Points to Ponder

February 17, 2023

The First Tee...

Retiring Retirement…many Americans may be heading towards working until death:

- There have been warnings for years of an impending retirement crisis…it has arrived:
  - American retirement savings are currently in a shortfall by $7 trillion, and getting worse *(Yikes!)*:
    - Retirement savings were already struggling prior the pandemic, despite very little inflation and the stock market in an extended bull market, with the S&P 500 up 230% during the ten years leading up to the COVID-19 crisis:
      - The fallout from inflation spiking to a five-decade high, resulting in the Fed shifting to an aggressive monetary tightening strategy, created market turmoil resulting in 401k's and IRA's losing $3.4 trillion in value during the first half of 2022:
        - There were few places to protect financial asset values (except cash) as equity and fixed-income values took major hits.
    - Living standards are going to decline for almost half of the population who are in, or near, retirement *(Sacrifices!)*:
      - Americans aged 65 and older is going to increase to 73 million by 2030 (or 21% of the population)…compared to 49 million (15%) in 2016
        - Many younger Americans are starting out farther in the hole, carrying large student loan debt (further hampering retirement savings).
- **Pensions RIP**…defined-benefit pension retirement plans have disappeared as companies cut costs:
  - 401k plans have worked well for the upper third of workers, not so much for the lower two-thirds:
    - The lower 66% of workers either do not work for companies who offer 401k plans, employee does not participate, they frequently change jobs and do not accrue much savings, or need their entire paycheck to live on:
  - Social Security is not so secure…politicians are looking at further cuts or changes to the government's retirement payment program…if no changes are made, the social security trust fund's reserves will run-out by 2035 (with Americans receiving 80% of benefits).
- **Survey Says**…a survey by Bankrate provides a stark picture of the retirement planning landscape:
  - Over half of the respondents (55%) believe their retirement savings are behind where they need to be:
    - **Lost Horizon**…71% of Baby Boomers interviewed said they were behind *(time is running out!)*, compared to 30% of Gen Z:
      - Almost 25% of respondents stated they did not save anything last year, while 16% were saving less than the prior year.
    - Over the past two years, over 20% of the responders took money out of their retirement savings…21% were using the money to cover emergency expenses, while 11% needed the fund to pay for everyday expenses *(that rainy day is here!)*.
- **Price Punishment**…the inflation spike caught many households by surprise, creating budget issues:
  - A large portion of inflation gains are coming from the sharp rise in housing, energy, and food costs:
    - In many cases, it is not discretionary spending crimping household budgets, but covering the cost of necessities.
- Living the Dream?...studies by the World Health Organization and Organization for Economic Co-operation Development (OECD) countries, paints a surprisingly diverse picture of healthy retirement:
  - The study stack ranked 38 OECD countries…with placement descending from highest to shortest healthy retirement lifespans:
    - France and Luxembourg ranked the highest, while the U.S. was 34th and Mexico was last *(not the most assuring news!)*:
      - With life expectancy rising, countries have been pushing for people to stay in the workforce longer…unfortunately, the average number of years a person can expect good health, with no major injuries or disease, has not increased at the same pace:
        - In 2019, the average life expectancy at 60 for men in OECD countries was 82 years…the average effective retirement age was 64.
    - The effective retirement period ranged from 23.3 years in France, to 12.9 years in Mexico…the healthy retirement period was much shorter, ranging from 18.5 years in France, to 7.7 years in Mexico *(effective retirement age in France is 60)*
      - The effective retirement age for Americans is 65 years old, the healthy life expectancy is 76, with life expectancy at 82:
        - This brings the U.S. effective retirement period to 17 years, and the healthy retirement period to 11 years *(Time to move to Paris?)*
    - The situation is better for women, with females enjoying 22.8 years in retirement…with a third of this time in ill health:
      - The number of years women can expect to enjoy healthy retirement has declined by 1.4 years since 2000, to 16.4 years.
      - The study just looked at life expectancy for those who reached 60, it did not consider those who never made it to retirement age.
  - Unless health outcomes improve (as state pension ages rise) healthy retirement periods could get shorter:
    - The study was conducted before the pandemic, which decreased life expectancy in a number of countries:
      - In the U.S., COVID-19 caused life expectancy to decline the most since World War One *(Paradise lost!)*
- **A Bad Equation…Working Longer + Saving Less + Paying More + Living Shorter = Less Leisure Living** *(I do not like the new math!)*

At the turn...

The Back Nine…

Anti-Autoimmune…the pandemic impacted spike in used-car prices and borrowing rates have many vehicle owners struggling to meet their monthly loan payment:

- There are currently more car payments in arears than seen during the financial crisis:
  - Subprime auto borrowers who were at least 60 days late on their payment rose to 5.97% during December…this is up from the peak level of 5.04% seen during the Great Recession (and up from the 7-year low of 2.6% in April 2021):
    - Vehicle repossession rates are rising, but remain below pre-pandemic levels…increasing 11% in 2022 versus 2021:
      - The strong employment environment is evident from the auto repo level still running 26% below the level seen in 2019:
        - Besides making back payments, owners also must cover the cost of repo and towing fees to get their car out of hock (about $1500).
      - Auto repos typically occur after two or three consecutive missed payments…but in some states, it can take only one missed payment
    - An auto repossession typically impacts a borrowers' credit score for the next seven years *(Grand theft auto!)*
- **Trip Trauma**…the cost of getting from Point A to Point B continues to get more expensive:
  - The average price for autos has soared during the pandemic…hitting record levels for new and used vehicles
    - The average price for a new car now stands at $50k, while the used-car average has touched $30k.
  - Borrowing for a vehicle has also spiked…the average new car loan rate hit 8.02% in December (up from 5.15% a year ago):
    - The average monthly payment for a new car stands at a record $777…almost double its level in 2019:
      - The average new car-payment now comprises about a sixth of the median after-tax income for U.S. households.
    - The average used car borrowing rate is around 12%...for subprime borrowers, the auto interest rate can be much higher, up to 26% in some cases…a lot of cash for clunkers! (The average used car payment has risen to 544 per month):
      - The number of U.S. consumers who are paying over $1000 a month in car payments has soared to a record:
        - Almost 16% of consumers financing cars in the 4th quarter are paying over $1k…compared to 6.7% just two years ago.
        - The annual median household income currently stands at about $70k…those with $1k monthly car loans, it is requiring about 17% of their monthly income to make their payment…the typical payment-to-income ratio is 4% to 6% for most car buyers.
- **Bankvana**…with the auto supply-chain issues easing, the shortages of cars for sale have improved:
  - Increased auto inventories have lowered used-car values, creating a conundrum for some auto loans
    - As seen during the financial crisis, when homeowners were walking away from their properties when the borrowed amount exceeded the home's value; the same experience is now starting to occur in the auto sector:
      - Auto lenders are concerned about more upside-down borrowers letting their vehicles be repossessed…leaving them holding the bag:
        - Financial firms have been tightening lending standards to protect against new borrower defaults (it's too late for the outstanding car loans!)
  - Online car dealers (such as Carvana and CarMax) have been especially hard hit by the high car lending rates…resulting in major staff lay-offs and loss of a large-part of their market value (Carvana has missed EBITA targets 6 of the past 8 quarters):
    - Carvana will need to reduce about 85% of its current debt load by 2025 to be more in line with its peer group.

19th Hole...

Everyday, I watch the go-getters go by. Even they say the ladder is much too high.

Harry Connick, Jr.

Ross Elford, Senior Vice President

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