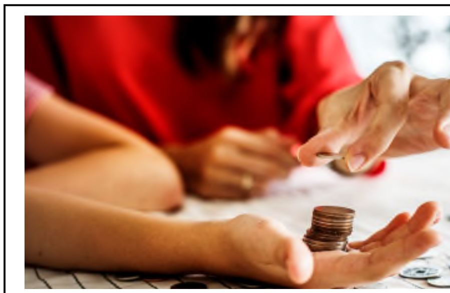
Ten Hours to Financial Literacy and Retirement Planning

by Robert A. Robertson



The Federal Reserve Board's latest report on the Economic Well-Being of U.S. Households shows a significant number of Americans are still not on track for a financially sound retirement. Even among those who have some savings, the Fed found that many commonly lack financial knowledge and are uncomfortable making investment decisions. Financial literacy is the path to a sound retirement footing.

Financial regulators and financial private practice professionals should partner on a large scale to teach financial literacy. If each professional contributed at least 10 hours of his or her time annually to this effort, millions of hours of needed assistance would go to equip consumers with the know-how and skills to increase their wealth for retirement. Here is a proposal for a new public-private partnership to help the average American get out of the ditch in which many find themselves.

The survey found that many adults are behind in their savings for retirement. Even among those who have some savings, many commonly lack financial knowledge and are uncomfortable making investment decisions. Consider:

- Less than two-fifths of non-retired adults think that their retirement savings are on track, and one fourth have no retirement savings or pension whatsoever.
- Three-fifths of non-retirees with self-directed retirement savings accounts, such as a 401(k) or IRA, have little or no comfort in managing their investments.
- On average, people answer fewer than three out of five basic financial literacy questions correctly, with lower scores among those who are less comfortable managing their retirement savings. (Board of Governors, 2018, p. 3)

With retirement savings falling behind, a significant number of Americans have little present hope of making gains in the right direction. In dealing with unexpected expenses, the Fed found that a sizeable share of adults say that they would struggle with a modest unexpected expense.

- Four in 10 adults, if faced with an unexpected expense of $400, would either not be able to cover it or would cover it by selling something or borrowing money.
- Over one-fifth of adults are not able to pay all of their current month's bills in full.
- Over one-fourth of adults skipped necessary medical care in 2017 due to being unable to afford the cost. (Board of Governors, 2018, p. 2)

The Fed's findings should alarm policy makers, since Father Time requires us to stop working at some point. This, coupled with the corporate shift from defined benefit plans to defined contribution plans (i.e., Americans are largely on their own with the exception of Social Security), portends a bleak financial future. Moreover, lower-income households often face the added burden of spending needless dollars on services with high fees and expenses for, among other things, subprime auto loans, bank overdrafts, payday loans and check cashing services. (Koren, 2018) For these households, "which are more likely to be poor, less-educated, young, black and Latino," their boat is taking on even more water faster than they can bail it out. (Koren, 2018, p. C1)

Given the current state of affairs, better financial literacy is the only path that will lead to a sound footing for retirement. The proposal here is for financial regulators and financial private practice professionals to partner on a large scale to teach financial literacy. There are many effective one-off efforts. For instance, last April – which is National Financial Capability Month – the Miami Regional Office of the U.S. Securities and Exchange Commission worked with local Miami high schools to teach the basics of financial literacy. (SEC, 2018) Also, Voya Financial worked with non-profit partners to mentor individuals in financial literacy as part of its National Day of Service. (Voya, 2018) These outstanding one-off efforts should be formalized and coordinated on a larger scale.

The Financial Literacy and Education Commission could play an important role. The Commission was established in 2003, and is made up of 19 federal agencies. It was tasked to develop, among other things, a national strategy on financial education. The Commission has studied consumer financial issues, but should go further to implement a course of action.

There are thousands of highly educated financial regulatory professionals in the United States who are up to the task. For example, there are approximately 30,000 banking regulatory professionals (Levine, 2014) and 3,800 federal securities regulatory professionals. (SEC Budget, 2016, p. 14) In addition, there are approximately 1,500 professionals at the Consumer Financial Protection Bureau. (CFPB, 2016). In the private sector, there are roughly 650,000 CPAs (Boards of Accountancy, 2016), 12,000 investment advisory firms – many with numerous licensed professionals (SEC Budget, 2016, p. 4), and thousands of financial service attorneys. These and other financial professionals – both in the public and private sector – are well suited to help educate average Americans on financial literacy topics in a similar manner to the pro bono work that many do now.

Assistance that should provide unbiased financial information without attempting to “sell” any particular financial products. For government professionals and financial services organizations, this work should be given the same priority as voluntary pro bono activities to serve the public good. These are services that require specific skills to assist persons who most often are unable to afford such services.

These professionals could partner up to teach financial literacy in such places as high school classes and libraries, and work with veterans’ groups and non-profit organizations. Non-profit organizations could sponsor, for example, several group sessions with large employers with lower wage employees. This public-private partnership can help equip consumers with know-how and skills to manage and increase their wealth for retirement, along with other financial goals.

In its most recent update to Promoting Financial Success in the United States: National Strategy for Financial Literacy, the Financial Literacy and Education Commission observed the effectiveness of financial counseling and coaching in helping individuals negotiate their situations to better meet their own goals. (Financial Literacy and Education Commission, 2016, p. 11) At the same time, there is value in lighter-touch approaches to impact financial behavior and outcomes. Rule of thumb-based financial education offers simplified guidelines, providing memorable, simple, and actionable guidance on financial decisions and actions.

There are many good models for teaching the basics of financial literacy, such as the Financial Literacy and Education Commission’s My Money Five (My Money, 2018), the National Financial Educators Council’s Financial Literacy Framework & Standards (National Financial Educators, 2018), and the RAND Corporation’s Development of a K–12 Financial Education Curriculum

Assessment Rubric (RAND, 2015), among others. For example, My Money Five (2018) provides sound guidance regarding financial literacy basics covering five broad areas:

- Earning: Making the most of employment earnings by understanding pay and benefits.
- Saving and Investing: Starting to save for future goals such as a house or retirement, even by saving small amounts.
- Protecting: Taking precautions to protect financial security through emergency savings and the right insurance.
- Spending: Getting good shopping values, especially with big purchases, by shopping around and comparing prices and products.
- Borrowing: While borrowing money to buy essential purchases and building credit, being aware of interest costs, and not borrowing too much to avoid large debt to be repaid.

While there are several good financial literacy models, the key is to move from studies and content to an effective, ongoing effort. Again, we are facing a collective financial crisis in the United States. The old days of working at a local plant or factory and collecting a livable pension are gone. The days of combining that livable pension with sustainable Social Security payments are nearly gone. Furthermore, fewer Americans will own homes by the time they face mandatory retirement. These factors together, without even addressing the rising cost of education, put many average Americans in a ditch we need to climb out.

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Robert A. Robertson is managing partner of Dechert's Orange County office. With more than 30 years of legal experience, he represents clients in the areas of investment management, corporate and securities law, regulatory investigations and SEC defense. He regularly counsels investment advisers, mutual funds, closed-end funds, boards of directors, broker-dealers, insurance companies, and institutional investors.