America's financial literacy report card—needs improvement

"An investment in knowledge pays the best interest."

—*BENJAMIN FRANKLIN*

As we reflect on all the challenges 2020 created, the issue of money-- or the lack thereof-- is front and center as a societal topic. And while the pandemic exposed major financial fault lines for countries, businesses, and individuals, many personal financial challenges pre-dated the pandemic. Skills as basic as being able to reduce debt over time, pay bills in a timely manner, or even reconcile a bank account often define financial literacy, but a recent study conducted by The Financial Industry Regulatory Authority (FINRA) found only 34% of respondents could answer at least four of five basic financial literacy questions on topics such as mortgages, interest rates, inflation, and risk.[1] This illiteracy is race blind, gender blind, and socio-economic class blind. Having wealth does not necessarily equate to financial literacy. Even children of wealthy parents may not know how to reconcile inflows to outflows (aka balancing a checkbook) or manage credit card debt. Given that U.S. households are poised to inherit $36 trillion over the next 30 years, many of these beneficiaries may not have the financial knowledge to manage their inheritance and be successful stewards of their money.[2]

A recent 2020 study reported that over one-third of full-time employed Millennials, Gen Xers, and Baby Boomers reported having less than $1,000 saved to deal with unexpected expenses, and women were at even greater risk; only half as many women as compared to men were able to meet basic expenses if out of work for an extended period.[3]

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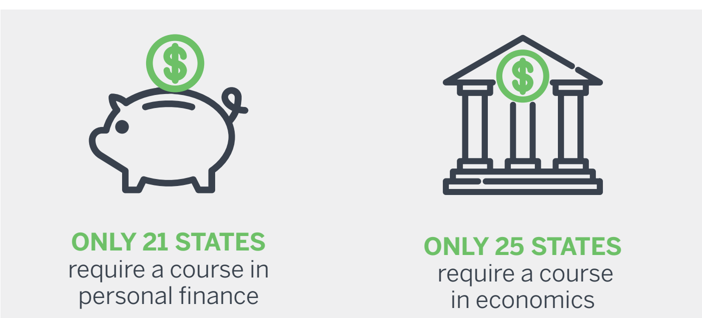
Eighty-nine percent of Americans agree that lack of financial education contributes to some of the biggest social issues our country faces, including poverty, lack of job opportunities, unemployment, and wealth inequality.[4] The COVID-19 pandemic and the ensuing economic fallout have further strained American's financial preparedness- 36% of Americans report they could not last one month on their savings and this number is even higher for Hispanics and Blacks. Those percentages are 45% and 39%, respectively.[5] Even teenagers see this gap – 61% believe they are paid less based on race, ethnicity, and gender, and 69% believe they have a harder time getting financial support to start a business due to the same characteristics.[6]

This paper will explore how we got here and ways we can help solve financial illiteracy. As the saying goes, "You are as strong as your weakest link." Finding ways to impart even the most basic financial skills helps strengthen our communities and the entire country.

A STRANGER IN A STRANGE LAND

Money is the lifeblood of the U.S. economy. It circulates throughout our system- businesses, governments, families- and allows goods and services to trade seamlessly. Given the huge role it plays in our daily lives, it is astounding that only 21 states require high school students to take a course in personal finance and only 25 states require high school students to take a course in economics.[7]



Because half of states do not offer this education, it often falls to the family to help foster these skills, but many Americans simply do not speak this "language." A staggering 93% also report having math phobia, a core element of these skills.[8]

The National Financial Educators Council defines financial literacy as, "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals."[9] Sadly, many adults fall short when making common financial decisions. A Forbes article recently covered this topic and offered questions[10] to help people determine their aptitude such as: how many months' expenses do financial planners recommend that you set aside in an emergency fund? If you have too many credit cards, what should you do? If a late payment is sent to a collections agency, how long will it remain on your credit history even if you have paid it off? What is the formula for calculating your net worth? Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, what would your ability to buy something with the money in this account be?

In past generations, personal finance skills did not have the same significance they do today. While savings and investments have always been important vehicles for consumption, emergency reserves, and wealth building, the need to fund non-working years (aka retirement) was historically satisfied by Social Security and pensions.[11] When Social Security was established in 1935, life expectancy for a person born in 1930 was age 58 for men and age 62 for women.[12] Since eligibility started at age 65, many people passed away before receiving payouts. Fast forward to today- a 65-year-old male has a 50% chance of living to age 85 and a 65-year-old female has a 50% chance of living to age 88.[13] Also, the responsibility to save for retirement has shifted away from company-sponsored pension plans (i.e. guaranteed payments for life) and now falls upon the individual to manage their own retirement savings in programs such as 401(k)s. Currently, only two out of 10 workers have access to a pension.[14] And with greater access to credit[15], that can prompt people to buy things they cannot afford, simply because they are able to "buy now, pay later." It becomes obvious that speaking the "language of money" is essential.

BACK TO SCHOOL

A college friend of Jeanne Russo's shared her story about gaining these skills:

> **"As a child growing up in very rural blue-collar beginnings, I always heard my parents argue about money. I heard them complain that 'they would never be able to retire.' I did not want that for myself. When I went away to college, my financial literacy education began. I spent countless hours in the library seeking financial literacy knowledge. My college peer group included financially literate friends who came from financially literate families. I wanted to break the cycle of generations of family financial illiteracy. I wanted to have control of my finances and wanted to be able to retire one day."**

Schools are the place many people go for these types of skills and, increasingly, evidence shows that students who are required to learn financial literacy as part of a state's education curriculum make better decisions across multiple, and critical, early adult-life decisions.[16] To earn a high school diploma, most states require students to complete classwork in English, math, social studies, physical education, arts, and foreign languages.[17] However, half of states do not require economics. The cruel irony? This is the exact time when financial literacy plays a huge role in making decisions about how to fund college. The significance of this decision has only increased over the last generation. In 1995, a public four-year institution cost $8,798 annually and a private four-year institution cost $21,042 annually. Fast forward to 2017 and these costs have doubled- a public four-year institution cost $20,050 and a private four-year institution cost $43,139.[18] Student loan debt in the United States totals $1.68 trillion and grows over six times faster than the nation's economy. Nearly 95% of people with student loan debt borrowed for an undergraduate education and 92% of these loans are from federal programs. About 44.7 million student borrowers are in debt by an average of $37,584 each and 2.4 million borrowers owe an average of $48,819 each in private loans.[19]

BUY NOW, PAY LATER

Credit plays a significant role in personal finance. While it can be argued that not everyone will need to borrow money, establishing creditworthiness and developing a strong credit score can help secure mortgages, business loans, and rental agreements. A low credit score, on the other hand, reduces choices and can affect employment opportunities.[20] Student loans are now the second largest slice of household debt after mortgages and are bigger than credit card debt. But unlike other forms of debt, if you default, these loans generally cannot be discharged in bankruptcy. The government can—and does—garnish wages, tax refunds, and Social Security benefits to get its money back.[21] The absence of financial skills hampers many young borrowers from understanding the risk reward tradeoff of investing in an education. Bad decisions can also cascade and hinder their ability to participate as savers and investors. Young adults can benefit from a few basic steps to help them in this area- apply for no annual fee credit cards, keep low credit lines, and pay bills on time. These three steps can help build good credit and allow access to broader credit markets.

MONEY EMOTIONS

Researchers have long studied our behaviors when it comes to money and decision making. Practically every item and service we see has a price. However, money can still live in the shadows due to its association with status and power. Keeping our personal finances secretive can be a form of protection from judgment. Sarah Newcomb of Morningstar shares this insight: "We instinctively know that as soon as we speak the numbers, judgment will follow. It could be positive or negative, but once you've put a number on your debt, your savings, or your income, you've opened the door for specific comparisons."[22] While this protective element has benefits, the downside of a "money taboo" can lead to gaps in knowledge and this ignorance can lead to mistakes and create a vicious circle. Learning the language skills regarding how to talk about money can have positive effects not only on individuals, but also on couples and families.

Jeanne's college friend shared additional valuable insight with us:

> **“ My husband and I are planners and savers. In fact, when we first met and began dating, we shared financial budgets to make sure we were on the same page in terms of money. Had we not been on the same page, there would not have been a fourth date. ”**

Establishing open dialogue and shared values can prove to be a huge advantage when you consider that many divorces are connected to conflicts about money. At least two studies show that this could lead to divorce. TD Ameritrade found that 41% of divorced Gen Xers and 29% of Boomers say they ended their marriage due to disagreements about money.[23] Choosing your life partner is one of the most important decisions in a person's life. However, when it comes to marriage, money, and our values around it, it is often not discussed. It can be one of the most important conversations couples can have. People may also benefit from an independent party to facilitate these discussions, especially when it comes to second marriages. Consulting an attorney or financial professional can often prevent money mistakes and misunderstandings.

It will probably come as no surprise that therapists have entered this space as well. Over the last decade, a new specialty has emerged called "financial therapy" and in 2019, the Financial Therapy Association (FTA) began offering a certification in this area.[24] FTA was formed in 2009 with a starting goal: "To promote a vision of financial therapy, which is the study of cognitive, emotional, behavioral, relational, economic, and integrative aspects of financial health."[25] Helping people relate to their emotions about money and develop better skills is a welcome addition to resources available to creating better outcomes.

SHE WORKS HARD FOR THE MONEY

Financial independence often begins with a first job and Jeanne's friend offered us another example of a good, early decision:

> **“ Upon beginning my first job, I told the human resources director that I wanted to max out my 401k. I really was not sure exactly what that meant, but that is exactly what I did with my 401k. My first 401k contribution was the first step in being able to break the family financial generational cycle and become financially aware and empowered. ”**

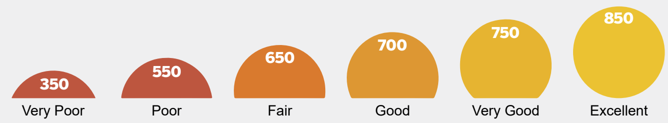
The good news- employers are well-positioned to reverse some of the trends in financial stress and help employees improve their financial wellness. The pandemic has merged home life and work life, highlighting the need for benefits that can adapt to the changing times and help employees manage work and life. Even before the pandemic, financial wellness benefits were on the rise. In a 2019 study, almost 50% of workers at large companies (25,000+ employees) and 37% of workers at small companies (1-100 employees) said their employers offer financial wellness benefits.[26] However, employees also noted that they would like to see more topics to help them with identity theft protection, after-tax emergency savings accounts, financial coaching services, financial education classes, online financial management tools, digital financial advice and planning, accrued wage advances, low interest loans, and debt consolidation/payment programs.[27]

Offering these types of programs can mitigate productivity and retention issues. Employees who worried about their financial health spent at least three hours each week dealing with personal financial issues[28] and, were therefore less productive at work. Also, when employees have trouble meeting financial goals, they are 2.2 times more likely to seek a new job opportunity in an attempt to earn their way out of debt.[29] These employees are likely to address cash shortfalls by turning to high interest rate short-term loans, credit card debt, or retirement funds, which further harms their long-term financial health. In fact, more than 50% of the American workforce expects to use money in their 401k for expenses other than retirement, often at a loss, and missing out on potential for future recovery and growth.[30] Additionally, financial worry can lead to increased anxiety, poorer health, and reduced cognitive function, potentially affecting job productivity and increasing absenteeism.[31]

By incorporating financial literacy into the workplace, employers and employees reap many benefits, including increased productivity and retention as well as reduced healthcare costs (i.e., lower stress means fewer adverse effects). Financially literate employees are less likely to end up in financial hardships, demand salary advances, or withdraw savings from company 401k's. They are also able to make more informed decisions, improve negotiation skills, and become stronger leaders. This is why financial literacy is quickly becoming the top employee benefit and "wellness" initiative.

For financial wellness programs to be successful, they need to do more than just provide education. Often, programs are not personalized enough to sustain engagement and motivate employees to take the necessary steps to improve their financial well-being. One way to increase engagement would be to provide incentives as is typically done for health and wellness benefits. Also, employers need to help remove the stigma around personal financial struggles so that employees get the personalized assistance they need.

Tools that help employees personalize their financial situation can help foster better behaviors and raise awareness. Milliman built a financial tool called The RISE Score™ to help people understand their retirement income. With a small number of personal inputs, an individual can determine their retirement income by producing a score built along the same parameters of a credit score. And, much like a credit score, it is helpful for people to do check-ins to see if their score is still in a range that lets them know if they are on track to meet their goals.



The Milliman Retirement Income Security Evaluation Score, or RISE Score™, is a confidential, easy-to-use tool to evaluate how well your retirement income plan is working toward achieving your retirement income goals. Visit www.therisescore.com.

EXTRACURRUCULAR HELP

Colleges and universities are also a good resource for people who may want a more academic environment to learn these skills. There are numerous programs, ranging from semester-long programs to short 30-minute modules. Each year, LendEDU ranks the top 20 programs offered by colleges and universities.[32] Below are three examples from their 2020 list:

BABSON COLLEGE The Babson Financial Literacy Project is a "not-for-profit initiative designed to help young adults acquire the knowledge and skills necessary for lifelong financial prosperity and independence." The program is made up of 20- to 30-minute self-study units alongside face-to-face interactive discussions.

THE OHIO STATE UNIVERSITY The iGrad financial literacy program is provided to students free of charge and enables them to complete personal finance education courses and activities on topics like student loans, retirement planning, investing, budgeting, and credit cards.

UNIVERSITY OF CALIFORNIA, DAVIS The Aggie Blue to Gold Financial Wellness program offers plenty of financial education opportunities, including one-on-one appointments with student advisers, online financial resources, online tools, and informational resources. Parent resources are available as well so that parents can be educated on "how to help their student's financial wellness." CashCourse is also provided for free.

A number of not-for-profit organizations are also committed to building advocacy for financial literacy:

JUMP$TART COALITION It is one of the largest advocacy groups for personal financial literacy. Founded in 1995, Jump$tart's mission is to develop a strategic plan for improving the quality and extent of curriculum modules for personal finance education in the nation's schools, grades K-12. Members include many federal agencies as well as some of the largest financial service firms. In 2018, the Jump$tart Coalition introduced Project Groundswell, a new initiative designed to increase financial education in schools across the country through a "groundswell" of support from parents, teachers, and others.

THE NATIONAL EDUCATORS COUNCIL Its mission is to "empower individuals and organizations that are seeking to build or enhance a financial education or coaching program by providing resources, training, and expertise that reduce the cost per impact, deliver measurable results, and maximize learner achievement so programs are in a better position to scale and empower communities with a critical life skill – financial literacy." Their presentations, online learning, and ongoing education program package are complimentary, and they also offer fee-based programs such as eLearning, which can be customized and co-branded.

FINRA Also involved in improving financial literacy, FINRA established the Investor Education Foundation in 2003. The mission is to empower underserved Americans with the knowledge, skills, and tools to make sound financial decisions throughout life. FINRA and its partners offer programs that assist in strengthening the knowledge of military educations, creating a financially supportive workplace, empowering fraud fighters (those in a position to protect consumers), and working with public libraries to help young patrons and adults learn about money.

And not-for-profit organizations always need volunteers. Suzanne shares her volunteer experience with two of them:

JUNIOR ACHIEVEMENT JA is one of the oldest not-for-profit organization in the U.S. and celebrated its 100th year anniversary in 2019. Since its founding in Springfield, Massachusetts, in 1919, JA's mission has been to teach K-12 students the necessary skills for work readiness, entrepreneurship, and financial literacy. Their experiential programs are delivered by volunteers in the classroom. In 2019, over 4.8 million U.S. students participated in a JA program. Suzanne serves on the board of the Northern New England chapter and shares this insight;

> “I began my journey as a FinLit volunteer in 2016. A friend and I were invited to create an after school financial literacy program for K-8 girls in Boston. After we finished the project, I became interested in more volunteer opportunities, which led me to JA. Their curriculum is amazing. It is turnkey, so you spend less time on preparation. They also typically have two volunteers paired with the teacher which takes a lot pressure off classroom management. The content is fun, engaging, and interactive. The students also really respond well to the real-world anecdotes we share. In our chapter alone, we had over 1,635 volunteers in 110 schools in 2019. I can't emphasize enough how easy AND impactful being a JA volunteer is for K-12 students. Visit www.juniorachievement.org to explore opportunities in your area. JA is also in over 100 countries, so for those interested in opportunities outside the U.S., visit www.jaworldwide.org.”

THE CFA INSTITUTE A global non-for-profit association of investment professionals that sets the standard for professional excellence and credentials. Many communities worldwide have local societies (aka chapters) that offer financial literacy programs which are run and developed by members. CFA Society Boston (www.cfaboston.org) has built a robust curriculum and built alliances with many local organizations that want to offer their members or staff access to financial professionals. The content is for both students and adults. The types of organizations that partner with CFA Society Boston range from libraries, prisons, and high schools to private companies. Suzanne is a member and volunteer and shares this insight:

> “CFA Society Boston's Financial Literacy Initiative has been a great way to give back to the community and offered me an opportunity to get to know other likeminded professionals. The ability to create new content and to collaborate with organizations is also a fun, creative activity. I encourage all of my friends in financial services to join their local CFA Societies and find ways to volunteer. By the way, you do not need to hold a CFA (Chartered Financial Analyst) designation to become a member. Check with your local society to see if they have a FinLit program.”

Lastly, for people who may want to "self-study," here are some examples of online resources:[33]

THE FEDERAL RESERVE Offers a variety of educational materials on financial and economic issues.

KHAN ACADEMY Provides free financial education with the goal of helping regular people make sense of complex concepts.

THE NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION Provides free online education courses, customizable financial tools, and more.

MYMONEY.GOV Has useful tips on borrowing, saving, spending, and investing. You can also find suggestions on helping your elderly family members avoid financial abuse.

BE THE CHANGE

The African proverb, "each one, teach one", expresses an important sentiment about the responsibility people have to pass along knowledge to others. Individual commitment and contribution to learn and become financially literate and empowered does not stop with oneself. Each of us, in big ways and small ways, can build a more financially empowered society. For those of us with financial skills, we have a unique ability to teach our friends, family, and community. Sheila shares how she was recently able to help someone close to her:

> “I have a family member with two master's degrees, a 20-year military career, and a second career in the academic sector. She learned recently that she is eligible to take early retirement in two years and asked me for help. She had basic questions like how much will it cost to live in retirement and

had she saved enough. I learned that she has not been contributing to her employer- sponsored retirement plans (leaving a lot of money on the table) and did not have a savings account. She also had no idea what her current employer benefits are or what her veteran's benefits include. This situation is all too common for highly educated adults. They are busy building their lives and careers, but I consider this part of our lives on par with managing our health-nonnegotiable. The good news for her: she has a military pension AND a state retirement pension. I asked her some basic planning questions to help her begin to craft her next chapter. Those questions included 'What do you want to do when you retire'?, 'Where do you want to live'?, 'Do you want to travel in retirement?', 'How are you making plans to continue to take care of your father?' By answering these questions, she had a much better sense of how much money she needed and how to plan for things she wanted. It felt really good to help someone so close to me, but it did make me wonder how many other people are in this position and need help. ”

It is especially incumbent upon the financial services industry to lean into these efforts. We are uniquely qualified to fill the knowledge gap and by sharing our knowledge and resources within our communities, we can help turn the tide and strengthen our society.

A longitudinal study showed that financial literacy has significant predictive power for future financial outcomes. A one unit increase in the 2012 financial literacy index (compared to 2018) corresponds to almost:[34]

2.5% **increase in financial satisfaction**

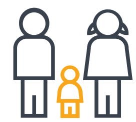
6% **increase in retirement planning**

8% **increase in a higher likelihood of being able to meet an unexpected $2,000 expense**

We believe financial success is measured by not just by how many people are wealthy, but also by how many people are not poor. Being financially literate is the first step in financial empowerment. Here are some final thoughts on ways everyone can start improving today:

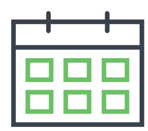
Participate in work financial wellness programs.

Seek opportunities to volunteer in your community and/or local schools.



Consider sharing how you make purchasing decisions with your children.

Support advocacy programs to help establish curriculum standards in K-12.



April is financial literacy month. Try using a topic calendar[35] for family discussions.

For people saving for retirement, calculate your RISE Score using www.therisescore.com.

The language of money is universal. With increased financial literacy, more of us will be able to transition from surviving to thriving. When we strengthen our weakest link, we strengthen our society, our economic strength, and our country.

FOOTNOTES

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