



## The State of Financial Literacy in America Today

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That "Americans generally do not show great familiarity with a range of things that can impact their financial planning" (Roper poll, August 2004 Journal of Accountancy) seems almost too obvious to bear repeating. The journal 'California CPA' gives some of the grim details:

- 40% of Americans say they live beyond their means.
- One in four women retire on an income below the poverty level.
- Outstanding non-secured consumer debt rose from \$805 billion in 1990 to \$1.65 trillion in 2001
- The average 50-year-old has less than \$40,000 in personal wealth (and that includes 401k participation).

#### **The Roots of Financial Literacy Movement: Why its important.**

OK. We've heard all this before. So is there any good news? It could be said that the good news began in 1997 when congress enacted the "Savings Are Vital to Everyone's Retirement (SAVER) Act". In many ways this was the beginning of the **financial literacy** movement in America. The Act required the Department of Labor (DOL) to hold national summits, the first of which was held in 1998 to "identify problems that workers face in saving for retirement" and "coordinating government education programs" (Government Accounting Office report GAO-01-634). One conclusion of the summit was that while "U.S. tax policy encourages workers to save for retirement by providing preferential tax treatment to employee pension plans...there is some evidence that tax policy alone may not be sufficient...low saving may result in part from financial illiteracy." So, in 2000 the DOL renamed the program "Saving Matters" with one primary goal to "serve as a catalyst for other private- and public-sector organizations that are committed to advancing the level of retirement saving education in America".

Then things got worse: Enron, World-Com, etc. etc. All of which led to the "Financial Literacy and Education Improvement Act" of 2003 which established the Financial Literacy and Education Commission at the U.S. Treasury. The Federal governments insistence on the need for financial literacy has since sparked a flurry of activity designed to help Americans improve their financial know-how.

#### **The Financial Literacy Movement Today: Resources you can use.**

Unfortunately much of the activity in the financial literacy movement has not reached working Americans. Many organizations such as Jump\$tart and CUNA's (Credit Union National Association) "MoneySKILL" and Googolplex@school, Butler University's "Grad Finale" and "Game of Life" and Martin University's "Yarbro Financial Literacy Initiative" have focused on financial literacy for ages 10-22 through school and college curriculum. While this focus on the next generation of American workers is essential, it does little to help employers struggling with the negative effects of employees poor financial health today. Other activities in the financial literacy movement, such as the Financial and Economic Literacy Caucus (Reps. Judy Biggert, R-Ill. And Ruben Hinojosa, D-Tx.) have raised the movement to visibility by dubbing April 'Financial Literacy Month'. Organizations like "Financial Readiness" focus on financial literacy for America's military. AmericaSaves is a national campaign that encourages American's to save at the most basic level (an essential need but not designed as a comprehensive financial literacy program).

There are other helpful resources that provide a more comprehensive resource to working Americans. For instance, the Treasury Department's multilingual "mymoney.gov" is a comprehensive website that offers key information from 'credit management' to 'home ownership' to 'starting a small business'. But while websites can offer invaluable help to employees seeking financial information, one recent SHRM study reported that generally less than 10% of employees will actually take advantage of a financial website resource (Employer-Sponsored Investment Advice Survey Report, July 2004).

In the GAO's "Options to Encourage the Preservation of Pension and Retirement Savings: Phase 3" one participant noted that employees "need investment advice, both for managing assets during the accumulation phase, but also in anticipation of and during their retirement. **Investment advice provided through the workplace is essential to achieve this goal.**" And, as the Journal Of Accountancy has noted: "Widespread doubts about the reliability of government- and industry-funded retirement and health care programs—including Social Security, Medicare and private medical insurance and pension plans—have made the situation even more urgent" (August, 2004).

### **The Future of Financial Literacy: Is it working?**

The clear message for the future is that each American must take personal responsibility for their own financial future. Even those who rely upon financial professionals for tax, investment, estate planning or other financial advice need some basic level of understanding. As NAMB noted: "Education is the single best defense consumers have against fraudulent and abusive financial practices" (NAMB 2, 2005). Through the efforts of Jump\$tart and other organizations focused on teaching financial literacy to public school students the next generation of working Americans is likely to be better prepared to manage their financial future than any up to now. While the future value of these programs is truly incalculable it does not negate the present need to educate our current workforce. And while financial tools available to today's employees generally amount to little more than helpful websites, invaluable as they may be, employees are increasingly looking to their employers to provide more personal direction.

Financial literacy has been defined by the Government Accountability Office "as the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges that come with life events such as job loss and saving for retirement or a child's education" (GAO-05-93SP). The Federal Government seems increasingly concerned about the dissemination and overall effectiveness of current financial education programs to achieve this goal. The GAO-01-634 report noted "discussions with financial education researchers indicate that a systematic follow-up effort to obtain feedback from recipients of the publications is important to implementing an effective education or outreach program" and the "DOL recognizes the need to do more to measure the effectiveness of its publications and other outreach activities."

In addition to an emphasis on evaluating the effectiveness of current financial literacy programs we expect to see some legislation encouraging, maybe even requiring, employers to provide a basic level of access to financial education for qualified plan participants. There seems little doubt among congressional leaders that such legislation would not only be helpful but is immanently necessary for the future financial health of today's employees and our nation.

### **Where Are the Best Resources Now?**

One resource right in our own back yards is the research and practical programs of many local colleges and universities. While many schools have focused their attention on teaching financial literacy to the next generation, other schools such as Kent State, University of Nebraska, University of Georgia, University of Wisconsin, University of North Carolina, Community College of Aurora (Colorado), Sam Houston State and others have developed programs that Human Resource professionals will find ready-made to help educate their work force today. The *HIFE Consortium of Colleges and Universities* is one such resource. HIFE's curriculum, now offered in 22 states, continues to expand its class offerings to include topic specific classes on taxes, estate planning, and other need specific concerns.

HIFE's course work, designed specifically for adults in the workplace, helps fill one gap in the growing financial literacy network. Together, each organization concerned with the financial literacy of America has helped turn the tide toward a more financially responsible nation. Over the next few years one should expect to see new developments with far reaching consequences affecting the implementation of financial literacy in the workplace.