why is health care in the U.S. so expensive? Why has health care in the U.S. reached a crisis?

#### Retirement

What is Social Security? Can a person survive on just a Social Security check? Will Social Security be around when you retire? What is a 401k plan? An IRA? What is the retirement age? When should you start saving for retirement? How much do you need to save?

#### College

What is the average cost of tuition at state and private schools? Why have tuition rates increased in the last few years? What other expenses do college students incur? What is a 529 plan? What kinds of loans are available to students and/or parents? What is work/study? How long do you have after college to pay off a student loan?

#### Credit cards

How do credit card companies make money? What kind of fees do they charge cardholders? What is the difference between a fixed and variable rate APR? What is a reasonable interest rate? What happens when an individual does not regularly pay her or his credit card bill on time? How do high credit card balances affect a person’s ability to qualify for home, auto and other loans?

#### Personal bankruptcy

What are the main reasons that people declare personal bankruptcy? How can an individual avoid bankruptcy? When a person declares bankruptcy, what property will be sold to pay creditors? What kind of property is exempt from liquidation? How does bankruptcy affect an individual’s credit rating? How does Chapter 13 bankruptcy differ from Chapter 7?

Topic: \_\_\_\_\_

Group members: \_\_\_\_\_

***Research***

**Source 1**

Name: \_\_\_\_\_

Web site: \_\_\_\_\_

How do you know this source is credible? \_\_\_\_\_

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\_\_\_\_\_  
\_\_\_\_\_

***Facts and statistics***

**Source 1**

Name: \_\_\_\_\_

Web site: \_\_\_\_\_

How do you know this source is credible? \_\_\_\_\_

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\_\_\_\_\_  
\_\_\_\_\_

***Facts and statistics***

Topic: \_\_\_\_\_

Group members: \_\_\_\_\_

***Research***

**Source 3**

Name: \_\_\_\_\_

Web site: \_\_\_\_\_

How do you know this source is credible? \_\_\_\_\_

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\_\_\_\_\_

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***Facts and statistics***

**Source 4**

Name: \_\_\_\_\_

Web site: \_\_\_\_\_

How do you know this source is credible? \_\_\_\_\_

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***Facts and statistics***

Topic: \_\_\_\_\_

Group members: \_\_\_\_\_

*Anecdotal evidence*

**Interview 1**

Name: \_\_\_\_\_

Occupation: \_\_\_\_\_

Years in workforce: \_\_\_\_\_

Question 1: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 2: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 3: \_\_\_\_\_

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Answer: \_\_\_\_\_

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**Interview 2**

Name: \_\_\_\_\_

Occupation: \_\_\_\_\_

Years in workforce: \_\_\_\_\_

Question 1: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 2: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 3: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Topic: \_\_\_\_\_

Group members: \_\_\_\_\_

*Anecdotal evidence*

**Interview 3**

Name: \_\_\_\_\_

Occupation: \_\_\_\_\_

Years in workforce: \_\_\_\_\_

Question 1: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 2: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 3: \_\_\_\_\_

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Answer: \_\_\_\_\_

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**Interview 4**

Name: \_\_\_\_\_

Occupation: \_\_\_\_\_

Years in workforce: \_\_\_\_\_

Question 1: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 2: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Question 3: \_\_\_\_\_

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Answer: \_\_\_\_\_

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Topic: \_\_\_\_\_

Group members: \_\_\_\_\_

*Essential information*

What you need to know about \_\_\_\_\_:

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2.

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4.

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10.