Savings Solutions for Today's Generations

2011 iOMe Challenge

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Introduction

Defining the Times

In the current economic environment, today's public and younger generation is finding it harder to save than ever before. A multitude of factors play into the decrease in the personal savings rate. Within just the past 10 years, America has gone through a housing bubble, the Great Recession, a dramatic increase in the government deficit, and extreme volatility in the stock market leading to economic uncertainty. People, especially the younger generations, feel that they would rather spend their earnings on items they want now rather than save in a market that is prone to volatility. The responsibility of saving for retirement has been shifting; no longer is the promise of a pension plan so common or government entitlement programs so substantial that we can neglect to provide for our own futures (Nakamura et al., 2010). It is for these reasons and the sheer complexity of the financial investment resources that we recommend an increase in hands-on financial education and availability of financial counseling.

We will begin by discussing the personal savings rate and its use as a measure of total savings in America. We will then explore the reasons why people feel it is more difficult to save today than it was in former years, explaining reasons such as the effects of poor financial education, financial uncertainty, and consumerism. We will conclude by proposing solutions that will boost the current generation's understanding of the financial marketplace and need for adequate savings thereby increasing the savings rate.

The Personal Savings Rate

Background

The personal savings rate (PSR) is measured with the following formula (Carroll & Mowry, 2010):

$$PSR = [1 - (\frac{\text{Personal Expenditures}}{\text{Gross Income - Total Taxes}})] * 100$$

The National Income and Products Accounts (NIPA) personal savings rate calculated by the Bureau of Economic Analysis can be defined as the difference between a household's disposable income and personal consumption (Guidoli & La Jeuness, 2007). When calculated, it includes not only individuals' savings, but that of nonprofit institutions that primarily serve

households, life insurance carriers, private noninsured welfare funds, private noninsured pension plans, publicly administered government employee retirement plans, and private trust funds (Bureau of Economic Analysis, 2011). Another calculation of the PSR is the Flow of Funds (FoF) personal savings rate which is calculated by the Federal Reserve Board of Governors and can be defined as the change in net wealth and disposable income of a household (Guidoli & La Jeuness, 2007). Both are commonly used and have their advantages and disadvantages, but we chose to focus on the NIPA personal savings rate as it "provides a consistent and comprehensive picture of the Nation's economy" and includes the broadest span of information (Gutierrez, Glassman, Landefeld & Marcuss, 2007).

Figure 1 illustrates the NIPA personal savings rate in America from 1959 to 2010. In 1959, when the first personal savings rate was calculated, America's saving rate was 8.3% (Bureau of Economic Analysis, 2011). During the next decade, the personal savings rate stayed about the same until 1975 when it peaked at 14.6%. It fell throughout the late 1970's until it peaked again in 1981 at 12.2%. Most of the peaks were seen during times of recession when people are more likely to save due to economic strife. The personal savings rate has been trending downward from about 11% in the 1980's to 3.5% in 2000, then below 1.0% towards the end of 2000 and multiple times in the decade leading up to 2010. However, during the latest economic downturn in 2008, the personal savings rate started to trend upwards again reaching 4.2% by the end of 2009 (Bureau of Economic Analysis, 2011). Figure 1 also illustrates that people are more willing to spend when the economic situation is positive, but revert to saving during times of recession.

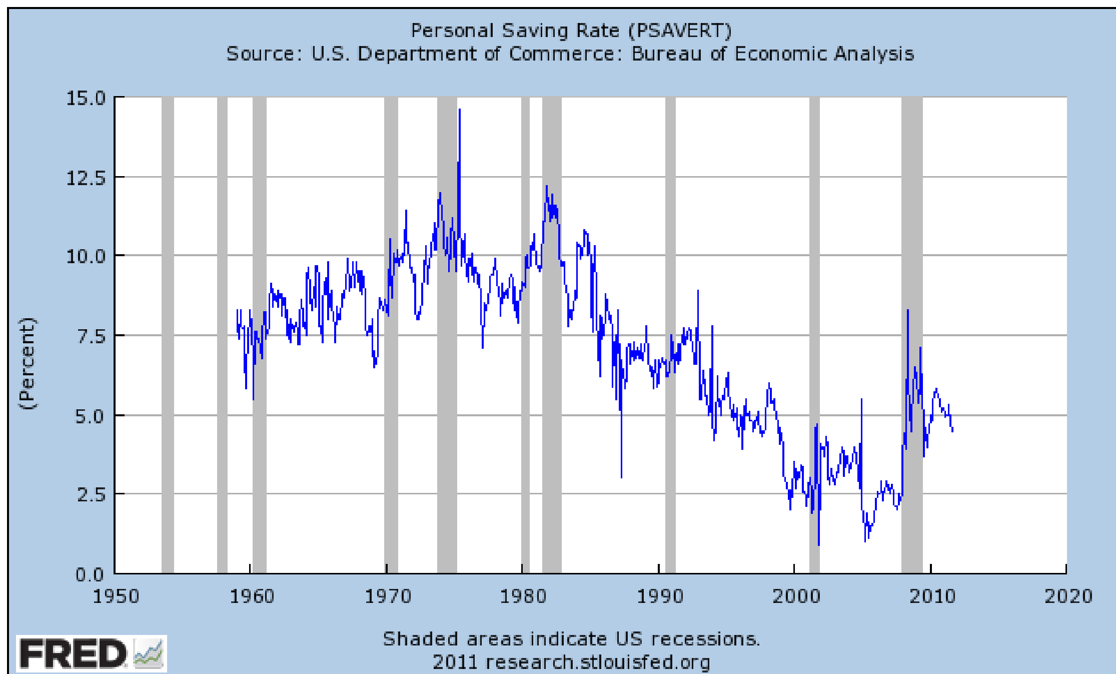

Figure 1: Personal Savings Rate Since 1959
Retrieved from: http://research.stlouisfed.org/fred2/data/PSAVERT.txt

Reliability

The reliability of the personal savings rate has been questioned by researchers because of the way it is calculated. Factors such as capital gains, the taxation of capital gains, and distributions and consumption of retirement income often skew the calculation of the personal savings rate as they are not accurately accounted for (Lusardi & Venti, 2003). When a household invests in the stock market and receives capital gains, these gains are not included in income, but will be included in expenditures if the money received is spent. This skews the personal savings rate downward by increasing expenditures while ignoring the income. Also, when the capital gains are taxed, the gains do not affect income, but the taxes reduce disposable income. When an employee takes distributions from a retirement account, the distribution is not counted as current income because it was already accounted for when the individual was working; however, the distribution will be included in consumption at that time (Lusardi & Venti, 2003).

These are only a few examples of ways that the personal savings rate can be skewed. However, there have been decreases in the personal savings rate that still cannot be explained by

these factors, therefore making it hard to pinpoint the issue of reliability. There will always be discrepancies with the calculations and the information that is used or not used.

International Savings Rates vs. Savings Rates in the United States

Because the United States is part of the much larger global economy, it is important to discuss the savings rates of other countries. By reviewing international savings rates, we can see whether declining savings rates have been experienced outside the United States. Figure 2 represents the savings rates of other countries from 1980 to 2006. The personal savings rate in Germany has increased from 9.2% in 2000 to 11.5% in 2008, and is one of the least volatile savings rates. Japan's savings rate has declined from about 17% in 1980 to about 3% by 2006. Canada had a savings rate of 14% between 1970 and 1989, and is also now approaching 0% in the past few years. The Australian savings rate has been negative since 2002. France had a savings rate just below 15% in 1980, and by 2006 still has a savings rate above 10% (Guidoli & La Jeuness, 2007). Every country has a separate way of calculating their own personal savings rate, making it more difficult to compare just by looking at the percentages. However, you can still see that there are other countries struggling with personal savings along with the United States.

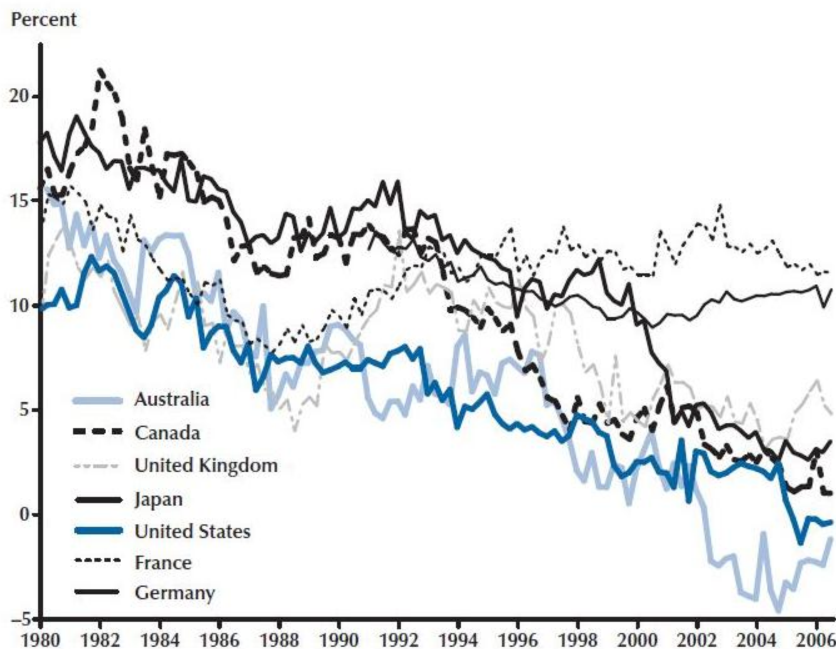

Figure 2: Quarterly International Household Savings Ratios
Retrieved from: http://research.stlouisfed.org/publications/review/07/11/Guidolin.pdf

Reasons for Decreased Savings

Education

While there are a multitude of factors that influence an individual's decision to engage in financial savings, a lack of financial literacy has been shown to be a contributing factor (Lusardi, Keller & Keller, 2007). Sadly, many Americans do not have the basic financial skills necessary to develop and maintain a budget, understand their credit, comprehend the available investment products, or take advantage of our banking system (President's Advisory Council on Financial Literacy, 2009). The general public's low level of financial knowledge is partly due to the lack of financial education in our public school systems and the low quality of the financial education when it is provided. The effects are manifested in increasing amounts of unmanageable debt and low personal savings rate.

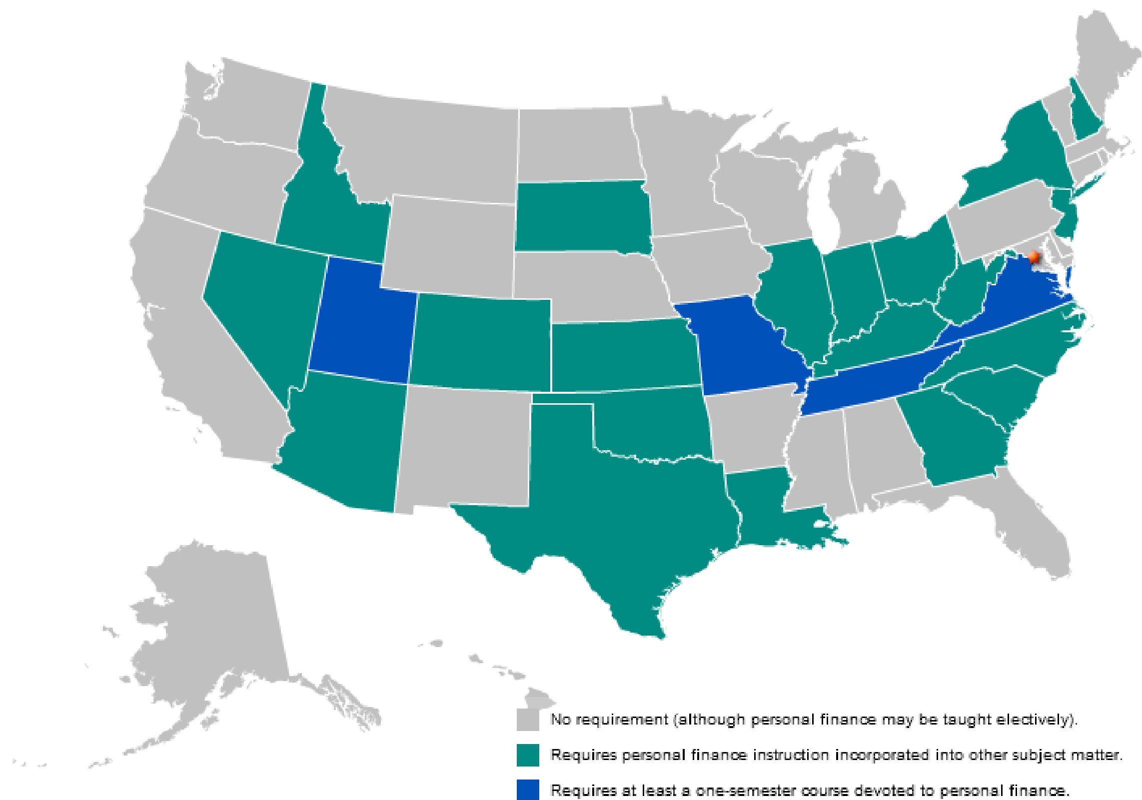

Figure 3: State Financial Education Requirements
Retrieved from: http://www.jumpstart.org/state-financial-education-requirements.html

According to the Jump$tart Coalition for Personal Financial Literacy, in 2010 only 4 states required at least a one-semester course devoted to personal finance and only 20 states required personal finance instruction incorporated into other subject matter ("State financial education," 2011). The study does not include those schools that offer elective courses with subject matter related to personal finance. Figure 3 illustrates the personal finance programs, or lack thereof, instituted by each state. Clearly, most American students in public schools are not receiving any type of formal financial education that allows them to navigate our complex financial marketplace.

In addition, on the 2008 Jump$tart Survey of Financial Literacy among high school students, participants got an average of only 48.3% of the test questions correct. This research has been conducted with 12th grade students biennially for a decade, with scores ranging from a high of 57% to a low of 48.3% in 2008 (President's Advisory Council on Financial Literacy, 2009). All are failing grades. Not only do American students obtain failing grades on financial literacy tests but a survey of teens in 2007 conducted by Charles Schwab showed that only 51% of teens know how to write a check and only 34% can balance a checkbook. A mere 26% of teens know how credit card fees work and only 24% know whether a check-cashing service is a good thing or a bad thing to utilize (President's Advisory Council on Financial Literacy, 2009).

Not only do our students not receive a formal financial education in public schools, many studies overwhelmingly show children are also not receiving important information about personal finance from their parents or guardians. In a study by Norvilitis et al. (2003), about 30% of students said that their parents rarely or never discussed issues with them such as the importance of saving, investing and setting financial goals. In addition, just 25% of parents feel they are very effective when it comes to providing their children with financial guidance (ASEC, 2001). Studies show that the children of more educated, wealthy parents are more knowledgeable about financial information. Specifically, a college-educated male whose parents had stocks and retirement savings was about 45% more likely to know about risk diversification than a female with less than a high school education whose parents were not wealthy (Lusardi, Mitchell, & Curto, 2010).

In addition to students' low levels of financial literacy, adults are also exhibiting behavior that suggests poor personal financial knowledge. Most are aware of the millions of Americans who have foreclosed on their homes since the beginning of the "Great Recession." Many of these

foreclosures were caused in part by Americans obtaining mortgages, often considered subprime, and signing loan agreements that they did not understand and ultimately could not afford (Bucks & Pence, 2006; Campbell, 2006; President's Advisory Council on Financial Literacy, 2009). Subprime mortgages were made to borrowers with a lower than desired credit score, history of bankruptcy or foreclosure, minimal down payment, or poor repayment history (Chomsisengphet & Pennington-Cross, 2006). If many of these borrowers had been more aware of their financial situations, they could have evaluated and developed their own budgets to determine if they would be able to afford their mortgage over the entire life of the loan.

In addition to overextending themselves on their mortgages, many Americans have substantial credit card debt. According to a study by the Federal Reserve, the average household in 2010 carried nearly $6,500 in credit card debt and the size of the total consumer debt grew from $355 billion in 1980 to $2.4 trillion in 2010 ("Credit card debt," 2011). Many Americans are simply unaware that by only paying the minimum amount each month, they will subject themselves to longer repayment periods and higher total interest. According to the Federal Reserve's credit card repayment calculator, a balance of $5,000 with a rate of 16.00% will take 27 years to pay off when paying an estimated minimum monthly payment of $100. The total interest paid in this scenario is $8,659 ("Credit card repayment," 2011). While there is evidence that today's generations are accumulating more debt than previous generations on their credit cards, it is important to keep in perspective that credit cards are becoming more popular as a convenient tool to pay for goods and service and allow users to take advantage of reward programs. That being said, with greater knowledge of their credit card terms and the effect of compound interest, many Americans may drastically alter their use of and repayment habits towards credit.

When the public takes on unmanageable levels of debt, they may become less able to adequately save for goals such as funding their children's college education or their own retirement. In addition to strapped cash flows, many do not know the importance of or are not aware of their need to engage in financial savings. According to the U.S. Department of Commerce Bureau of Economic Analysis, personal savings as a percentage of disposable personal income in the United States was 4.50% in August 2011, which is well below the generally recommended minimum of 10% (Rankin & Brown, 2011). By educating the populace

about the importance of beginning to save for the future at an early age, the general public will be able to take advantage of greater compounding periods to produce a more secure future.

Fear of the unknown

Saving is not always easy, but the Millennial Generation (generally described as those born between 1980 and 2000) has a more challenging road ahead, especially as 64% of them are not taking retirement into consideration as suggested by a recent Scottrade survey (Perman, 2011). Some of the remaining 36% may be investing, but many of this percentage who are thinking about retirement are primarily scared into one of two directions: either the market is too intimidating or the savings needed for a comfortable retirement is too daunting a task to undertake.

The portion of this 36% of the younger generation that are intimidated by the amount they need to save do not begin saving to reach this target. The problem for many people with this mindset is that they are either in debt or do not have an income high enough to allow them to save for retirement (Lusardi, Keller & Keller, 2007). The amount of assets required seems so lofty that many in this group feel defeated before they even begin. Some progress is better than none at all and the logical answer is to begin saving, no matter how small the amount. As life progresses and people start earning more during their careers, they should have more resources to increase their savings to reach their goals later in life.

The other portion of the 36% of the younger generation thinking of retirement are scared of the stock market and investments and prefer their money to be liquid and easily accessible. Many of the Millennial Generation grew up with their parents losing much of their retirement funds, recently having their home taken away, or cars repossessed. In addition, Ponzi schemes have instilled distrust and heightened the fear of many potential investors. These factors have resulted in a young generation that is investing as conservatively as their parents and grandparents (MarksJarvis, 2011). According to a survey by the Research Collaborative, 40% of Millennials have said "I will never feel comfortable investing in the stock market" (MFS Investment Management, 2011). This is a strong statement that can be very dangerous. Many of these people forget that without risk, there is limited reward. Brad Klontz, a Honolulu psychologist who specializes in money disorders, is reported as saying "Holding on to the coping behaviors that you learned in a crisis almost always proves to be a disaster in the long run"

(Kristof, 2009). Klontz also said that he sees those in their 20s and 30s saving in bank accounts, Treasuries, or gold in order to preserve their principal. When people invest this conservatively they forfeit a large amount of potential long-run earnings or appreciation. This strategy would be adequate if the Millennials are willing to save copious amounts of their earnings each year, but this is often unrealistic. The extra risk people can objectively take on when they are young is part of what allows them to set realistic long term goals.

Of the 36% who are not intimidated by the market or by the amount needed for retirement are investing and realizing the gains that can be made. According to the same survey by the Research Collaborative, 62% of the Millennial investors say that they enjoy investing and are taking an active role in their investments. Sixty-nine percent of these investors reported at least consulting with an advisor regarding investment decisions - more than any other age group. Fifty-nine percent have received investment advice in the past 12 months, meaning they are actively monitoring their investments and are getting professional help to maximize their returns (MFS Investment Management, 2011). These percentages seem impressive but only represent a small portion of the Millennial Generation.

The remaining 64% of the younger generation in the Scottrade survey (Perman, 2011) that are not thinking about retirement are overlooking it for several different reasons. For many, it is the fact that they do not realize how much their actions today impact their retirement tomorrow. According to a recent survey by careerbuilder.com, 42% of Americans live paycheck to paycheck, or close to it (CareerBuilder, 2011). This is improved from the same time two years ago when 60% of Americans were living paycheck to paycheck (CareerBuilder, 2009). Even many of the members of the Millennial Generation cannot grow up. According to an article by Business Insider, 5.9 million members of this generation will graduate college and return home to live with their parents (Lopez, 2011). Recently released census data reports that Americans between the ages of 25 and 34 living with their parents jumped 25% during the recession (U.S. Census Bureau, 2011).Unfortunately, many of these graduates may also not be able to find fulltime employment because of high unemployment rates.

Whichever camp non-investors find themselves in, the consequences are the same. If this generation continues to delay saving they will have fewer assets and a shorter compounding period. Even with increasing life expectancies and advances in healthcare, many in the Millennial Generation still may not be healthy enough to continue working full- or even part-

time when they are 70 or 80 years old. Although things do not seem too promising for the Millennial Generation, there is still hope. According to the same survey by the Research Collaborative, 78% of Millennial investors are optimistic about their own five-year future and are open to advice with 89% saying that an advisor will play a key role in their investing (MFS Investment Management, 2011). Even though the majority of this generation refuses to take saving seriously, there are those who do seem to be heading in the right direction. Hopefully they will influence their peers to do the same.

Consumerism

Consumerism can be viewed as one of the biggest contributors to the decrease in savings, especially among the younger generations. Webster's Dictionary defines consumerism as "a *preoccupation* with purchasing consumer goods; an obsession with products, a propensity for spending" (Consumerism, 2011). The late comedian George Carlin explained consumer spending in America when he said:

> That's what your house is, a place to keep your stuff while you go out and get... more stuff! Sometimes you gotta (sic) move, gotta (sic) get a bigger house. Why? No room for your stuff anymore (Carlin, 2007).

To illustrate this point about how American consumers spend and build homes, between 1950 and 2000 the average new home size in the United States increased from 983 square feet to 2,266 square feet (Diamond and Moezzi, 2010). When calculating the personal savings rate, as personal outlays increase the savings rate will decrease. For the past few years, consumer spending, including housing and debt payments, accounts for about 70% of economic activity in America (Bureau of Labor Statistics, 2011).

In the time of reality TV shows and a multitude of celebrity products, everyone feels that they have to "Keep Up with the Kardashians" (Lavin, 2011). In September of this year, consumers went overboard when Missoni (an Italian fashion designer whose pieces can retail up to $8,000) collaborated with Target to create a fashion line that was more affordable for Middle America. A store in Columbia Heights in Washington D.C. reported that "Within two hours, the racks and shelves had been swept mostly clean of thousands of pieces from the 400-item collection" (Fard, 2011). This story of empty shelves was repeated in Target stores across the

nation; the Target website also faced multiple crashes on the day of release. In a survey of online consumers, researchers found that 16% of consumers buy designer brands. In North America, 55% of people believe those who wear designer brands are trying to project a certain image about themselves and Americans are second to Canadians in the belief that imitation brands are as high of quality as designer brands (Nielsen, 2008).

Influence of Today's Media and Technology

Every day, we are barraged by television commercials, magazine advertisements, and product placements in movies and TV shows telling us that we need a "hot" new product to be happy or successful, even at a very young age. "[M]odern-day children live in cultures steeped in consumption driven by consumer behaviors and influenced by their outcomes" (Hill, 2011). The average child views over 20,000 television commercials per year and over 20 million by the time they are age 65. Commercials make us feel that we need and deserve the products being offered. "The emphasis is on opulence, ease, the feeling that *I am special and I can afford this"* (Olshin, 2007). People then begin to purchase non-necessity items. For example, in the past few years major car companies have begun to install analog clock displays in the dashboards of their newest car models. The digital clock is still a standard feature in addition to the analog display, but consumers find that the analog clock looks sleeker and more sophisticated. However, the fact remains that the display serves no purpose other than to be aesthetically pleasing, and could be potentially dangerous as they may cause consumers to take their eyes off the road for a longer period of time. The cars with these displays may not offer a higher performance than they have in the past, but Americans will pay the extra expense for perceived luxury.

Smartphones are another luxury item which everyone seems to own. Nielson reported in September of 2010 that 25% of cell phone users own a smartphone and they expect almost every cell phone user to have one by the end of 2011 (Nielsen, 2010). Although they arguably have more features than a standard cellular telephone, smartphones cost $200 or more on average if purchased with a plan while a standard cell phone averages about $50. This cost does not include monthly data plans which can cost between $30 and $100 or more monthly depending on the provider. In their third quarter earnings for 2011, Google disclosed that 550,000 Android phones are activated daily while Apple showed daily activations of 223,000 iPhones (Kumparak, 2011). The majority of people who own and use smartphones tend to use them mostly to play games

(61%), to check the weather (55%), and for navigation (50%) with Facebook being the most popular application used (Nielsen, 2010). All of these applications can readily be utilized on a laptop through the internet. While the cost of these plans may be reasonable for higher-income individuals, many college students and lower-income individuals, especially those of the Millennial Generation, may not be able to afford it. Do Americans need the added expense?

With the rise of "reality" television shows that air daily into American homes, the idea that we must emulate the rich and famous to be popular has further developed. Even going to prom has become an exorbitant expense, such as "the $500 to $1,000 spent on dress, limo and parties before and after the actual event" (Vitello, 2005) or tickets for the dance itself where themes centered on the celebrity abound (Miller, 2010). Our perceived need to be like celebrities is allowed to flourish with the recent emergence of branded celebrity websites such as ShoeDazzle where you can shop for shoes with Kim Kardashian. The reality show *The Biggest Loser,* where competitors vie to lose the most weight, is very effective at marketing its brand. The fitness trainers featured on the show sell work out videos, nutrition plans and food, and exercise equipment earning its parent company, Reveille Productions, over $50 million annually (Atkinson, 2008)."The global rise of reality TV programming has also fueled the tidal wave of brand democratization. Suddenly, anyone can become a star...This new reality empowers the consumer to believe 'if he can do it, I can do it'..." (Niesser, 2006). Many feel like they need to emulate the rich and famous and they do it through their purchases.

Where has the cash gone?

Money today is becoming less and less tangible. With an increase in the use of debit and credit cards, physical money may soon become a concept of the past. In the checkout line at the grocery store the other day, one of our team members overheard a cashier joking with a customer. He asked if they still accepted cash. Her teasing reply: "Every once in a while if I don't let [the manager] see." Carrying cash has often been touted as a method of paying for emergencies and small purchases and as a way to budget as it allows you to only spend what you have. Now, with the increasing prevalence of plastic payment cards, cash is becoming a decreasingly viable way to use currency, thus making it easier to spend money. In 2009, 94.4% of consumers had some type of payment card that they used on a regular basis (Foster, Meijer, Schuh, & Zabek, 2010). With the boom of technology in our culture, we no longer even need to

step into a bank. We can pay bills online, deposit checks with our phones, and transfer money directly to retailers at the register. Credit cards were always the choice for online shoppers who now have the added convenience of PayPal accounts which allow us to shop at various online vendors without having to constantly enter credit card information. The convenience of technology has made it easier to bank and make purchases; however, because the transaction is so immediate, there is less time to consider the purchase. New technology is also emerging that allows smartphone users to make everyday purchases with their device; all they have to do is open an application and tap their phone on a terminal at the register. While this new technology will increase checkout efficiency, it may also lead to less thought about the necessity of a purchase.

As noted previously, debt in the United States has been a large problem for the past few years. Part of the decrease in the personal savings rate could be that America is spending more than they earn through the use of credit and consciously deciding to save less than previous generations. According to a study by the Federal Reserve, the average household in 2010 carried nearly $6,500 in credit card debt and by August 2011, Americans collectively held almost $2.5 trillion dollars in consumer credit debt ("Credit card debt," 2011). One study has found that people correlate their self-worth with credit that is available to them: the higher their credit limit, the higher their self-worth (Peñaloza & Barnhart, 2011). This study also found that people are taught to be averse to debt, but feel they have to accept it as part of life in order to make large purchases such as a home or car. One of the reasons for this increase in credit card debt is that consumers do not think about their money when they can just swipe a card through a machine. Using cash may be helpful in that if they were to use cash, they might be more likely to know when they reach their spending limit.

Solutions to Assist Americans with Saving

The above section provides reasons for America's decrease in personal savings with one of the largest reasons being a lack of financial education. Without an understanding of how to save, how markets operate, and how to utilize credit wisely, it is no wonder the younger generation is finding themselves stuck in a proverbial financial rut. Fear of the market has been attributed to an uncertainty of market fluctuations and financial tools. The consumer marketplace is also a contributing factor to the current decrease in savings as people would rather have ease and convenience today than save for it tomorrow. The following recommendations detail how we believe America can break through its misuse of the financial marketplace and personal finances through education, both in our school systems and in the workplace, and an increase in the use of financial counseling.

Financial Education in Public School Systems

Our primary efforts should be aimed at promoting high quality financial education at primary, secondary, and postsecondary institutions. Financial education can include any program that addresses the knowledge, attitudes, and/or behavior of an individual toward financial topics and concepts (Fox, Bartholomae & Lee, 2011). Annamaria Lusardi, an economist at Dartmouth College, is quoted as saying, "Financial literacy is an essential piece of knowledge that every student should have. Just as reading and writing became skills that enabled people to succeed in modern economies, today it is impossible to succeed without being able to 'read and write' financially—in other words, without financial literacy" (Lusardi, 2010). While implementing financial education in schools has been on the radar-screen for some time, there is no consistent approach to implementation or agreement concerning what is included in the curriculum. However, like any type of education, financial education should begin with teaching the basics which will provide young adults with the tools to better navigate and prevent future economic crises and improve the overall financial literacy of all Americans (Grody, Grody, Kromann & Sutliff, 2008).

We recommend that the No Child Left Behind Act of 2001 be amended to require personal financial education in primary and secondary schools and set forth standards by which the quality of education should be measured. The United States Department of Education should also develop standardized curriculum for those schools without access to or the resources to

develop proper curriculum. Standards-based financial education in the classroom will help to level the playing field for students whose parents are not experienced enough to provide guidance to their own families (President's Advisory Council on Financial Literacy, 2009). Even for those students fortunate enough to receive strong financial guidance from their guardians or mentors, a thorough and balanced classroom-based curriculum reinforces and expands upon what they have learned at home. In addition, education at a young age promotes good habits in the future. For example, a longitudinal study reported that students who had taken a personal finance course in high school saved a greater proportion of their income when they were older (Bernheim, Garrett, & Maki 2001).

An example of an activity that can be implemented at the primary level is a point system that allows students to purchase small items such as school supplies or educational toys using the points they earn. These points can be given to the students for good behavior and academic performance. A point system can teach young children that high-quality performance is rewarded, money has value, and delaying consumption has rewards. Children will learn to delay consumption because they will be motivated to save their earned points to purchase larger, more expensive items. Many teachers already use such a system to promote good behavior and the idea can be adapted to different grade levels and altered slightly to teach children about finances. The curriculum of secondary educational programs should address the importance of savings and compound interest, how to properly use credit and other forms of debt, the intricacies of a credit score, how to develop a budget, an overview of the available savings and investment accounts, and the other consequences of poor financial decisions. Activities used in secondary schools should be appropriately tailored to the grade level, current knowledge of the students, and the objective being taught.

In addition to incorporating financial education into primary and secondary schools, courses and resources related to personal finance should be available to students at colleges and universities. The U.S. Department of Education should encourage postsecondary institutions to require students to take a personal finance course as a part of the institution's undergraduate core curriculum. This will teach undergraduates about the financial issues that they are currently facing and will help to prepare them for their financial life after graduation. In addition to including financial education in the core curriculum, the U.S. Department of Education should take the steps necessary to require entrance and exit financial counseling for college students at

their respective postsecondary institutions as a condition of receiving federally funded or federally guaranteed student loans. This counseling, provided by the educational institution's financial aid office, will serve to educate students about their financial aid package and how to repay their student loans.

To implement these programs, concessions must be made in terms of time and assets granted to schools. For example, if primary schools allow time for computer education, financial activities could easily be incorporated into this curriculum through educational software. In secondary schools, one credit of personal finance should be required for all graduates and integrated into existing business classes. Teachers and guidance counselors should provide older students with resources for more information and tools such as mint.com, a web based budgeting and personal finance tool, and smartypig.com, a FDIC insured website which aids people in saving in online accounts for specific goals. We realize that budgets are tight for many schools and therefore believe that existing funds should be reallocated to fund this endeavor.

Financial education in the workplace

The amount of people that are participating in employer-sponsored retirement plans has doubled in the past three decades (Nakamura et al., 2010). It is obvious that more people are choosing to participate in employer-sponsored plans and trying to save for retirement, but the change in the type of plan used is bringing up the need for more education for the employees:

> Between 1977 and 2007, the number of participants in defined contribution plans increased 358 percent (from 14.6 million to 66.9 million workers) compared to a 31 percent decrease in defined benefit plan (commonly known as pension plans) participants (from 28.1 million workers to 19.4 million workers) (Nakamura et al., 2010).

In the past, defined benefit plans, a well known type of pension plan, were the most commonly used form of retirement plan. With the increasing costs to administer and fund these plans, employers shifted towards the use of defined contribution plans, a popular one being the 401(k) (Clarus Associates, 2007). Many of these plans require the employee to choose to set aside their income for retirement, whereas the defined benefit plans are usually funded by the employer with no employee contributions.

With the switch from defined benefit plans to defined contribution plans, the responsibility for saving and making the investment decisions has shifted to the employee. The availability of any retirement plan through an employer is a benefit to the employee no matter what type of plan used. However, when the responsibility is shifted to the employee to make the decision of how much to save and how to invest the money, there is a need for more education. Without the proper knowledge of their plan and the types of investments available, the employee may pass up the opportunity to participate at all or make poor choices in the plan. If employers are making the decision to move away from non-contributory plans and toward contributory plans, then they should also be responsible for educating their employees about the plan thereby making it easier for their employees to save for retirement.

Research indicates that employees with low income (less than $35,000), young employees, and employees with short tenures are disproportionately less likely to contribute to their retirement plans (Madrian and Shea 2001). Employers can increase the participation in their retirement plans with the use of automatic enrollment in the plan. Automatic enrollment, also known as a negative election, will enroll the employees when they are eligible to participate in the plan unless they have chosen to opt out of the plan (Choi, Laibso, Madria, & Metric, 2004; Lusardi, Keller & Keller, 2007). By using this method, the employee will have to actively choose not to participate rather than choosing to participate in the plan. In one study, researchers found a 48% increase in 401(k) participation among newly hired employees and an 11% increase in overall participation at one large U.S. company 15 months after the adoption of automatic enrollment (Madrian & Shea, 2001). This provides evidence that by enforcing automatic enrollment, the odds that an employee will begin saving for retirement increases drastically, but there is still more that can be done to increase participation. When setting up automatic enrollment, the employer also may set a standard contribution rate and a standard target date retirement mutual fund in which the contributions will be invested. This is where further education by the employer could also come in to play. It may be more suitable to use the standards set by the employer, but the employee should understand that they can choose a different contribution rate and investment fund if desired.

In order to educate employees, an employer can offer financial seminars a few times a year to their employees to help explain their benefits package and other options accessible by employees. The best time to hold these seminars would be when they have a group of employees

that are recently eligible to participate in the plan and near the employer's open enrollment period. All employees should be allowed to attend on company time. To make education more efficient, the seminar can be a requirement for the new participants so that the employer knows everyone is receiving the information at least once. These seminars should also address information about the available investments that are offered within the retirement plan. Not all of the employees may know about the different investments available or understand these options. A study by Lusardi, Keller, and Keller found that 38% of employees responded that a lack of knowledge about finance and investing was a barrier to saving (Lusardi, Keller & Keller, 2007). The seminar can also offer information on seeking further help. To encourage employers to implement financial education seminars, the U.S. Congress could explore one or more tax incentives for employers offering this service to their employees, such as providing financial education credits versus only deductions for expenses associated with the seminars. In addition, to assist employers in creating and administering educational seminars, the U.S. Department of the Treasury could create an Internet-based resource center on the Federal government's financial literacy website, www.mymoney.gov, for human resource professionals and employers that consolidates the best financial education information and resources. This will allow employers access to correct, up-to-date information which can then be more readily provided to employees. One method to enhance this site would be to allow employers the ability to create an account where they can then profile their business and indicate areas of interest including retirement plans, other benefits, business management tips, etc. Based on their profile and interests, they could elect to receive periodic notifications concerning their business characteristics.

In addition to offering educational seminars that explain the employer's benefits package, employers could offer the option of completing a retirement needs assessment in conjunction with the educational seminars. A personal retirement needs assessment, conducted by an independent financial professional, would help to show the employees that saving for retirement is extremely important and time-sensitive. Forty-four percent of people that have completed a retirement needs assessment have made changes to the way they are saving for retirement (Clarus Associates, 2007). This will open their eyes to what they will really need to save for a secure retirement and to seek further help from a financial professional as needed.

In order to fund seminars and other financial education in the workplace, we suggest that employers be allowed to utilize forfeited qualified plan assets and incorporate the costs into their plan administration costs. Employers can also use non-profit organizations to assist them in finding financial educators, such as the Personal Finance Employee Education Foundation, Inc. (PFEEF). The PFEEF advocates financial education in the workplace by providing employers with free resources to evaluate their current plans and show the employer and employee benefits of financial education (Personal Finance Employee Education Foundation, Inc., 2010).

Increased use of financial counseling

With the recent recession, many Americans feel that they just cannot pay the bills and their debt is piling up. Between 2007 and 2009, 62.5% of families faced a decline in wealth due to the market crash. The "over extended consumer" is defined as those with a lower middle income who are married and behind in payments, do not communicate well within their relationship, who are impatient about buying consumer goods, who are uneducated when it comes to information about credit and budgeting, and who are scared and desperate (Simmons, Webb, & Sporakowski, 1977).

With the guidance of a financial counselor, people will learn how to manage their cash and consumer credit. Financial counseling educates people about their finances and financial tools and directs them to other financial professionals and institutions. It is different from financial planning as a counselor does not develop a comprehensive financial plan or sell financial products. Financial counseling is also more accessible than financial planning as it does not require clients to have a minimum net worth or total investable assets.

Financial counseling is helping people to help themselves in terms of their personal finances. It assists consumers in the development of financial documents such as a budget and balance sheet which helps them discover and understand their financial issues. Clients develop relationships with the counselor to solve immediate problems that could have long lasting negative consequences such as burdensome credit card debt and overspending habits.

Financial counseling is not something which people can be forced into – they must want to change and fix their problems. The best thing that can be done is to illustrate the importance that financial counseling may bring to their lives. To educate more consumers about the role of financial counseling, loan officers should suggest that consumers who are denied a loan set an

appointment with a financial counselor to review their finances and spending habits. Personal advisors (such as lawyers, accountants, psychologists, brokers, etc.) should encourage their clients to meet with a financial counselor in the case of divorce, death of a spouse, budget shortfalls, or credit abuse. Employers should also advise the use of a financial counselor in the case of retirement, job loss, or unemployment. We also believe individuals receiving government assistance such as social welfare and unemployment should receive this information, perhaps at a financial counseling center located in or near the welfare or unemployment office.

Non-profit financial counseling organizations should also be granted more assets (monetary or otherwise) to assist them in promoting their services through advertisement or community outreach. If people discover they can receive financial education and assistance with their personal finances at no or reduced cost, they will be more likely to pursue the opportunity.

Conclusion

Savings in America has been on a downward slide for the past 30 years. Although it appears to have been increasing recently, American people, particularly younger generations who have grown accustomed to a declining savings rate and increased use of credit, are still finding it harder to save than ever. Poor financial education by schools, family, and employers has been a major contributor to reduced knowledge of personal finance. This misunderstanding has led to a generation that is either intimidated by financial markets and products or does not even take the time to consider them. Consumerism has also played a role in the decrease in savings. By continuing to contribute to the image of a "spendthrift economy" by making unnecessary purchases, Americans will not be able to continue to maintain their oftentimes frivolous lifestyle.

We propose that Americans be required to gain an education in personal financial management. First, we believe that students should be educated on personal finances at primary and secondary levels of learning. They should also be required to take a course in personal financial management in college as part of a general education requirement. Secondly, employers should provide employees with information concerning their benefit packages and provide appropriate plan defaults to ensure that the employees have full understanding of and are more willing to participate in their retirement plans. Finally, we feel that when consumers are denied loans for credit, lenders should suggest the consumer obtain the services of a financial counselor. Counselors should also be provided with the resources to expand and promote their services to help the public more effectively manage debt and plan for the future.

It is with these suggestions that we hope Americans will face a brighter future. Increased savings rates will allow the American people to lead a more financially secure and fulfilled life. The question remaining is: can we delay our consumption and wrangle the "American Dream" back into a sustainable and manageable state?

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