

America's Financial Capability Challenge (and 10 Concepts We Should Stress With Our Young Adults)

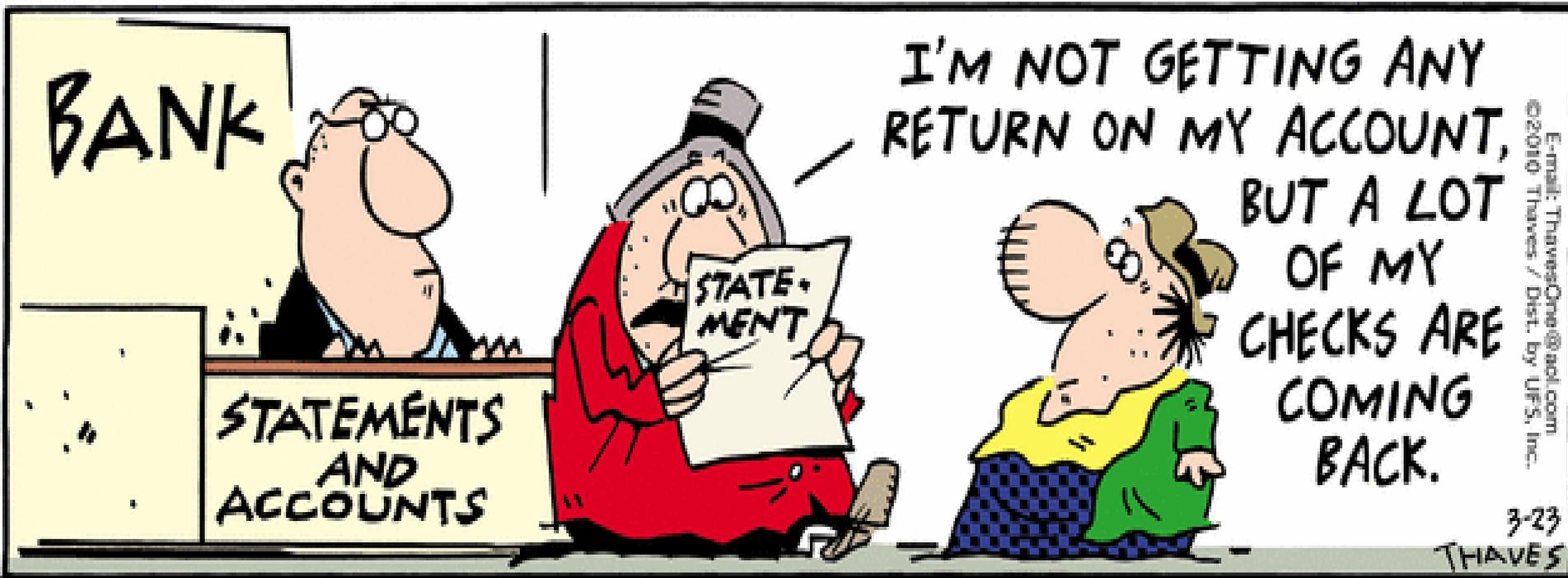
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How Well Do Americans Understand Their Finances?



Financial Capability Remains a Challenge

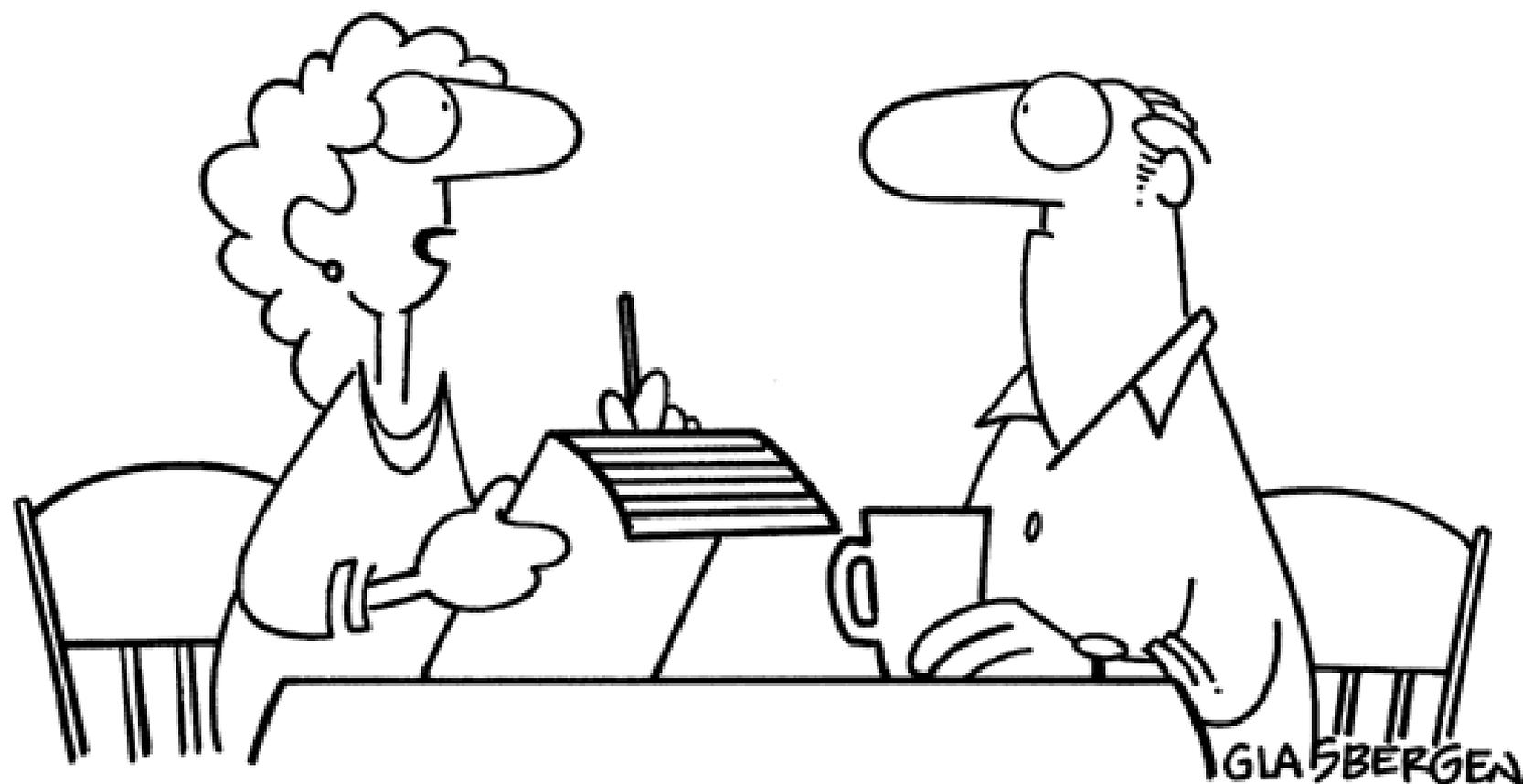
- The financial profile of American consumers suggests the need for more and better skills and tools aimed at improving financial capability
- Capability encompasses financial knowledge and proficiency in acting on it

| Components of Financial Capability | How Do We Rate? |
|---|---|
| Covering monthly expenses with income | 49% have difficulty covering monthly expenses |
| Tracking spending | 56% do not use a budget to guide spending |
| Planning ahead and saving for the future | 30% have no non-retirement savings |
| Effectively selecting and managing financial products | 66% did not comparison shop when obtaining a credit card (51% for auto loans) |
| Gaining and exercising financial knowledge | 34% gave themselves a grade of C,D, or F on their financial knowledge |

What Else Do Americans Say About How Well They Manage Their Finances?

- **One-third of adults (76 million) report they have no savings (other than retirement savings)**
 - 48% of Gen Y adults report no savings
- **28% (64 million) admit to making late payments in the last 12 months**
 - 7 % say they have debts in collection
- **65% (149 million) have not ordered a copy of their credit report in the past year**

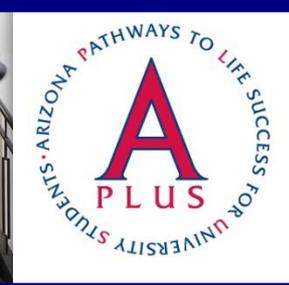
Source: Harris Interactive poll, for National Foundation for Credit Counseling, March 2011



**“We can afford to retire in 20 years, but only
if our credit cards retire in 10 years.”**

A Sampling of What Young Adults Have Read/Heard About Personal Finance Since 2008

- **Bankruptcy: 14 million households since 2000**
- **Home Foreclosures: 4 million+ homes lost since 2008**
- **Homeowners who owe more on the mortgage than the house is worth: 25% as of January 2012**
- **Student Loan debt now exceeds credit card debt at > \$1 trillion**
- **Ten-year growth in tuition costs**
 - **at 4-year private colleges: 60%**
 - **At 4-year public colleges: 104%**
- **The median net worth of American households has dropped to a 43-year low, with lower and middle classes poorer and less stable than they have been since 1969**



Challenges in Coming of Age Today

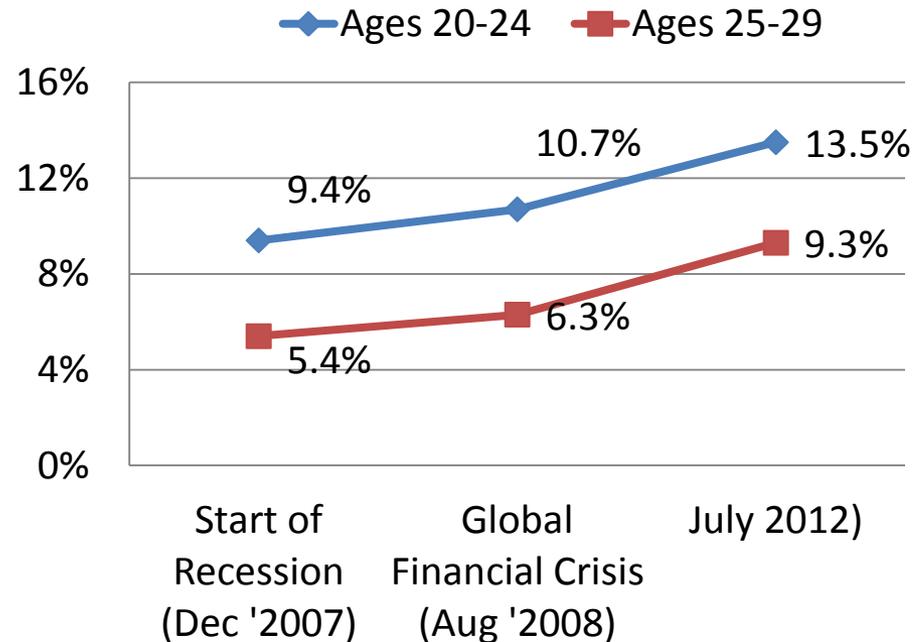
EMPLOYMENT

(U. S. Census, 2010; Bureau of Labor Statistics)

- 1 in 3 20-29 year olds is unemployed
- 58% increase in # of unemployed ages 25-29 (70% increase among ages 20-24)

YOUNG ADULT UNEMPLOYMENT

(% Increase)





Challenges in Coming of Age Today

HISTORICAL ADULT STATUS MILESTONES

- 25% increase in the number of young adults living with their parents (since the recession)
- Marriages in the US are at record lows (44.2% married)
- Co-habitation rates increasing (7% of adults aged 30-44, up from 3% in 1995)

ECONOMIC ASSETS

- 68% decline in median net worth of households headed by someone younger than 35 (1984 to 2009)

Gone are the Days of Easy Financial Decisions for Today's Young Adults

Three formerly “no brainer” decisions: now not so clear

- **Homeownership as the Anchor of Wealth:**
 - Greater price volatility changes the calculus of buying vs. renting, and how much home to purchase. Does acquiring this asset still make sense?
- **Saving and Investing in Equity Markets:**
 - With daily swings of 3-4% in value, is this akin to playing the tables in Vegas?
- **Investment in Higher Education:**
 - Soaring tuition costs + \$1 trillion of student debt
 - Do young people even view this as a human capital investment?

So How Can We Help Them Prepare for A Life of Complex Financial Decisions?

- **Start economic and financial education early, and continuously reinforce**
- **Take advantage of technology. This is an exciting time to be teaching econ and personal finance**
 - Promotes interactive learning: students can be producers of information, not just passive consumers
 - Games and edutainment put incentives into play to motivate additional learning
 - Simulations and “what if” exercises make students decision-makers; they take risks, succeed, fail, learn
 - Visualization: fun and easy to see connections
- **Connect individual behavior to social networks to forge connections and conversations with others**

What to Teach? Build Your Lessons Around the Big Categories of Decisions

- **Earning**
- **Spending**
- **Saving**
- **Borrowing**
- **Financial Investing**
- **Protecting**

The Ten Most Valuable “Personal Finance” Concepts to Convey to Young Adults

- **Opportunity costs and tradeoffs**
 - Foundation to all decisions; forces analytical thinking and asking “what are my alternatives, what I am gaining, what am I giving up?”
- **Present self/future self orientation**
 - Today’s decisions affect your options and resources in the future
 - <http://www.youtube.com/watch?v=W-Cz-LK16g4>
- **Power of compounding**
 - Time is your friend if you are a saver; your enemy if you are a borrower
 - A dollar in the future is worth less than a dollar today

The Ten Most Valuable “Personal Finance” Concepts to Convey to Young Adults

- **Risk vs. return in financial investing**
 - Higher returns are usually accompanied by higher risk
- **Net value of investment in human capital**
 - The most important financial decision most of us ever make
- **Risk**
 - Bad stuff happens that can harm you financially, but there are ways to protect yourself and your plan

The Ten Most Valuable “Personal Finance” Concepts to Convey to Young Adults (We’ll cover these in detail on Saturday Morning)

- **Lower monthly loan payments usually mean more interest paid**
- **Payment methods at the point of sale have different costs and implications**
- **Your past credit and payment history is your financial reputation, and shapes your future opportunities**
- **Higher risk borrowers pay more for credit, and are offered fewer credit-related opportunities**