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THE GROWING PUSH FOR FINANCIAL LITERACY

By Robert Segal, CEO, Atlantic Capital Strategies, Inc.

The Massachusetts legislature approved a bill in January that requires state education officials to establish financial literacy standards for students in kindergarten through grade 12. The goal is to train students in skills that will help them become financially self-supporting adults, with topics that include understanding loans, renting or buying a home, saving for college and investing for retirement.

"Financial institutions have said that when they interact with young customers, they're seeing a lot of young people not fully grasping everything from what credit cards are to compound interest to just general costs once they're out of high school and college," said Massachusetts State Senator Jamie Eldridge, who sponsored an original version of the bill.

Also in January, New Jersey Acting Governor Sheila Oliver signed a law that requires the state Board of Education to include financial literacy instruction in the curriculum for students in grades six through eight in public schools across the state. The new law says the lessons should equip students with tools for "sound financial decision-making," with content covering budgeting, savings, credit, debt, insurance and investments.

"Financial responsibility is an important acquired and learned life skill, and with the increasing financial challenges millennials face, it is a skill that must be a necessary part of our educational curriculum," said Oliver.

John Pelletier, director of the Center for Financial Literacy at Champlain College in Vermont, reported that only five states received an "A" grade for providing the appropriate financial education for students. He further noted that studies continue to show that financial literacy is linked to positive outcomes like wealth accumulation, retirement planning and avoiding high-cost alternative financial behavior like payday lending and paying interest on credit card balances. Conversely, he says, financial illiteracy was partly to blame for the Great Recession, and that in order to minimize the impact of any future recession or financial crisis, Americans must be educated in personal finance.

The Center asserts that high schoolers are the prime candidates for financial education for the following reasons:

- The number of financial decisions an individual must make continues to increase, and the complexity of financial products continues to grow;
- Many students do not understand that one of the most important financial decisions they will make in their lives is choosing whether they should go to college after high school;
- Most college students borrow to finance their education, yet they often do so without fully understanding how much debt is appropriate for their education;
- Children are not learning about personal finance at home, with a 2017 T. Rowe Price survey noting that 69% of parents are reluctant to discuss financial matters with their children;
- Employee pension plans are disappearing and being replaced by defined contribution retirement programs, which impose greater responsibilities on young adults to save and invest.

It seems most Americans would agree with the study's conclusions. The National Foundation for Credit Counseling's (NFCC) "2017 Consumer Financial Literacy Survey" reports that 42% of adults gave themselves grades C, D or F with regard to their personal finance knowledge; 27% have not saved anything for retirement; 32% have no savings; 60% do not have a budget; and 22% do not pay their bills on time.

In a 2015 report, the FINRA Investor Education Foundation revealed that vast improvement in credit behavior resulted from state-mandated personal finance education. The study evaluated the effect on credit scores and delinquencies over a three-year period in the states of Georgia, Idaho and Texas. Individuals in school during the third year following the inception of the program showed greater benefits from personal finance instruction, with credit scores increasing by 10.89 points in Georgia, 16.19 points in Idaho and 31.71 points in Texas, while ninety-day-plus delinquencies dropped nearly 2% in all three states by the third year. FINRA found that if a rigorous financial education program is carefully implemented, it can improve the credit scores and lower the probability of delinquency for young adults.

The data suggest that financial literacy is more than just a "feel-good" exercise. According to most research, consumers who understand the basics of personal finance are more profitable for the banks and credit unions that provide them with financial education. Individuals who participate in these programs tend to be open to advice from that institution and generally say they're likely to bring business to them.

The FDIC has shown that partnerships with non-profit organizations and local government agencies are key components in outreach efforts. The FDIC stresses that a well-executed strategy is mutually beneficial to banks, their community partners and consumers. Across the nation, a number of depository institutions work with established groups from the local community to provide financial education. This builds trust and, in turn, educates consumers about the benefits of using banking services and the lasting advantages that a banking relationship offers in gaining access to other financial products.

Promising opportunities exist for banks that are considering developing continuing, sustainable relationships with consumers. Financial institutions not yet participating may wish to explore partnering with various state agencies and/or non-profit organizations in to order to support their customer base and ensure the long-term viability of their communities.

ABOUT THE AUTHOR

Robert Segal is the founder and CEO of Atlantic Capital Strategies, Inc., which provides investment advisory services for financial institutions. He has over 35 years of experience in the banking industry, having worked in several community banks with roles in mortgage banking sales, trading and ALM. Bob is also currently a Director-at-Large on the FMS Board of Directors.

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