

Financial literacy: Why Johnny can't save

"If you think education is expensive, try ignorance."

– Derek Bok, former President of Harvard University (1971-1990)

Whenever I find myself needing to sober up from an overly buoyant mood, all I need to do is to look at the statistics for financial literacy in the U.S. Try these on for size:

- One-third of adults don't put any of their income towards retirement.
- 41 percent of households regularly carry balances on their credit cards; 81 percent of college students underestimate how long it will take to pay off a credit card balance.
- Fewer than half of Americans surveyed reported spending less than their income.
- A Wells Fargo survey found that the average respondent thought that they could safely withdraw 10 percent annually from their savings during retirement, three times the level that is typically recommended by financial professionals.

More than half of working adults have no idea how much they will need to retire. On the topic of investing, the SEC found that American investors, on average, "lack basic financial literacy" and do not understand even "the most elementary financial concepts such as compound interest and inflation." No surprise, then, that most employees don't know how to manage their 401(k) plans.

The state of U.S. FinEd

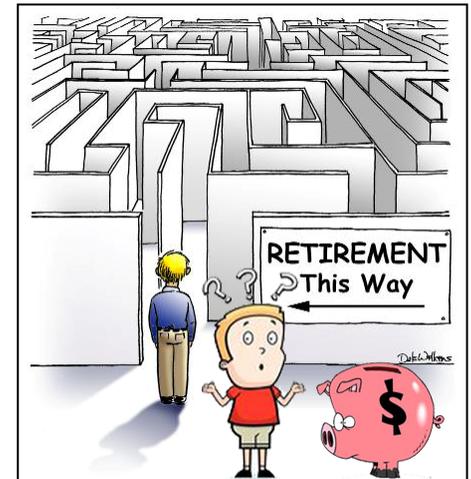
A belief I've held for many years is that because nearly everyone has to manage their personal finances for most of their life, then this should be a required course in high school. So what is the status of financial education at U.S. high schools circa 2014? Not so great. Only 17 states require Personal Finance courses, and only six include testing as a graduation requirement.

It's interesting to see which states require Personal Finance high school curricula: Louisiana, Idaho, Tennessee, Alabama, West Virginia and North Dakota, among others. So what about New England? We flunk. The only state in the region that mandates high school personal finance courses is New Hampshire. Massachusetts, Rhode Island, Connecticut, and Maine all get grades of "F".

It's not rocket science...

... but it *is* necessary. Would you give your child a car without first insisting on driving lessons? Teach them to ski by pushing them off the top of the slope and shouting: "Be careful"? It is equally irresponsible to send them out in life without an understanding of basic financial skills.

Navigating the Retirement Maze



There are a number of fundamental concepts with which nearly all adults should be acquainted. These include managing debt, budgeting, negotiating credit and debt terms, retirement planning, detecting fraudulent investments, basic investing concepts, the power of compounding, smart purchasing habits, and how to access personal finance resources.

Hope on the horizon

There are a number of not-for-profit organizations that are making efforts to promulgate personal finance courses at the high school level. The Jump\$tart Coalition, the American Financial Services Association Education Foundation, the Actuarial Foundation, the FDIC, Visa (Practical Money Skills), and the Council for Economic Education all offer packaged financial literacy courses for schools, including teacher training. The holdup? Budgets, inertia, and the absence of a clear mandate. Yet in a survey by the Student Loan Marketing Association, 84 percent of high school students said that they desired more financial education.

Within Massachusetts, there is some reason for optimism. A Senate bill (S. 234) is presently in committee that would, according to its wording: "... equip students with the knowledge and skills needed to ... make critical decisions regarding personal finances..." We're probably several years from seeing state-mandated personal finance courses appears in schools across the state, but this is a step in the right direction.

For those of you with college-age and older children who won't have the benefit of this education, there are numerous resources on the Internet to augment their – and maybe your – existing knowledge of personal finance. Rather than list them all here, I set up a page on my Web site that organizes these sites by subject, and allows you to click through to access them. You can access them by going to: <http://bit.ly/cwm-PFresources>.

No time like the present

The humorist and social commentator Will Rogers said over a century ago: "*The time to save is now. When a dog gets a bone, he doesn't go out and make a down payment on a bigger bone. He buries the one he's got.*" Teach your kids why they should be burying their bones instead of upgrading them, and you'll be contributing immeasurably to their essential life skills.

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