NEWS REVIEW

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The Post Recession Financial Literacy of Americans Is Still Pitiful

Nancy Cook, National Journal May 2014

An ongoing University of Arizona study offers the best chance for financial education by looking at how young adults develop financial habits, instead of lecturing them on budgeting and saving.

The financial know-how of most Americans stinks, roughly five years after the global financial recession officially ended.

The majority of people still can't correctly answer five basic questions about interest rates, mortgages, bonds, inflation, and risk-taking. The financial crisis may have prompted discussions about the need to promote financial literacy, but just 14 percent of 25,000 Americans surveyed knew the answer to all five questions, according to a 2012 report on financial capability in the U.S., published by the Consumer Financial Protection Bureau, the Treasury Department, and the FINRA Investor Education Foundation.

Educators and academics say financial-literacy education remains a tricky endeavor. "I have not discovered in my own work any gold standard," says Anand R. Marri, an associate professor at Columbia University Teachers College and the vice president and head of economic education for the Federal Reserve Bank of New York. "There is a lot of interest in it from nonprofits, the federal government, state governments, schools, and corporations. But I have not seen a program and said, 'This is the best way to do it.' "

Now, researchers at the University of Arizona are trying to change this by conducting a multiyear study into the way young adults develop and gain financial knowledge. (The latest results will come out this June and will focus on the way twentysomethings navigate the tough job market and its effect on their finances.)

The hope is that the study's long-term results will help financial educators learn more about what causes people to spend, save, take on debt, rely on payday loans, or buy homes they cannot afford. "If we look at how these behaviors are formed, we have a better chance of intercepting them," says Joyce Serido, one of the study's primary researchers and an assistant professor at the University of Arizona.

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Widespread financial-literacy education is not a new concept, first rising to prominence about 15 years ago. There are roughly 800 different types of financial-literacy curricula currently published in the U.S., says Marri. Institutions from the Federal Reserve to the Council for Economic Education to financial services companies offer guides on the best ways to teach young people about money, financial markets, and good saving habits.

The federal government alone spent $68 million on 15 financial-literacy programs in 2010, according to the Government Accountability Office. And the Jump$tart Coalition, a D.C.-based nonprofit that promotes financial education, has found that roughly 25 states now require some type of financial-literacy classes or similar exposure to graduate from high school.

The only problem with this myriad of options? They tend to teach financial literacy in a pretty didactic way by testing students on multiple-choice questions instead of asking them to really think through their financial values. "Just think of any one-semester course you took in high school. Do you remember it at all?" says Laura Levine, president and CEO of Jump$tart.

Add to this a flood of information and sales pitches coming out of the financial-services industry, and it's no wonder that Americans feel confused. A November 2013 study by the Consumer Financial Protection Bureau showed that the financial industry spends about $17 billion annually to market its products, whereas the federal government, nonprofits, schools, and corporations combined spend about $670 million on financial education. That comes out to about $54 per person per year spent on financial marketing versus a little more than $2 per person spent on financial education. It's hardly a fair battle.

The push among financial educators these days is to instead focus on the underlying behaviors that shape young people's financial decisions with the hope of eventually changing them. It is part of the broader field of behavioral economics, which posits that economists can only teach people to tweak their actions when they understand the psychology behind economic decisions.

That is the philosophical basis of the University of Arizona study that began as a research idea in 2006 and published its first few waves of its findings in 2009, 2010, and 2011. Funded by the National Foundation for Financial Education, the University of Arizona, and the Citi Foundation, the research started out following roughly 2,000 students at ages 17 or 18 as they entered college and began to make their own independent money decisions.

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So far, the study has shown that parents hold enormous sway over shaping kids' financial lives. The second wave in 2010 showed that the recession tended to hit middle-class young adults harder than really poor or really rich kids because their families' financial lives were so upended by unemployment, the plummeting stock market, or weak housing prices.

After graduating from college, many of the young adults surveyed in 2011 made much worse financial decisions than they had in their late teens. "Kids were doing some dramatic things to get a handle on their finances," Serido says. "At this point, many of them had accrued huge amounts of debt from college but did not have careers or jobs lined up. Things were not rosy for the kids who graduated in 2011.“

The next wave of research, scheduled for publication in June, will revisit the same young adults in their mid-twenties as they try to navigate the still-weak labor market and continue to lean on their parents for financial support. Serido hopes to follow this group through their mid-30s to map the way they develop their adult financial lives, both mistakes and successes.

Marri of Teachers College calls the University of Arizona study the best hope for rethinking and revamping the model of financial-literacy education. Other promising ideas include greater training for middle and high school teachers, who may find themselves teaching financial literacy alongside English, math, social studies, physics, or driver's education. Financial education that uses case studies instead of rote memorization, also tentatively seems to work well, say Marri, Levine, and Serido.

"We need to have more continuous education flowing to people," says Ted Beck, the CEO of the National Endowment for Financial Education, one of the funders of the University of Arizona study. "You need a foundation of knowledge and then ongoing reinforcement for it to work.“

That's the hope of the University of Arizona researchers as they delve into the young adults' financial lives over a 20-year period—that they will discover what works over the long-term to make good financial habits stick. "What is loud and clear for me is that we are not teaching kids to be millionaires," says Serido. "Our goal is to help people understand that their financial behavior has impact on their well-being. That is the twist that is really important for kids to hear."

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Financial Woes Spell Trouble For Workplace Productivity

Michael Giardina, Employee Benefit News April 2014

Financial concerns and readiness for retirement remain top worries for Americans, even as many employers are trying to help by offering financial education benefits.

The dichotomy was highlighted this week with the release of a Gallup poll showing that approximately 64% of Americans say they enjoy saving money more than they enjoy spending it. At the same time, 59% worry they will not have enough money when they exit the workforce. These figures, from Gallup's April 3-6 Economy and Personal Finance Poll, emphasize the disconnect between readiness and reality, say Gallup researchers.

Since 2009, Gallup researchers point out that while the majority of Americans report they enjoy saving, the reality is far different. Personal consumption has gone up, and many Americans actually feel guilty about their spending and misreport their real-world behavior.

"We probably need to acknowledge that for some folks, and for some things, consumption isn't a choice, it's a necessity," Nevin Adams, co-director of the Employee Benefit Research Institute Center for Research on Retirement Income, tells *EBN*. He adds employers need to "understand as well that workers have different savings needs, much of which can be facilitated with automatic payroll deduction."

But what can employers do? Options are plentiful when financial wellness programs are centered on reflection of personal assets, a hard look at fiscal responsibilities as well as continued education.

"The best advice for employers looking to help their employees with savings would be to offer a retirement savings plan at work," Adams says. "If you already offer one, make it easy for people to sign up – automatic enrollment is probably the easiest way to make sure the worker takes advantage of the program. And automatically enroll them at a level that is adequate – help them maximize the match level, if you have one, and start them at a level that stands a chance of helping them achieve financial security for retirement."

Automation is also heralded by Erick Carter, a senior resident financial planner at Financial Finesse, an organization that offers financial education and counseling programs to over 600,000 employers at over 500 organizations.

He says the increase in automatic escalation "at least gives [employees] the option so that contributions will slowly increase over time."

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At Financial Finesse, new research finds that a greater portion of employees are pursuing more assistance in the financial arena by seeking out financial planners. In 2013, nearly half surveyed report having taken risk tolerance assessments and using all federal tax credits and deductions, according to the company's Annual Study on Employee Financial Issues. In terms of technology, Financial Finesse says that the frequency and return usage of its Online Financial Learning Center also jumped.

"What essentially Financial Finesse does is educating employees on the importance of savings, why it is beneficial and why they need to do it, and also, how to manage their day-to-day money to free [it] up to save," says Carter.

This attempt to free up some extra dollars can also relieve some of the associated stress related to finances. In turn, a less stressed worker translates into a more productive workplace.

"To the extent of helping them with money management that helps the employee with reducing stress. A lot of people are worried about how are they going to pay their bills and paying off debt, and putting away money in savings," Carter says. "[For employers] the things you see right away [are] less employee stress, increased productivity and lower health care costs."

Adams, who also serves as director of the American Savings Education Program, says that financial wellness programs or traditional financial advisement services offered at the workplace can be a huge employment benefit.

"I think a lot of individuals have never been exposed to the basics of budgeting, much less investment decisions or tax planning," he explains. "A financial wellness program has the advantage of convenience, being offered at the workplace, generally has the support of your employer, either in terms of promotional and sometimes financial support and can provide the discipline to focus on things we all know are important but either lack the time – or knowledge – to get started."