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By Jonathan Clements

Choosing Your Future

WHEN FOLKS have financial questions, they go hunting for the right answer. But what if there's no right answer to be found?

To be sure, in retrospect, the correct answer is often crystal clear. Looking back at 2018, we should have owned growth stocks until September and then gone to 100% cash. If our home didn't burn down and our health was good, we shouldn't have bothered with homeowner's and health insurance. If we kept our job and survived the year, we didn't need that emergency fund and we wasted time planning our estate.

Seem reasonable? We have an inkling that perhaps we should have gone to cash in September. After all, we knew stocks were expensive and we had this premonition the market would fall. This is what's called hindsight bias. At the time, we also had a premonition the market would keep rising, but four months of rocky share prices have erased that failed forecast from our memories.

When it comes to the other stuff—the insurance policies, the emergency fund, the estate plan—we have a more rational response: Yes, looking back, we didn't need these things. But what if matters had turned out differently?

That, in a nutshell, is why there are no precise right answers when managing money. We may have only one past, but there are all kinds of possible futures—and we don't know which one we'll get, so we have to make sure our finances can weather a range of potential outcomes. That inevitably means that, in retrospect, our financial choices never look optimal.

What if they do? In all likelihood, we weren't incredibly prescient, but rather unbelievably foolish. What if we had gone to 100% cash in September—and the stock market had soared? What if we hadn't bothered with homeowner's insurance—and our home had burned down?

We may not be able to predict the future, but we can prepare for it, by endeavoring to control the range of outcomes, so the future is more to our liking. To that end, we have three key levers at our disposal: saving diligently, holding down financial costs and managing risk.

The first two are straightforward enough, but the third takes more thought. To manage risk, we need to ponder the host of misfortunes that might befall us—and decide which would have such dire financial consequences that we need to take steps to soften the potential blow. Are Americans taking the necessary steps? Sometimes yes, sometimes no—as you'll discover below.

Taking Our Chances

HOW ARE WE doing when it comes to managing risk? It's a mixed bag:

- Four out of 10 adults would have to borrow, sell something or simply couldn't pay if they were hit with a $400 emergency expense, according to a Federal Reserve survey. As I've argued before, the big financial emergency is losing your job. Without severance payments from employers and unemployment benefits from the government, it's hard to imagine how many folks would cope if they were out of work for an extended period.
- We do an okay job of managing investment risk—or so it strikes me. I never come across investors who are banking everything on one or two stocks. They might take a flier on a couple of individual companies, but they keep the bulk of their portfolio in funds, both the mutual fund and exchange-traded varieties. Thanks in part to 401(k) plans, funds have become hugely popular—and deservedly so.
- Among households with children under age 18, one out of five has no life insurance, says Limra. That number would likely be far higher without employer-provided coverage. Indeed, today, more families have group life insurance—often through their employer—than individual coverage.
- As of 2017, 9% of Americans didn't have health insurance, down from 16% in 2010. That decline reflects not only the government subsidies available under the Affordable Care Act, but also the penalty that was levied—before 2019—on folks who didn't have coverage.
- Among those age 65 and older, with annual incomes above $20,000 and who aren't currently eligible for Medicaid, just 16% have long-term-care insurance. What about everybody else? A minority could pay long-term-care costs out of pocket—and presumably the rest plan to deplete their assets and then rely on Medicaid, which pays roughly 60% of U.S. nursing home costs.
- More than a third of working Americans don't have disability insurance. True, disability benefits are available from Social Security. But not everybody

qualifies and, even if you do, the monthly payments likely wouldn’t cover your household expenses.

- It seems we’re more diligent about protecting our possessions than protecting ourselves. Homeowners almost always have homeowner’s insurance, in large part because the mortgage company insists. Similarly, most car owners have auto insurance, because state law requires it.

As you’ll gather from the above list, the situation for many families would likely be far more perilous, if it weren’t for a host of government and employer programs. What if these programs didn’t exist? Perhaps folks would take more responsibility for their financial future—but I have my doubts. It seems that, as with so many other aspects of our lives, we’re far too focused on today and don’t worry nearly enough about tomorrow.