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NEWS REVIEW

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Weak Financial Literacy Scores Threaten a Global Education Movement

Dan Kadlec, Time Magazine, May 17, 2013

The global movement to teach kids about money in school has produced little hard evidence that the effort is paying off. That doesn't mean it's all been a waste of time or that we'll never get the results we want; but, it certainly gives doubters ammunition.

In a series of financial literacy tests dating to 1997, the JumpStart Coalition for Personal Financial Literacy has found that young people's understanding of personal finance has remained consistently sub-par. Given the energy put into financial education over the past decade, this is disheartening news.

Meanwhile, the FINRA 2009 National Financial Capability study found that only 30% of the population can do a simple 2% calculation and has even a basic understanding of inflation and risk diversification. The 2012 wave of that study will be released soon and reportedly shows no improvement.

Weak financial literacy scores have galvanized dozens of nations, thousands of nonprofits, and countless educators and policymakers in the attempt to raise the financial I.Q. of people around the world. But test scores that show no improvement are now galvanizing the opposition, which believes no amount of instruction will lead to broad improvement in the way individuals manage their money.

This lack of evidence presents a huge challenge to the financial education movement if it is ever to amount to more than a bunch of disjointed initiatives funded in large part by highly conflicted banks and other financial institutions. Unfortunately, proving long-term behavior change in a fairly new area of study can be difficult.

In my view, the effort is worthwhile. It simply makes no sense that people cannot learn to be better money managers. We have to keep trying and keep looking for a method that works. Young people are starting to understand that personal financial management is a skill they'll need for a lifetime. We should give it to them.

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Weak Financial Literacy Scores Threaten a Global Education Movement, continued..

In a recent In recent testimony before a Senate subcommittee on Children and Families, Annamaria Lusardi, director of the Global Center for Financial Literacy at the George Washington University, defended the financial education effort:

"Studies show that Americans who are not financially literate are less likely to participate in financial markets or to invest wisely. They are less likely to save and plan for the future. At the same time, they are more likely to rely on high-cost methods of borrowing. This is a serious problem. Remedying it is difficult, but adding financial literacy to the curriculum in schools would be a good start."

She cited four reasons to push on:

•Young people with poor financial knowledge are unlikely to learn from their parents, other adults, or peers. Only a small fraction of students currently have access to adults and peers who are financially literate.
•Women, African Americans, Hispanics, and individuals with low educational opportunities have the poorest levels of financial literacy, putting them at even greater disadvantage. Only through school-based programs will this change.
•Financial skills are necessary for navigating today's complex world. This is so evident that the Organization for Economic Co-operation and Development (OECD) last year added financial literacy to the topics it evaluates in its Program for International Student Assessment. Financial knowledge now joins mathematics, science, and reading in those tests administered to 15-year-olds around the world.
•Young people need to understand how to make wise financial decisions before—not after—they are faced with life-changing decisions. Most notable among those decisions is whether or not to invest in higher education.

The payoff will come, she says:

"Where you have well-informed consumers, you will find vigorous competition and efficient markets. In other words, financial literacy is not only good for Americans because it allows them full participation in society, but financial literacy is also essential for business, the economy, the country and, in this age of globalization, the world."
What remains is to find the right delivery system—and to hold off the critics until we can start showing results.

4 Easy Steps to Raising Money-Smart Kids

Dan Kadlec, Time Magazine, May 3, 2013

Human beings may be destined to do everything the hard way. Consider teaching kids about money. Parents can do this quite simply, following a few guidelines. Yet few make any real effort, and we ask schoolteachers to fill the gap.

Parents are hands-down the most influential force in any child's life, and studies show that this extends to money management. Yet the money talk still doesn't happen in about half of all households.

Meanwhile, we have a global movement to bring financial education into the classroom. This effort has been clumsy at times though sorely needed. Too many kids go to college or get their first job without a basic understanding of budgets, debt, and saving. We ask the schools to address this need before the kids turn into bankrupt adults whose financial assistance boomerangs back on society.

If only more parents took control, the lessons learned at school would resonate with what they hear at home and sink in to a greater extent.

Jonathan Clements is one of the few parents I know that has made a big effort at raising financially literate children. A former personal finance columnist at the *Wall Street Journal*, Clements is now the director of financial education at Citi Personal Wealth Management. He started family money lessons at age 5 with his children, who are now twentysomethings with, he tells me, enviable money management skills.

Clements believes there are four simple guidelines to raising money-smart kids:

Make them feel like the money they spend is theirs. One way to do this is pay an allowance, explain what the money is for and never give in when they ask for more. "The first rule of parenting," Clements jokes, "is to never negotiate with terrorists." With young children, play the soda game. When you eat out, offer $1 if they drink water instead of a soft drink. It's shocking how often they take the $1. Pay allowance to a bank account so they must make a withdrawal before they can spend.

Tell family stories that illustrate money values. Clements' own grandfather inherited and squandered a small fortune. He says he grew up hearing the story over and over from his parents; it ingrained in him and his siblings the lesson that money spent is not easily replaced. Share stories about your humble roots or how you struggled when starting your career. That way your kids will understand they must work to earn their lifestyle. "We all had cockroaches in our apartment at one point," Clements says. "Don't be afraid to dress up your story a little bit for emphasis."

4 Easy Steps to Raising Money-Smart Kids, continued…

Lead by example. Even if you are not a financial whiz (and who is?), you can set a good example by paying your bills on time and staying out of debt troubles. "If your kids know you're up to your eyeballs in credit-card debt, they aren't going to pay much attention to any wise words you might have about managing money," Clements says. "Your kids are more likely to do as you do, not as you say."

Manage expectations. In their teens, Clements' kids clearly heard what Dad would and would not pay for as the kids reached adulthood—how much he would pay toward college, what kind of support they could expect after college, and how much he would pay towards a wedding. This gave them a realistic sense of what was coming and "no bruised feelings" later.
And there you have it. The hardest part may be consistency with your message and, for some, staying out of money trouble themselves. That's all the more reason to commit to a plan like this, which will benefit you too.

BlackRock's Fink Says Workers Need Mandatory Retirement Savings

Alexis Leondis and Margaret Collins, Bloomberg Businessweek, May 7, 2013

Then there are the ripple effects: Borrowers miss out on any investment gains, like the market's big rally over the past four years, and it's wise to shore up retirement savings before paying for other things, such as buying a house or saving for a child's education.

BlackRock Inc.'s (BLK) Laurence D. Fink, head of the world's largest asset manager, said U.S. employers should be required to put money aside for their employees' retirement, similar to Australia's superannuation system.

"The current system is not working and we need a comprehensive approach that includes some form of mandatory savings in addition to Social Security," Fink, chief executive officer of New York-based BlackRock, said today at New York University's Stern School of Business. "The longer we wait to fix it, the tougher the task becomes."

In Australia, employers must contribute at least 9 percent of part-time and full-time employees' income into accounts that belong to workers. In the U.S., Senator Tom Harkin, an Iowa Democrat and chairman of the Senate Health, Education, Labor and Pensions Committee, plans to introduce legislation this year to require businesses that don't offer a pension or 401(k) plan with a company match to automatically enroll workers in a so-called USA Retirement Fund.

BlackRock, which manages $3.94 trillion in assets, started a five-year branding campaign last year urging investors to buy higher-yielding assets such as stocks. Fink and other BlackRock executives have said that clients need to diversify and can be harmed by staying in cash-like products.
A mandatory retirement savings system would have to be phased in gradually and would relieve pressure on the federal budget, Fink said today.

DOL Proposal

The U.S. Department of Labor said today it's seeking comments on a proposed rule that would require 401(k) plan sponsors to include in workers' quarterly or annual statements an estimate of what their current or projected savings looks like as a monthly stream of payments. The government is trying to keep people from outliving their savings as employers have shifted to 401(k)-type plans, where workers are responsible for investing their contributions, from traditional pension plans, which guarantee income after retirement.