2

Health and Wealth Connections

Don't let your past dictate who you are...
let it be a part of who you become.
—Unknown

Health and wealth are both important resources for living a happy and successful life. People in poor health often die young and spend thousands of dollars (that could have been invested) on health-care costs. On the other hand, those who practice recommended health behaviors are more likely to exceed average life expectancy and need a large nest egg to insure that they don't outlive their assets.

Health and personal finances are both closely associated with happiness. Research data indicate that four factors strongly predict happiness and well-being in most cultures: health, economic stability, work/productive pursuits, and family relationships. Studies indicate that people are happier when they are healthy, employed or doing something productive, married or in a long-term committed relationship, and financially secure.

This chapter describes 20 similarities between health and financial issues. These common characteristics support the premise that the same behavior-change strategies can be used to improve one's health or personal finances or both.

1. Problems Generally Start Small

Weight problems usually develop gradually, such as gaining 3 to 4 pounds a year due to increasingly sedentary lifestyles and larger food portion sizes. According to U.S. Department of Agriculture surveys, the caloric intake of American adults has risen from 1,854 to 2,002 calories per day over the past 20 years. This is a 148-calorie-per-day increase, which equals a weight gain of about 15 pounds per year. Americans are simply consuming too many calories in relation to their level of physical activity.

Comparable financial examples are "perma-debt" (i.e., a permanent debt balance on credit cards) and increasingly higher interest and/or fees as outstanding balances rise. Credit card issuers also routinely charge transaction fees for cash advances and balance transfers. Another common practice today that exacerbates household debt is penalty annual percentage rates (APRs) that are charged when a "trigger" event such as a late payment occurs. When a penalty APR is triggered, relatively small credit problems can mushroom very quickly.

2. Less Stigma Than Before

With over two-thirds of Americans having "weight issues" and well over one million bankruptcies filed annually by consumers for over a decade, health and financial problems have gone "mainstream" and are more tolerated, if not accepted, by society. When many people are doing the same thing or have the same characteristics, it is hard to view them as "abnormal."

A factor related to both health and financial problems is the increasing number of people who lack health insurance. About half of those who file for bankruptcy report that medical debt is a problem. Medical debt typically has fewer stigmas than debt from discretionary purchases like new clothes, vacations, eating out, or luxury items. The number of people without health insurance is a big risk factor for inadequate medical care. Some people forgo health care because of existing medical debts and/or high out-of-pocket expenses.

3. Impacts on Job Productivity and Discrimination

Overweight and unhealthy people often have a difficult time getting hired, and some may have difficulty performing the duties associated with their job. All things being equal, employers generally prefer to hire thin, attractive workers who they perceive to be more productive, better able to interact with customers, and/or less likely to become ill or injured and require medical care. Studies by the National Bureau of Economic Research indicate that the earnings of overweight and obese women are impacted negatively by their appearance

Personal finance problems also affect job productivity. One widely quoted study by Garman et al. estimated that 15% of workers have financial problems (e.g., high credit card debt) that negatively impact their job productivity. There's also another direct link between personal finances and one's ability to land a job. Many employers today check the credit scores of potential employees, as do creditors, landlords, and auto insurance companies. Credit scores are, in effect, a type of character reference and past "blemishes" (e.g., charged-off debts) can prevent someone from getting hired.

4. Lots of Technical Jargon

A 2004 Institute of Medicine study found that nearly half of American adults have higher risks of health problems due to trouble following instructions on drug labels, interpreting medical consent forms, and understanding a doctor's instructions. Comprehending investing terms and the often-arcane language of personal finance is also a challenge for many people. Acronyms like REIT (real estate investment trust) and NAV (net asset value, a term used with mutual funds) can seem like a foreign language to financial novices. Worse yet, both personal finance and health information often contain contradictory "expert" opinions or research results, making it very difficult for lay audiences to know how to interpret and use conflicting findings.

5. Need for Programs at Schools and Work Sites

Much has been written about poor school lunch choices and children's lack of adequate exercise and financial literacy. Not surprisingly, some schools have started to implement (or reinstate) physical education and personal finance programs and are reporting positive behavior changes as a result. Many more schools, however, need to offer these programs.

Just as children can be reached with health and personal finance programs at school, employer-sponsored programs can enhance adults' knowledge and prompt behavioral changes. Examples of health initiatives include a company gym or exercise program, healthy vending machine or cafeteria options, and health screenings. These supports are especially important when a high number of workers commute long distances. A widely quoted 2004 study of Atlanta, Georgia, commuters found that for every 30 minutes they drive, they have a 3% greater chance of being overweight.

6. Fear of Drastic Changes

Many people believe they must make major lifestyle changes to be healthy and wealthy. So instead, they "freeze" and do nothing. A 2004 U.S. Department of Health and Human Services press release alluded to the importance of just getting started: "America needs to get healthier one small step at a time. Each small step does make a difference, whether it's taking the stairs, instead of an elevator, or snacking on fruits and vegetables instead of greasy chips or sugary foods. The more steps we can take, the further down the road we will be toward better health for ourselves and our families." Similarly, some people fear never having "enough" money saved for retirement because they've seen gloomy reports about unprepared retirees needing seven-figure sums. However, any positive change (e.g., saving $1 a day or 1% more of one's salary) is better than none. The trick is to get started today.

7. Need for "Point of Purchase" Information

Unlabeled food items, like restaurant meals, are a challenge for people watching their weight. There is no nutrition label to look up calories, fat content, etc., making it difficult to tell a 300-calorie muffin from one with

600 calories. A financial example of needed "point-of-purchase" information is the repayment time and interest cost of a credit card balance where only minimum monthly payments are made. As a result of the 2009 CARD Act, billing statements must show the total repayment time and interest cost of making minimum payments and the amount saved by paying more than the minimum due.

8. Need for Realistic Advice

A recent *Wall Street Journal* article questioned whether government nutrition guidelines are out of touch with the way Americans actually eat. Specifically, it asked whether most American households are able to consume the recommended amount of seafood due to time and money constraints. This same type of "reality test" also needs to be given to "ideal" financial advice (e.g., saving 10% of gross income) that is widely ignored because it is unrealistic for many people. It is far better to save a smaller amount (3% to 5% of gross income with gradual increases in savings over time as pay rises) than to save nothing because the 10% guideline seems unattainable. Making small positive steps to "ramp up" to recommended guidelines is perfectly acceptable.

9. Lack of Limits Causes Problems

Studies have shown that when people are served more food, they eat more. Upgrading to larger serving sizes (a.k.a., "super-sizing") often increases food prices modestly but substantially increases calorie and fat content. A comparable financial example is consumers who are extended a higher credit line on a credit card. Some charge more than they did before just because they can. Lack of understanding about the long-term cost of credit is also widespread. Creditors charge just a fraction of the outstanding balance amount due as a minimum payment, resulting in high interest costs and repayment periods.

10. Restrictions Help Avoid Problems

Some people find it helpful to lose weight by eating portion-controlled foods (e.g., convenience food entrees and nutritional diet drinks) that contain nutrition labels and calorie counts. A buffet meal, on the other hand, with no portion controls or point-of-use caloric information, can make weight loss very difficult. An example of a financial restriction is a fixed rate loan with a defined balance and regular monthly payments instead of an open-ended home equity credit line or credit card balances. Two other common financial-restriction strategies are having tax-deferred retirement plan savings automatically deducted from pay and automated investment plan deposits for investments such as stock and mutual funds.

11. Drastic Solutions Have Major Drawbacks

There is no easy way to lose weight, accumulate wealth, or dig yourself out of debt. Rather, it generally takes discipline, perseverance, and time. Liposuction and gastric bypass surgery can reduce weight quickly, and television "makeover" shows have made it seem easy, but there are risks associated with any surgical procedure, including death. An example of a drastic financial action is filing for bankruptcy. Bankruptcy calls off a person's creditors through a protection known as the "automatic stay." The downside, however, is that bankruptcy will stay in a person's credit file for up to 10 years. This can make obtaining credit difficult and/or expensive and possibly result in lost employment and housing opportunities. In addition, bankruptcy will require that debtors stay on a stringent budget for up to five years or liquidate their non-exempt assets. Not every debt that a person has is eligible for bankruptcy discharge either (e.g. income taxes).

12. The Longevity Connection

People who practice healthy behaviors, such as not smoking, exercising regularly, and eating four or more cups of fruit and vegetables daily, decrease their risk of dying prematurely. They also need to accumulate adequate wealth so they don't outlive their assets. Stated another way, the "price" of better health is the need for increased wealth. Not surprisingly, financial planners, whose clients tend to practice healthy habits and have good incomes and medical insurance benefits, often run retirement savings calculations out to above-average life expectancies such as 90 or 95. Nobody wants to be the financial planner of a client who runs out of money in their 80s. Quality of later life is also very important and improved by healthy lifestyle choices.

13. People Expect "Quick Fixes"

Health and personal finance issues are both ripe for claims of "miracle" cures and quick fixes. One reason is that it is not easy to make behavior changes. Promises of quick results provide an attractive alternative, resulting in thousands of books, infomercials, and products that claim to offer fast and effective solutions to health or financial woes. Unfortunately, many product pitches are outright scams designed to defraud consumers. Below are examples of claims that should raise "red flags" about the possibility of fraud:

Health Claims

- "Lose 30 pounds in 30 days" advertisements
- Quick weight-loss claims for dietary supplements, body creams, drugs, and patches
- Ads such as "lose pounds while you sleep" that claim you can lose weight without any effort

Wealth Claims

- "Guaranteed" investment returns, often at rates above historical investment averages
- No apparent relationship between risk and reward
- Pressure to invest money quickly or to pay a high advance fee for services

14. Denial and Disconnects

Studies of both health and financial planning topics indicate disconnects between perception and reality. According to the *2010 Retirement Confidence Survey* by Helman et al, three in ten American workers haven't saved anything for retirement. Yet, 31% of workers who have not saved were somewhat or very confident they'll have enough money to retire. Similarly, an Associated Press survey in 2004 found that 60% of those who qualify as overweight under government standards (body mass index of 25+) said they are at a healthy weight. Only a quarter of those who are obese consider themselves very overweight.

Regarding both their health and finances, many Americans are in denial and think they are doing a whole lot better than they actually are. This, of course, makes behavior change difficult since people don't see their situation as a problem. Personalized self-assessment tools can help counteract this by indicating potential risks and how they can be reduced. Two helpful resources are Rutgers Cooperative Extension's *Financial Fitness Quiz* www.rce.rutgers.edu/money/ffquiz/ and Harvard University's health information website http://www.diseaseriskindex.harvard.edu/update/.

15. Need for Routine Check-Ups

Nobody would argue that regular medical screening tests, such as blood pressure checks, blood glucose checks, mammograms, prostate cancer PSA tests, or colonoscopies, are essential for maintaining good health. Regular check-ups are especially important as people age and are at greater risk for health problems. Diseases, such as cancer, can take years to develop, and people who are diagnosed in the earliest stages usually have a better prognosis than those who are diagnosed later, when a disease has spread to other parts of their body. Timing is everything when it comes to identifying a health problem and dealing with it.

Periodic financial check-ups are just as important as routine physical exams. People can be sick physically or financially and not know it. A review of one's finances can help "diagnose" problems (e.g., high consumer debt ratio) before they get worse (e.g., bankruptcy) and assess uncovered risk exposures (e.g., inadequate auto liability coverage). A financial check-up can also evaluate progress toward financial goals, identify needed action steps, provide accountability to oneself and/or to others (e.g., a financial advisor), and provide the motivation to change.

16. Many Available Resources

Lack of money is no excuse for skipping periodic health or financial reviews. For those with limited funds, assistance is available. Free or low-cost medical screening tests are often available through city or county health departments, health clinics, and non-profit organizations such as Planned Parenthood and women's centers. Inexpensive financial check-ups are available through non-profit consumer credit counseling agencies (see the website www.nfcc.org) and governmental and non-profit organizations that provide financial education programs.

An increasing number of financial planners also provide advice and financial check-ups to middle-income consumers on an as-needed basis. The fees charged are generally around $150 to $250 an hour. To minimize the cost of these services, go prepared with cash flow and net worth statements and a list of questions in hand. Several groups of financial planners who cater to middle-income clients have formed national networks, such as Cambridge Advisors and the Garrett Planning Network, to market their services nationwide.

17. Poor Risk Perception

Poor health and financial outcomes are often couched in vague and relatively unthreatening terms such as "you are at increased risk for" heart disease, cancer, outliving your assets, etc. People see "you're at increased risk for" warnings and tune out. Why? First, there is a natural human tendency to believe that these cautions apply to everyone else. Second, everyone knows somebody who successfully "defied the odds" or, worse yet, did "everything right" (e.g., healthy living and saving money) but died at a relatively young age. Third, risk warnings are rarely personalized or prioritized. We are told that we are "at risk" for so many things in life and the result is that most people just "freeze" or "tune out" and do nothing.

Familiarity is closely related to perceived risk. People often view *their* home, *their* car, *their* food, and *their* employer retirement plan as less risky than that of others. This helps to explain why a common risk in employer 401(k) plans is holding a concentrated position in company stock. A health example of how familiarity affects risk is when someone (themselves or a loved one) is diagnosed with a life-threatening disease. Suddenly the disease and all of its risk factors become *extremely* personal. People often change their lifestyle as a result and pay more attention to expert recommendations for diet, exercise, and other risk-reduction strategies.

18. Personal Traits = Success

Whether it is losing weight or preparing for retirement, people with a positive mental attitude (PMA) have an edge. Why? If you expect to succeed, you will succeed. If you expect to fail, you will fail. It is as simple as that. Seeing results (e.g., pounds lost, lower body mass index, dollars saved, debt reduced) is a powerful motivator and a great way to develop your PMA. Another is consciously replacing negative thoughts (e.g., "I'll never have $1 million saved in time for retirement") with positive ones (e.g., "I'll save as much as I can now and save even more later when I am earning more money.").

Nobody can control everything that happens to them in life but they can control their attitude toward life events. A common trait among successful people is their PMA. They look at challenges as opportunities, learn from mistakes, and make the best of difficult situations. A final personal success trait associated with health and wealth is having a tangible goal, passion, or sense of purpose. In other words, something that motivates them and makes the steps required to achieve it worth the effort. People will work long and hard if something is important to them. Create a mental picture of health and wealth for yourself and then determine the steps required to get there.

19. Government and Employer Intervention

We may have reached a "tipping point" in society's concern about Americans' poor health and low wealth. Government and employers are starting to take "serious" action. One example, reported in 2004, was the state of Louisiana contracting with a hospital to provide gastric bypass surgery, at $25,000 per operation, for some of its most obese employees. Cost was a primary motivator with the thought being that the operation was cheaper than health complications related to obesity down the road. Employers are increasingly implementing policies and fitness programs that provide incentives and opportunities for workers to improve their health. *Smart Money* wrote about a company that pays its employees $25 per quarter, plus a yearly bonus of another $25 and a day off, if they are able to lose weight and keep it off. That's the "carrot" approach. Other employers are using the "stick." For example, some have benefit programs that penalize workers who smoke or are obese.

In the wealth-building arena, there are also "carrots" and "sticks." Perhaps the sweetest carrot is the match provided by employers to workers' 401(k) and, in some cases, 403(b) plans. This is "free money" that no one should pass up, if possible. A growing "stick" approach to wealth building is an "opt-out" retirement savings plan. This automatically enrolls workers by deducting a relatively low default contribution amount (usually 2% or 3% of pay) unless they specifically indicate otherwise.

20. Ongoing Maintenance Is Required

Health and wealth can free you or restrict your life and should never be taken for granted. Otherwise, you could wake up one day and realize that you're broke or in poor health or both. Health and wealth require periodic "maintenance" activities and can be destroyed by doing nothing. In other words, like a marriage, you need to work at health and wealth and develop good lifetime habits, including self-control. Recommended health maintenance activities include eating a nutritious diet that follows recommended dietary guidelines, regular exercise, and adequate sleep. Recommended financial maintenance activities include regular deposits to retirement savings plans and an emergency fund of at least three months' expenses.

Health and wealth should be viewed as simultaneous goals. It is not a case of "either/or" or "now/later." Some people make the mistake of spending the first 20 to 30 years of their working life focused on accumulating money, often with a high level of associated stress that harms their health. Their busy schedule crowds out a good diet, exercise, and adequate sleep, but for a while, they get by. Health problems eventually occur, however, and they then spend their hard-earned money on expenses associated with failing health. In other words, they pursue wealth at the expense of health instead of considering both areas of life equally important and working on them together.

Summary

People "invest" in their health through healthy lifestyle choices, just like they invest in wealth-building assets such as stock or a college education. Good health is a form of human capital and has been identified as a major factor in the accumulation of household wealth. Conversely, high medical expenses and unhealthy habits, such as smoking, erode household wealth and claim income that might otherwise be used to save or reduce debt.

Poor health is a financial albatross around the neck of anyone trying to live a financially secure life. Medical crises are a particularly difficult source of financial problems because there are two negative effects: the high cost of medical bills (many of which are placed on credit cards) and the loss of income due to an accident, illness, or disability. Coupled with inadequate savings and medical insurance, poor health is a major factor in the financial distress experienced by many U.S. households. This is especially true when families are living at or above the limits of their income.

Perhaps the simplest association between health and wealth is the high cost of unhealthy habits. Kick a $5-a-day smoking habit and you can save $1,825 annually. Invest this amount with an 8% annual return over 25 years and you'd accumulate over $130,000. A 2004 study by Zagorsky investigated the effect of smoking on an individual's financial situation and found the typical nonsmokers' net worth is roughly 50% higher than light smokers and roughly twice the level of heavy smokers. With respect to the issue of obesity, the U.S. Department of Health and Human Services estimates that a 10% weight loss will reduce an overweight person's lifetime medical costs by $2,200 to $5,300.

This chapter has explained characteristics that health and wealth have in common. You've learned that "issues" generally develop slowly and take time to address. And, a lack of limits can cause problems and restrictions help avoid them. In addition, you've learned that health and wealth are related in many ways. For example, if you practice healthy habits and live a long life, you'll probably need a lot of money to maintain your lifestyle in retirement. Healthy habits are also likely to improve your quality of life and may result in lower medical bills. In addition, you may be able to work longer, if desired, so retirement can begin later and assets will last longer.

Remember the phrase "If it is to be, it is up to me." Set realistic goals, take small steps to reach them, learn from your setbacks, and—above all—believe in yourself and your capacity to become healthy and wealthy. If you don't believe in yourself, nobody else will either. As Walt Disney once observed, "All our dreams can come true, if we have the courage to pursue them."

From the 132-page book *Small Steps to Health and Wealth*™, NRAES-182
Available from PALS Publishing, www.palspublishing.com/smallsteps, Ph: 607-255-7654