

# Flunking Financial Literacy

By Charles Bogle

The United States is arguably the wealthiest, most prosperous nation the world has ever seen. We're so good at making money...then why are we so dumb about the basics of finance and economics? Just consider: most adults today lack the skills necessary to manage household finances, to balance a checkbook, or to budget their wages and expenses. Too many consumers live paycheck to paycheck. The average citizen is a poor saver, and a misinformed buyer. Statistics from the American Bankruptcy Institute, the Federal Reserve, and the National Endowment for Financial Education bear out these conclusions which state:

- The U.S. has the lowest personal savings rate of any industrialized nation, with 50% of households having less than \$1,200 in savings.<sup>1</sup>
- The personal savings rate as a percentage of GDP decreased from 7.5% in the 1980's to 2.4% in 2002. In the 1940's the rate was over 24%.<sup>2</sup>
- Outstanding non-secured consumer debt rose from \$805 billion in 1990 to \$1.65 trillion in 2001.<sup>3</sup>
- 4 in 10 workers say they are not currently saving for retirement. Many of those with savings cite low levels of savings and investments.<sup>4</sup>

There are even more sobering statistics, all of which lead to the conclusion that modern America earns an "A+" for creating wealth, but an "F" for understanding and managing what they've created. The ramifications for the economy specifically and society as a whole are dire. Without basic money skills the population is easy prey to scam artists and price gougers. Poor (or nonexistent) financial planning lays families open to divorce (over 50 percent of breakups are due to money troubles) and under-funded retirements (one in three individuals has no retirement savings).

These figures are why financial literacy is suddenly on everyone's front burner from the American Bankers Association to the Federal Government. Is this a substantive effort, or just the "flavor of the month" in community reinvestment? Whether or not the movement has legs, the facts are undeniable and more than a little overwhelming: the United States, the most vital economy in the world, is raising a citizenry of fiscal dunces.

It was in response to these issues that the Department of the Treasury established the Office of Financial Education (OFE) in May 2002. The goal of the OFE is to ensure that Americans have access to financial education in order to equip them with the practical

skills to guide them throughout their financial life. The OFE's efforts are concentrated into four basic areas: savings; credit management; homeownership; and, retirement planning. "Recognition of a need is the first step towards meeting it," explains Dan Iannicola, Jr., Treasury's Deputy Assistant for Financial Education.

Fortunately, for Delawareans at least, the need for financial education has been of prime importance to the State's financial institutions for some time. Thanks to the support of the First State's banks, a number of programs, many uniquely local, others part of larger national efforts, are on the cutting edge of the financial education crusade. To reflect this effort, the Delaware Bankers Association (DBA) recently announced the creation of the Financial Education Alliance (FEA), to replace its Delaware Center for Financial Training. The move underscores the DBA's effort to expand its already strong commitment to provide financial education tools to Delaware's residents.

"We're very excited about the positive impact in the area of financial education," said David Bakerian, President of the DBA. "The name change reflects a broadened approach that the DBA and Delaware's banks are taking to educate the whole community."

While Delaware's focus on financial education is deepening, its concern on the issue is not new. According to Dr. Bonnie Meszaros, Associate Director of the University of Delaware Center for Economic Education and Entrepreneurship, Delaware's financial literacy efforts have their genesis in 1992. That's when she and Ronni Cohen, then a fourth grade teacher at Burnett Elementary School in Wilmington (now Executive Director of the Delaware Financial Literacy Institute), took the train to Queens, New York to visit the Bay Terrace School of Business, Trade, and Finance. The school was running a student banking program in which an adult would collect deposits and then take them to a local bank.

Though encouraging, for Ronni the program didn't go far enough. She wanted real bankers in her school opening actual accounts. While Bonnie and Ronni developed lessons on finance, Burnett's principal, Wilbert Miller, arranged for Charles Emory of Wilmington Trust to visit the school weekly to open noncustodial savings accounts. "Junior tellers" were recruited to help run the effort. By the end of the first school year, more than 60% of the students had opened accounts.

From that first "branch" twelve years ago, the Delaware Bank At School program has grown to 18 elementary schools (grades 3 through 6 are eligible to participate) throughout the State, with one-third to one-half of the students participating in any given year. Currently, at least four banks serve the program by opening and servicing the accounts. The growth of the program is a group effort with leadership and support coming from the Delaware Office of the State Bank Commissioner, the State Treasurer, the Center for Economic Education and Entrepreneurship (CEEE), the Delaware Financial Literacy Institute, and the Delaware Bankers Association.

The next step in Delaware's financial literacy drive occurred in 1998 when Citibank, with the help of Dr. Meszaros and the CEEE, held Delaware's first *Teach Children to Save*

*Day (TCTSD)*. The program is part of a larger, nationwide effort that educates elementary school students on the importance of saving as the basis for future financial security. The goal of the program is to foster sound financial practices in the students, with a secondary goal of informing and influencing the older generations on the benefits of thrift. Take-home materials are also provided for students to share with their parents. The materials developed in the program are also distributed statewide through the State's library system, increasing their impact even further.

While Citibank's first effort in 1998 was successful, Theresa Hasson, VP, CRA Officer at Citibank, Delaware, thought more involvement was needed from other banks. She approached the Delaware Bankers Association to take up the cause. In April, 1999, the DBA rolled out the first statewide *TCTSD* with 97 volunteers from 21 Delaware banks conducting lessons in 40 elementary schools. During the most recent *TCTSD* program, 450 bankers visited 110 schools and reached over 11,000 students. The volunteers teach students the importance of saving, the basics of financial education, and the benefits of prudent money management.

The Delaware Bankers Association's Financial Education Alliance works with the University of Delaware's Center for Economic Education and Entrepreneurship (CEEE) to administer this program in the First State. The age-appropriate curricula is developed by the CEEE to meet State economic competency standards. The DBA/FEA, through its member banks, helps raise the funding for the program and assists in the coordination and training of the volunteer faculty. The DBA/FEA also acquires and distributes the materials used on *TCTSD*, including a give-away item for students and take-home financial education information piece for adults. The DBA/FEA's *Teach Children to Save Day* program has consistently been recognized as one of the best in the nation by the American Bankers Association.

So far, Delaware's banks were doing a great job educating the State's youngest citizens on the value of thrift, but the rest of the population was still underserved. The remedy came by way of Pennsylvania, specifically the Federal Reserve Bank of Philadelphia. The Philly Fed's Public Affairs department approached the CEEE about developing a course that would educate high school students on personal finance. Since the Federal Reserve Bank couldn't provide hard dollar financial support, the CEEE approached the DBA and Consumer Credit Counseling Services of Maryland and Delaware for funding help. The course, initially called *Survival in the 21st Century Financial World*, but subsequently changed to *Keys to Financial Success*, premiered in the fall of 2001 at Newark High School.

Developed by the CEEE, the *Keys* program is an elective course for high school juniors and seniors. The class features five modules: Future Financial Goals and the Decision Making Process; Career Planning-Investments in Human Capital; Money Management; Consumer Skills; and, Risk Protection. Students are taught financial skills, such as budgeting, borrowing, saving, and investing. *Keys* teachers are provided, free of charge, with one week of training, a complete copy of the National Council on Economic Education's *Financial Fitness for Life* curriculum, and a binder that includes suggested

daily lessons for the semester. Participating schools agree to offer at least one section of the course per year and decide which department and instructor will teach the class. The program includes pre- and post-testing of students, and quarterly roundtable meetings for teachers. The complete curriculum package meets State standards in economics and personal finance.

Since the 2001-2002 school year, *Keys* has expanded each year to additional schools statewide. Currently, it is offered in 21 high schools in Delaware. The goal is to offer *Keys* in every public and private high school in the State by the 2007-2008 school year. The purpose of this semester-long elective course is to better equip young people with the knowledge necessary to have strong financial futures. *Keys to Financial Success* is the only high school education program in Delaware that offers in-depth training on money management skills.

In order to reach further into the next generation of consumers, the DBA/FEA and the CEEE collaborated to present Delaware's first ever *Senior Credit Day*. The program was held on October 13, 2004 at the University of Delaware's Bob Carpenter Center for approximately 600 high school seniors from the Christina School District as a part of the District's 2nd Annual *Career Forum* for seniors. The DBA/FEA, along with the CEEE, presented "Cash or Credit," an interactive game show that gave the high school seniors firsthand experience in making credit choices.

As in the case of *Teach Children to Save Day*, Delaware's bankers stepped in to lend a hand. Eighteen volunteer bankers, organized by the DBA/FEA, served as the games' emcees, conducting seven concurrent sessions repeated over four rotations. The sessions divided the students into teams of three, each of which was responsible for answering ten true or false questions on various credit decisions.

As a part of the exercise, each student received an informational "Cash or Credit" brochure with detailed answers to the game show questions as well as informative charts on compound interest and the impact FICO credit scores can have on loan interest rates. To further reinforce the lesson, each student also received a comic book created by the DBA/FEA entitled *The Amazing \$2,000 Dollar Pizza or: How Poor Credit Decisions Can Give You More Indigestion than Pepperoni*. Door prizes donated by the DBA/FEA were raffled off in each of the 28 sessions.

This program, funded in part by Citibank Delaware, was held as a part of the American Bankers Association's second annual *Get Smart About Credit Day*, a nationwide outreach program directed towards college and high school students. The goal of *Get Smart About Credit Day* is to have bankers teach young people how to create a budget, use credit cards responsibly and build a positive payment history.

While Delaware's banks support the above initiatives collectively through their membership in the DBA, individual banks provide funding to a myriad of other organizations and financial literacy programs. One of the most active organizations in the field of financial education is the Delaware Financial Literacy Institute. The Institute

offers numerous programs under their *Money Smarts* banner including extracurricular educational outreaches to students from kindergarten to high school. The DFLI, with the support of individual banks, also offers workshops, seminars and conferences for kids and parents, women, and even a week-long institute on financial literacy for elementary, middle, and high school teachers. These and other programs are making an impact on the economic IQ of the First State.

If, as statistics show, America is flunking its financial aptitude exams, how is Delaware doing? Thanks to the efforts of key organizations and with the vigorous support of the State's banks, the outlook is much brighter. Perhaps the best person to supply the grade, however, is the person who's been an active participant from the beginning: Dr. Bonnie Mezsaros.

"Delaware is really on the cutting edge of financial education," said Dr. Mezsaros. "When I look at other states, I see they're trying to replicate what we've done here." According to Dr. Mezsaros, no one does financial education as well as Delaware, and while other states were just beginning to realize there was a problem, Delaware was already applying the solution...giving Delaware just one more reason to be proud of being the First State.

1 - ABA Education Foundation / 2 - Bureau of Economic Analysis / 3 - The Federal Reserve, 2003 / 4 - Employee Benefit Research Institute, 14th Retirement Confidence Survey, 2004.