

Financial Literacy and the Revival of the American Dream

“The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.”

James Truslow Adams

by Vince Shorb



Financial Literacy and the Current State of the American Dream

Financial illiteracy is a major contributor to the economic struggle that many Americans face and plays a large role in the Nation's growing economic crisis. The average citizen battles debt, struggles with financial decisions, and will experience retirement shortfalls. These financial problems often lead to health problems, emotional stress, and decreased productivity.

At the end of 2008, a typical American household held credit card debt of \$8,329, and 61% lived paycheck to paycheck. Financial illiteracy affects all income levels. One in five individuals earning more than \$100,000 struggle to make ends meet. According to a survey by creditcard.com, bankruptcies nationwide soared 32% in 2009.

The "American Dream" of owning a home has turned into a significant liability as it has turned the lives of many upside-down, causing them to face financial ruin and foreclosure. According to the MBA Q2 National Delinquency Survey of 2009, about 5.8 million loans nationwide are delinquent or in the foreclosure process.

Flip on the television, read the newspaper, or simply click to the front page of a popular search engine and you will see the seamless array of opportunities promising debt relief, loan modification, payday loans, and real estate help. While the enticement of these programs appears as the bright hope at the end of a dark tunnel, they are often the beginning of new financial problems. Sadly, upon completion of a program, many people find themselves in the same place that they were in, because their financial habits had not changed.

Countless research has been performed throughout the years that has analyzed why Americans are having a difficult time managing their finances. It did not take long for the answers to lead to one key commonality among the financial tiers of the poor, middle, and upper classes: a lack of financial literacy.

Financial education is the key to reviving the American Dream for millions of Americans and to reestablishing the country's role as the land of opportunity—the nation that people from all parts of the world envy and dream of.

Although the financial illiteracy problem is at epidemic proportions, there are new solutions that are making a difference. The National Financial Educators Council offers a variety of courses that are specifically designed to reach people in a way they relate to at a time in their lives when they are forming their financial habits.

Consequences of Financial Illiteracy

Financial illiteracy is affecting the lives of millions of Americans across the country. A lack of savings, retirement shortages, and debt problems are negatively impacting the lives of many, and are having an adverse effect on the overall health of the economy.

Retirement Shortage. Even with the growing number of debt relief programs, researchers have noted that the economy continued to rapidly twirl downward. This eventually led to the public announcement of the irreparable disintegration of the once renowned Social Security Retirement Fund. In fact, a Government Accountability Office (GAO) report showed that one-third of workers will have nothing saved in a 401(k)-style account by 2050. This is of special concern since the trustees that monitor the Social Security Insurance system (SSI) have reported that the trust fund from which Social Security payments are made will be unable to pay retirees' full benefits as of 2037, four years earlier than forecasted a year ago. Utilizing these figures, the SSI system will reach this level when the sixteen-year-olds of today are 43 years old.

The thought of building a nest egg to ensure that you have some security in your life after you retire usually does not take precedence until your crucial years have passed. Americans relied heavily on the concept that the government, through Social Security, would take care of them when they are ready to leave the workforce for good. In fact, many Americans rely on "following in their family's footsteps" when it comes to preparing for their financial future.

- ***Most workers are not participating sufficiently enough to allow comfortable retirement.***
 - National Association of State Boards of Education's
- ***Only 11% of workers under the age of 35 indicate they are participating in their company's 401(k).***
 - American Institute of Certified Public Accountants

According to Walter Updegrave, Senior Editor of Money Magazine, more than 50% of pre-retirees underestimate their life expectancy and 40% of Americans count on the lottery, winning a sweepstakes, getting married, or an inheritance to fund their retirement.

Lack of Savings and Debt. Many people today find themselves one paycheck or a car breakdown away from being in serious financial circumstances.

According to CNN, "A quarter of workers say they don't put any money into savings and, of the ones who do, 34% set aside less than \$100 per month. The answer for many employees would be to earn more money. Forty-two percent of workers believe that an

additional \$500 per paycheck would allow them to live comfortably. Yet, 21% of workers who earn at least \$100,000 also claim to live paycheck to paycheck.”

- ***Regardless of income, 70% of Americans are living paycheck to paycheck .***
– *The Wall Street Journal*
- ***The percentage of workers who have less than \$10,000 in savings grew to 43% in 2010, from 39% in 2009.***
– *Employee Benefit Research Institute's annual Retirement Confidence Survey.*

Bankruptcy and Foreclosure. A lack of financial literacy often leads to severe problems that many Americans are experiencing today, including bankruptcy and foreclosure.

- ***1 in 45 households (or 2,824,674 properties nationwide) were in default in 2009.***
–*RealtyTrac*
- ***In 2009 there were 1.43 million bankruptcy filings, an increase of 32% from 2008.***
–*Associated Press*
- ***7% of adults are either getting calls from collectors or seriously considering filing for bankruptcy.***
–*The 2008 Financial Literacy Survey of adults, conducted on behalf of the National Foundation for Credit Counseling, Inc. and MSN Money*

Increase in Expenses. A lack of financial literacy often leads people to make misinformed choices that end up costing them large amounts of money over time.

As a nation, we face a large number of people who do not have bank accounts and who rely on check cashing services or payday lenders. Unfortunately, the choice of selecting a payday lender can end up costing consumers a lot of money.

- ***More than a quarter of all US households—a total of about 60 million American adults—have little or no access to banking services.***
–*Report released by the Federal Deposit Insurance Corporation and conducted by the Census Bureau*

A consumer’s expenses can greatly increase if he or she lacks the financial skills to maintain good credit or to choose the best auto loan. Mistakes made in these decisions may cost borrowers tens of thousands of dollars extra in interest.

Workplace Issues. Many Americans enter the workforce early in life and eventually take their place as constituents of the American economy. According to The Cambridge

Human Resource Group, “A lack of financial education for workers is the most critical unaddressed workplace issue.” USA Today further adds, “Financial stress is having an impact on the workplace, potentially draining productivity and increasing emotional stress on the job.”

Dr. E. Thomas Garman, the recognized leading research authority on the subject, found that when financial distress spills over into the workplace, it contributes to work-related issues, such as:

- *Lower commitment to the organization*
- *Less satisfaction with pay*
- *Work time wasted dealing with personal finances*
- *Greater absenteeism*
- *Poorer health*

Furthermore, Dr. Garman goes on to state: “Employers need to recognize that at any given time, in every workplace, part of the workforce is seriously financially distressed.” Dr. Garman estimates that an employer ignoring even one worker’s financial illiteracy will cost \$750 to \$2,100 annually.

Health and Relationships. Although money is just one aspect of our lives, it can even bring about major repercussions that affect one’s health, employment, and relationships.

In the past, the thought that money could affect your health and overall well-being was unheard of. Only recently have experts begun to research the magnitude of the distress caused by a lack of financial literacy. The frightening facts include the following.

- *Statistics show that the majority of marriages ending in divorce cite “money problems” as the number one reason for the divorce.*
- *Ehamony.com.*
- *Eight out of 10 people identify money as a significant source of stress in their lives.*
-*The American Psychological Association*
- *Distress over financial matters contributes to irritability, anger, fatigue, and sleeplessness for over 52% of Americans.*
-*USA Today*

Financial Education

Why Right Now it is Critical

The key to reducing the negative consequences of financial illiteracy is to start a financial education early in life. The younger years are when common financial practices are formed and often become imbedded deep within.

Many studies imply that the earlier a behavior is acquired, the more likely it is to become habitual. Therefore, financial habits should be viewed just as important as brushing one's teeth or taking a shower.

- ***“Young people often fail at their first consumer purchase, saving, banking, or credit experience, and may continue to make bad financial decisions into adulthood. Habits that begin at a young age may carry on to adulthood and can cause financial problems unless there is some type of effective educational intervention; and this intervention needs to be in a format to which teens will pay attention and from which they will learn.”***

–‘Using a Financial Education Curriculum for Teens’ K. P. Varcoe, A. Martin, Z. Devitto, C. Go, Association for Financial Counseling and Planning Education, 2005

According to the President’s Advisory Council on Financial Literacy, “Financial illiteracy is not an issue unique to any one population. It affects everyone: men and women, young and old, across all racial and socioeconomic lines. No longer can we stand by and ignore this problem. The economic future of the United States depends on it.”

With over 30 million teenagers and over 16 million students enrolled in the nation’s colleges and universities, we cannot leave our economic future to chance. Many people today are not thinking about their ‘American Dream’; they are just trying to ‘get by’.

- ***More than half of college students accumulated more than \$5,000 in credit card debt while in school, and one-third piled on more than \$10,000 in debt on credit cards.***
–A 2007 study by Sallie Mae
- ***62% expect to have a student loan debt averaging \$27,236 (\$101 billion nationally) and requiring 7.9 years to pay off and 62% expect to consolidate their student loans.***
–The Student Monitor
- ***62% of 18 to 24 year olds say they are not saving enough or at all.***
–Consumer Federation of America and Wachovia
- ***“Among 2009 college grad job seekers, 80% moved back home with their parents after graduation.”***
- CollegeGrad.com Survey

When the average American pays for college, he or she typically begins with a student loan. Some may progress further and acquire their first credit card. With debt—especially credit card debt—among college undergraduates on the rise, it is no wonder that students graduate deep in debt. Now, with limited employment options for recent graduates, this is resulting in a large increase in student loan default rates.

The Wall Street Journal reports that “Defaults on student loans are skyrocketing amid a weak job market for graduates and steadily rising tuition costs. According to new numbers from the U.S. Department of Education, default rates for federally guaranteed student loans are expected to reach 6.9% for fiscal year 2007. That’s up from 4.6% two years earlier and would be the highest rate since 1998.”

Most studies show that many people that don’t receive a financial education end up experiencing tougher financial circumstances. However, with a practical financial education much of that can be avoided.

Educating Our Citizens Provides for a Better American Economy

Financial education proves most beneficial when started at an early age; however it is important to pick up money skills at any age. The need for more effective financial literacy initiatives geared toward helping people acquire the knowledge and skills to manage and communicate regarding decisions affecting their material well being, both now and in the future, is apparent. Continued disregard of a lack of financial literacy programs that appeal to Americans can promote a vicious cycle of financial problems.

- ***Research shows that individuals that have taken a personal finance education course have higher savings rates, higher net worth, and make larger contributions to their 401(k) plans***
- *The Department of Treasury.*

Most experts agree that we must promote financial literacy and dedicate more resources toward educating Americans—especially the youth—on how to improve on the results by following specific principles that can be used in conjunction with one another to design and deliver financial literacy training that is easy to understand. Through the use of practical examples, participants can personalize the concepts taught and apply them to their individual or family needs.

A Yearning to Learn. The majority of people realize the importance of having sound financial knowledge. Many are searching for a solution to secure their future and afford the lifestyle they want for themselves. Some are hungry for an education that will prevent them from making the same mistakes that their parents made, and others want to make a significant positive impact on the world. Although people have a variety of reasons for wanting to pick up money skills, the fact is that most understand the role that money plays in their lives.

An increasing number of people are searching for proven strategies and solutions that will help them secure their future. According to the Charles Schwab Foundation survey on “Teens & Money 2006 Survey Findings” conducted by StrategyOne on behalf of Schwab and the Boys & Girls Club of America:

- ***92% agree that it is important to have good money habits to be successful in life.***
- ***93% say that it is important to know how to manage money to live within one’s means.***
- ***89% agree that saving and investing can help one achieve the freedom in life.***
- ***Half the teens (50%) expressed an interest in learning more about managing money and 76% say that they want to learn the basics of finance now because it will help them make better financial decisions down the road.***
-2008 annual back-to-school survey from Capital One

Where Today’s Youth Learn about Money. The subject of ‘money’ is still not taught in the majority of schools, and the majority of our youth learn about money only from their parents.

- ***Only 14% of teens have taken a personal finance class in school and 69% of teens say that what they know about managing money, they learned from their parents.***
-2008 annual back-to-school survey from Capital One
- ***87% of teens said their main source for learning about money is their parents.***
-StrategyOne for the Charles Schwab Foundation.
- ***Nearly 72% of the parents surveyed acknowledged that they are their children’s primary source of personal finance education.***
-2008 survey by The Hartford Financial Services Group, Inc.
- ***Only about one in three parents (34%) has taught their teen how to balance a checkbook, and even fewer (29%) have explained how credit card interest and fees work.***
-Charles Schwab’s 2008 “Parents & Money”

The “No Child Left Behind Act” and budget cutbacks have made financial literacy classes a luxury that most schools cannot afford. Consequently, the majority of students never receive a practical financial education. Moreover, many of the schools delivering financial education resources lack qualified teachers and teach outdated curriculum.

Studies show that most youth today still rely on their parents as the leading source of financial knowledge. As you hear about almost every day now, most people are in financial trouble. Consequently, bad habits are being passed down to each generation.

Most people learn ‘money’ lessons like many of us have—from the school of hard knocks. “I wish someone taught me this when I was growing up,” is one of the most common phrases that adults say when they hear the subject of financial literacy.

Solutions to the Financial Illiteracy Epidemic

Educate People in a Way They Relate To. Each person has different learning styles and different reasons that motivate them to pick up financial literacy skills. John Hope Bryant of the President’s Advisory Council on Financial Literacy states, “Traditional financial literacy education is boring, we need to make it interesting, sexy, and cool!”

The most effective financial literacy programs consist of activities and exercises that provide a hands-on experience that students can apply to their daily lives. Using different learning styles and providing students with opportunities to interact with instructors who understand what inspires their students will have a tremendous impact on their lives and their understanding of the given material.

Although the goal is to help them become financial responsible and secure, this is not stated as such. Focusing students on the reasons they want to pick up financial skills makes a difference. Therefore, instead of burdening them with the concept of ‘financial responsibility’, the students are told that having these skills will help them achieve their lifestyle goals, improve their status, give them the ability to help their families, spend more time with friends, and give them independence. All of this motivates people to pick up vital personal money management skills.

One example of an effective curriculum is the National Financial Educators Councils’ Money XLive Multi Media Course. This practical financial education event entertains, educates, and moves students to take positive action. The event stands out from the 10,000+ classroom experiences by leveraging entertainment and celebrities, and by raising awareness. Mixing a practical curriculum and combining celebrities, sport stars, and entertainers, and collaborating with financial professionals gets students excited to learn.

The Money XLive lesson plans are specifically designed to Motivate, Educate, Engage, and Move to Action. These four key teaching components make the unique experience mainstream and hip, while still conveying the importance of sound financial principles and practices.

Raises Awareness. Recommendation 15 of the President’s Council on Financial Literacy states, “The United States Congress should appropriate funds to the United States Department of the Treasury to coordinate active and ongoing media and marketing outreach to promote more widespread knowledge of general financial education concepts among the American people. These efforts should include direct outreach as well as multi-media campaigns.” Unfortunately, most financial education workshops are unable to raise significant awareness about the importance of the financial literacy movement.

The NFECs' Real Money Experience is a unique event that garners media attention and support. At this event students visit fourteen different stations and make life decisions that will impact them when they move away from home. Upon entering the RMX event, they choose a career and make education choices that affect their income. They decide on clothing and transportation options that fit their career while also fitting it into their budget. Participants quickly become aware of the ongoing expense of each decision as they learn about insurance, dry cleaning and utility costs.

Serving hundreds of participants each event, this provides excellent visuals for their story. What's more, being aligned with the largest planned financial literacy campaign, StandUp for Financial Literacy, the Real Money Experience is well positioned to maximize the awareness of the financial literacy movement.

Lack of Time and Funding. While many of the recommendations from the President's advisory council for financial education involve mediating the financial education curriculum in K to 12 classrooms, several issues will prevent such an implementation for the foreseeable future.

Since many schools are funded based on the testing standard set by the No Child Left Behind Act, and since financial literacy is not part of this testing, the overwhelming majority of schools fail to provide their students with any practical instruction on financial literacy. On top of that, state and federal cutbacks have been forced many schools to reduce drastically the courses outside their core curriculum.

The fact is that most schools do not have the time or resources available to get students to retain information. The Money XLive Multimedia event and the Real Money Experience maximizes instruction time and provides follow-up resources for students to enable them to retain the information they pick up in a half-day crash course.

The instruction time is better utilized because of the high profile nature of the event, allowing students to remember the event more than they would an average class. Ask most adults to recall a class; they would have a difficult time. But ask them to remember a field trip or another enjoyable activity in school and most can recall such an event.

Since financial literacy does not have the luxury of time or funding in school, most of the NFEC's event can easily work with both issues. Because technology is leveraged, the curriculum, training, and delivery can be done for a minimal investment and with limited scheduling requirements.

Although time is limited, we maximize effectiveness by teaching practical skills that will help the students in the financial 'real world' and inspire them by talking to them in terms that motivate them to continue their education.

Educators. Most financial literacy curricula rely heavily on teachers, bankers, and volunteers to effectively deliver this material. Unfortunately, the majority of people who deliver this material are ineffective at what they do.

According to the NEFE (National Endowment for Financial Education), “Although 40 of the 50 states have acknowledged the need for financial education in schools by adopting some type of education standards, most of the teachers in those states remain uneducated on the basics of teaching personal finance and feel unprepared in how to effectively achieve those new standards. Through a survey of more than 1,200 teachers, teacher education students, and school-of-education faculty, the researchers found that although teachers recognize the importance of financial education, a majority of educators are not equipped to engage students on the complex topic. And they feel especially unprepared to teach subjects such as risk management, saving and investing, financial responsibility, and decision making.”

Students receiving lessons from bankers and other volunteers often report being bored and ‘tuned out’. The volunteers and bankers themselves often feel uncomfortable and uncertain when delivering financial literacy material. Most never received any training and many enter the class nervously reading a script. Many report feeling nervous, scared, and deliver the material in ways today’s youth do not relate to.

The National Financial Educators Council’s events are designed to enable the person delivering the course to be a ‘facilitator’ instead of a ‘teacher’. The facilitator’s role is to introduce activities, facilitate discussions, play games, and run the video presentations. Professional financial educators teach, while the event facilitator helps further the discussions, games, and activities to reinforce the learning. The NFEC also provides Certified Instructors that are available to host the events.

In addition, facilitator education is provided for all people delivering NFEC event. This is in line with the President’s Council on Financial Literacy, which recommends that “The United States Department of the Treasury should explore the creation of a certification program for such programs and for instructors of programs that meet the criteria.”

Cost. Many financial literacy solutions can be expensive, limiting the number of students that they can reach. Curriculum, educator training, follow-up materials, and an employee’s time all contribute to the cost of creating such programs.

This cost severely limits the reach of the message and leaves many organizations that want to share this information with the inability to do so. In turn, many youth miss out on the opportunity to receive practical financial training.

NFEC events offers those interested in sharing the message of financial literacy a turnkey system to do so. This eliminates the cost of developing curriculum and follow-up material, and greatly reduces the cost of training instructors. Therefore, organizations dedicated to sharing this message are able to reach more people with the message.

The Financial Literacy Movement

Empowering People with Practical Money Skills

The overwhelming majority of people in this Country wish they were taught about money when they were younger. The financial literacy studies are conclusive and points to the significant benefits offered to those that receive a financial education at a young age.

There are a wide variety of financial literacy products that are available however many do not connect with the participants and that lack the spark to get to motivate them to take positive action. The unfortunate consequence is students get bored and ‘tune out’. This causes them to miss important lessons that can make a lasting positive difference in their life.

Additionally, most financial literacy programs are not sustainable, don’t receive media attention and although the education small numbers of youth, they do not have a solution to furthering the overall financial literacy movement.

The NFEC financial education courses stand out from all the other programs and offers a holistic solution that motivates students to take positive action, builds community goodwill, has a large reach, is proven to get positive media attention and leads the way in furthering the financial literacy movement.

Our youth deserve what most people in this Country wish they had. We are in a position to help them pick up the skills they need to live the lifestyle they desire, achieve financial security, make a positive difference in the world and help them live their own personal American Dream.