Heartland Institute of FINANCIAL EDUCATION

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Instructor's Tutelage

Businesses throughout the United States, whether unionized or not, have attempted to provide for the welfare of their workforce. They have struggled to understand the exact content and possible enforcement of ERISA, relative to financial education, while focusing most of their attention on other benefits for their employees, especially health care. Consequently, businesses have been more and more frustrated with rapid inflation of benefits costs and the unending administrative burdens that accompany providing benefits. Employees have come to rely on their employer to provide and/or make available welfare benefits for the workforce. And while all of this is occurring, the average American seems to fall further behind, financially speaking. Perhaps we're focusing our attention, at least to some degree, in the wrong place. We've barely touched on employer retirement plans and the ever-present subject of financial education, mandated by the ERISA Act. Workplace wellness is a term that generally describes financial classes, health promotion activities and organizational policies and initiatives intended to support physical and financial health behavior in the workplace. The key concept is behavior. The hope is that employed persons will increase control over and improve their own health, both physical and financial. The workplace then should be a guiding force for how we may take control of our future. But that's only the beginning. It also provides us with a formula to manage this albatross of impending health and financial-related calamity by embracing the concept of financial wellness. We can only change the problems we have by embracing a new solution. That solution is financial education coupled with implementation strategies. That will require behavior change and management on multiple levels; government, business, individual. Together, we can work together as we have in the past to solve our problems, both external and internal. But this one is unique; each individual must take a personal accountability and each one of us must make this our personal mission.

8 questions to test financial literacy

By Nick Thornton   benefitspro   December 2015

Results from 401(k) participants? Not exactly A+, when AllianceBernstein gave this quiz.

New research from AllianceBernstein, an investment manager with off-the-shelf and customized target-date fund solutions for 401(k) plans, shows that defined contribution participants' financial literacy is slipping.

That may be the key contributor to what the investment firm describes as a chronically low level of retirement confidence among 401(k) enrollees. AllianceBernstein offers an annuitized lifetime income option

ISSUE GUIDE

8 questions to test financial literacy (cont.)

as a qualified default investment alternative for 401(k) plans.

2015 results

This year, only 25 percent of employees surveyed said they are confident they'll have a comfortable retirement, down marginally from last year, but considerably lower than the 41 percent that said they would retire comfortably in 2007.

Misperceptions around target-date funds were notable, as 23 percent of participants were not sure if they were invested in a TDF or not, and 34 percent said their TDFs guaranteed that they will meet their retirement income needs.

This year's AllianceBernstein survey shows participants are craving guarantees from their 401(k) plans, as 69 percent cited "a steady stream of income" as a top feature of plan design, and almost 90 percent said they would keep some or all of their contributions in a guaranteed-income TDF if their employer automatically enrolled them in it.

Financial literacy test

Survey respondents were given an eight-question financial literacy test.

Only 12 percent of respondents got all eight questions right. One-third answered three to five questions

correctly, while one-fourth could manage only two or fewer correct answers.

All is not lost, says AB. The literacy test does show older workers tend to have a higher financial IQ.

One solution is for sponsors to craft participant communication and education campaigns relative to demographic needs and literacy levels, the firm said.

Here are the eight questions participants were asked. (In the event clarity is required, the correct answers are provided in bold font.)

1. Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

a. More than $102

b. Exactly $102

c. Less than $102

d. Don't know

e. Prefer not to answer

73 percent of workers answered correctly, with the best scores turned in by test takers in the older age brackets (55–64 and 65–75 scored 79 percent and 89 percent, respectively).

2. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

a. Buy more than

b. Exactly the same as

c. Less than today with the money in this account

d. Don't know

e. Prefer not to answer

64 percent of survey respondents answered correctly. Once again, "older is wiser" seems to be holding true, as more than 75 percent of those in the two older age brackets got the right answer, according to the survey.

3. If interest rates rise, what will typically happen to bond prices?

a. They will rise

b. They will fall

c. They will stay the same

d. There is no relationship between bond prices and interest rates

e. Don't know

f. Prefer not to answer

Bond prices have an inverse relationship to interest rates—prices fall as rates rise, but only 34 percent of respondents are aware of that fundamental reality to investing.

Only respondents in the oldest age bracket did well here—65 percent got it right. Interestingly, the youngest (those 18–24) did better than those aged 25–34 (26 percent vs. 19 percent). One-third of respondents chose "Don't know," according to AB's survey.

4. Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

a. True

b. False

c. Don't know

d. Prefer not to answer

That only 54 percent answered correctly may be one of the more disheartening points in the survey—36 percent answered "Don't know," and 60 percent of 18–24-year-olds chose this answer.

8 questions to test financial literacy (cont.)

5. Which of the following statements describes the main function of the stock market?

a. It helps to predict stock earnings

b. It results in an increase in the price of stocks

c. It brings people who want to buy stocks together with those who want to sell stocks

d. None of the above

e. Don't know

f. Prefer not to answer

Just over half of respondents answered correctly—mainly the two oldest age categories.

6. Considering a long time period (for example 10 or 20 years), which asset normally gives the highest return?

a. Savings accounts

b. Bonds

c. Stocks

d. Don't know

e. Prefer not to answer

Only 48 percent answered correctly, but among those aged 65 to 75, 72 percent answered correctly.

7. Normally, which asset displays the highest fluctuations over time?

a. Savings accounts

b. Bonds

c. Stocks

d. Don't know

e. Prefer not to answer

All told, 67 percent answered correctly, though roughly one-fourth of the two younger age brackets chose inaccurate answers.

8. When an investor spreads his money among different assets, does the risk of losing money:

a. Increase

b. Decrease

c. Stay the same

d. Don't know

e. Prefer not to answer

Only 55 percent in the survey have a grasp of this bedrock investing principle.

http://www.benefitspro.com/2015/12/05/8-questions-to-test-financial-literacy

U.S. Schools Should Follow Utah's Lead in Teaching Financial Literacy in the Classroom

By Jake Busby PFEEF December 2015

How do college students behave financially and plan for the future? Are college students' financial planning skills getting better over time?

Those are the questions that Money Matters on Campus has tried to answer.

Money Matters on Campus, a study conducted by EverFi and sponsored by Higher One, details the findings from a three-year survey of 43,000 college students from around the United States. Ultimately, the survey strives to understand how college students behave financially and plan for the future.

Money Matters on Campus recently released its 2014-15 report that highlights some very interesting findings and trends among college students and their financial behaviors. The study points out that although the amount of financial experience among incoming college students is increasing, their basic financial management planning skills are not improving. This is a very serious problem.

The study found that today's students are more likely to have a credit card and more likely to have more than one credit card. Additionally, the likelihood of engaging in responsible fiscal behaviors has decreased. Students reported that they are less likely to balance their checkbooks monthly and pay their credit cards both on time and in full each month.

As the practice of sound debt management behaviors among students, such as paying off credit cards on time and in full, has decreased, more students also feel that debt is a necessity. This attitude is especially prevalent when it comes to receiving a degree beyond high school. Students feel that going into debt is inevitable in order

U.S. Schools Should Follow Utah's Lead in Teaching Financial Literacy in the Classroom (cont.)

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to attend college. They are probably right.

While we do not have a problem with student debt, and in fact are in favor of students borrowing to get a good education, we are concerned when students take debt more lightly than they should. How do we fix this? How can we help tomorrow's college students improve their money management skills?

I would like to propose two solutions to this problem of a lack of financial planning. The first solution would require students in other states to follow those in Utah and take and pass a financial literacy course before graduating high school. In this class, students should learn how to budget and how to navigate the world of financial literacy. Money Matters on Campus found that students who took a class that taught financial literacy had a significant improvement in their financial behaviors.

The second solution I would like to propose involves technology. Money Matters on Campus found that a surprisingly small number of students use technology to manage their personal finances. Young adults are the most connected generation, and there is a great opportunity to connect these young adults to mobile applications or websites that help promote smart money management.

Although the market is flooded with popular personal finance applications such as mint.com, goodbudget.com, and others that help individuals budget, invest, and eliminate debt, few of these applications offer instructional material that teaches individuals why these things are important.

Demand for technology that effectively offers instructional material has given rise to websites such as Khan Academy and Investopedia. Additionally, major banks and credit unions have begun to incorporate budgeting and expense tracking technology into their websites to help users make more informed decisions regarding their finances.

However, there is still much to be done to combine instructional software with money management tools to help individuals increase their knowledge, change their behavior, and create financial stability for years to come.

Trends show that students are not improving their financial planning skills. However, through utilizing effective and engaging technology and passing a financial literacy course in high school, it is possible to reverse these troubling trends.

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