SAVINGS PROPOSAL FOR

THE MILLENNIAL GENERATION

Executive Summary

As the Baby Boomer generation rapidly approaches retirement, the entire country is looking towards the Millennial generation for a solution to the inherent savings predicament that has plagued the nation in recent years. The Millennial generation as a whole seemingly shows little concern for this dire issue, as many are pushing back planning for retirement in lieu of increasing their consumption of such items as luxury goods, technology, and entertainment. Add to this, student-loan debt is on the rise and has already increased by 5% within the last year (Lewin, 2012). It seems that the primary root of this lack of savings is a culture consumed by instant gratification and a general lack of financial literacy. Luckily, there is hope for resolving this problem.

In a case study centered on FDIC's *Money Smart* financial education program, 69% of individuals completing the course reported an increase in their level of personal savings, among other positive statistics (FDIC, 2007). This, along with other data, is used to support the notion that an increase in financial literacy has a positive correlation with personal savings. Thus, our proposal recommends that the federal government endorse and market FDIC's financial education program with an emphasis on the Millennial generation. Further, it is recommended that the program become incentivized by allowing individuals to receive tax rebates ranging from $300 to $500. This would additionally require the FDIC to enhance and maintain the functionality of the program and the website. Cost considerations have also been evaluated in regards to lost revenue and an efficient marketing strategy. The program will be promoted primarily through social media outlets such as Facebook and Twitter as well as advertisements on YouTube, all of which greatly appeal to Millennials. Through this proposal, the Millennial generation can impede the looming debt crisis.

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Introduction

The past four years have undoubtedly functioned as a wakeup call for many Americans, as the nation has seen many people in this country experience financial turmoil and individuals are beginning to realize the ramifications of their prior financial decisions. This predicament has only been exacerbated by an aging population and a recent struggle within the government over what to do with popular entitlement programs such as Medicare and Social Security. In fact, about 9 in 10 Americans aged 65 and older receive Social Security, and for approximately 1 in 3 Americans on Social Security, this is their sole source of income. Social security benefits even represent 39% of the aggregate income of the elderly, and it has been estimated that by the year 2033 there will be nearly twice as many older Americans as there are today (US Social Security Administration, 2012). As if these statistics are not startling enough, the federal government is now faced with the daunting task of allocating funds in order to maintain such entitlement programs and ensure that future American's will receive the benefits that they have been diligently paying into and will undoubtedly be expecting to receive as they come of age.

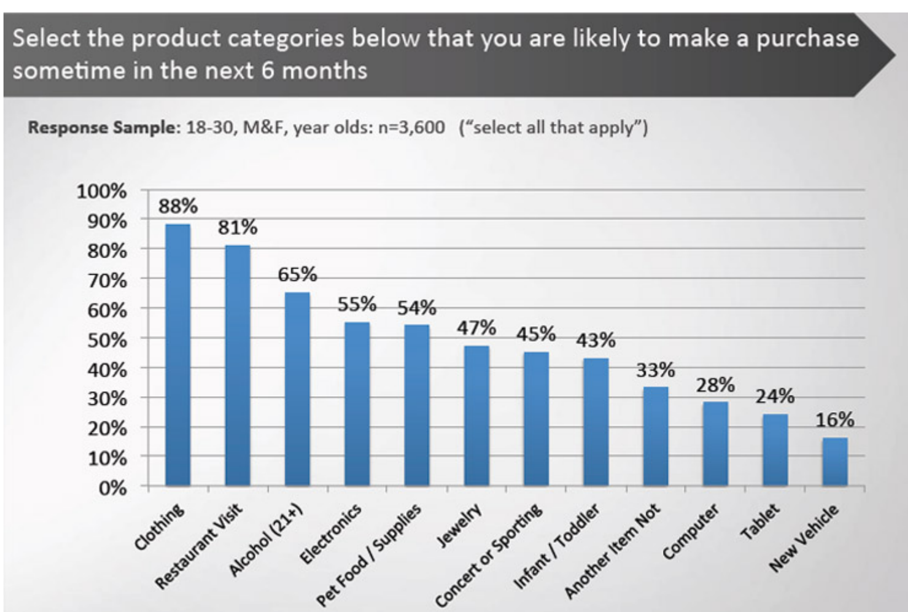
As the baby boomer generation begins to come of age, the task to ensure that American's will still thrive well into retirement has been placed on the current generation of young adults, commonly referred to as the Millennial generation. As much as the young adults of this country would like to believe that they will be just as financially stable and receive the same types of entitlements that their parents and grandparents are currently receiving, this belief can simply not be 100% justified. The total US national debt has already surpassed the 16 trillion dollar mark (US National Debt Clock, 2012), and it has not shown any signs of slowing down, unless radical changes are implemented by the federal government in regards to spending and the fiscal budget. With this being said, the future of such entitlement programs is still unsure and the Millennial generation must accept this reality and prepare for the possibility of not receiving the same benefits that their parents have received. This leads one to ponder what possible solutions there could be to ensure that the next generation of Americans will still be able to maintain our world superpower status and continue to pull individuals and families out of poverty. Thus, the only feasible solution will undoubtedly require radical change and, more specifically, a change in how the Millennial generation and those younger view financial savings and their importance in the vitality of our nation.

In order to better understand the savings predicament that this Millennial generation faces, it would be best to begin by analyzing the demographic in question. For purposes of this research, Millennials will be defined as those individuals between the ages of 16 and 35. The research conducted throughout this report will put more of an emphasis on those individuals within the 25 to 35 year old range, but be advised that when the term is used throughout this paper (unless otherwise stated) it will be used to describe the general demographic of those within the 16 to 35 year old age bracket (Taylor and Keeter, 2010). The Millennial generation constitutes a staggering 79 million people and a larger proportion of the total US population than the Baby Boomers, who together only account for 76 million people in the US (Barton, Fromm, and Egan 2012). That being said, the future of our nation undeniably lies in the hands of the Millennials.

The Millennial Generation

Spending Habits

We will begin the analysis of the Millennial demographic by investigating what Millennials are spending their money on. Debt and irrational spending are two of the greatest factors influencing the lack of saving among the Millennial generation, and as such we must determine the core of this irrational spending. Even with a significant number of Millennials unemployed, underpaid, or swimming in a sea of debt, the demographic as a whole still manages to spend, on average, $784 a month on items classified as discretionary income, such as dining out and entertainment (Faw, 2012). This concept points towards the notion that Millennials are focused on instant gratification and convenience. In this light, the latest technological and luxury products are viewed as a necessity rather than discretionary, with many Millennials going out of their way to purchase such products, even when they clearly do not possess the assets necessary to maintain such a lifestyle. In fact, Millennials have increased their spending on luxury goods 33% in the past year, while Baby Boomers increased their premium spending by 19% (Halpert, 2012). Illustrated below are the spending habits and priorities of Millennials. This chart shows how they are allocating their income based on a variety of categories. Clearly, Millennials seem to place more of an emphasis on items such as alcohol or eating out as opposed to saving for retirement or planning for a family.



(Halpert, *The Fiscal Times*, 2012)

It can also be seen that Millennial spending habits have also influenced their decisions on marriage and children. While they do see marriage as a positive, based on benefits such as sharing the financial burden, legal certainty, community property protection, and health insurance, only a mere 20% of adults ages 18-29 are married as opposed to 59% in 1960. As dating rituals and procedures change, including career priorities, so has the shift in the age that Millennials begin to think about marriage. An astonishing 49% of women ages 25-29 are childless, while 69% of the same age group of men are childless. These rates decrease for both men and women in the 30-34 year old range to an average of 69% (Zimmermann, 2012).

While it would be likely that Millennials have extra discretionary income owing to a reduced number of families in the demographic, it seems that they are spending this extra income rather than saving it for retirement. A lack of retirement savings is one of the most detrimental actions Millennials can take for their future. The reason being revolves around the growing concern that retirees may outlive their savings, and the government is no longer a guaranteed "fall back" option. Extended longevity of life, while a positive for the medical field and families, can be a cause of concern for Millennials trying to figure out how and to what level their retirement savings should be at. In 1983, the risk of outliving ones assets was 31% and jumped to 51% in 2009 and is on the rise (Munnell, Webb, and Golub-Sass, 2009). While Social Security promises to help in these retirement pitfalls, too many Millennials are using it as a means for their entire retirement savings without regards to the benefits of their own savings. On average, Social Security can supplement only 55% of a lifetime's average earnings, proving that retirees require additional income savings and other outlets in order to adequately meet their needs (Mitchell and Phillips, 2006). "Needs" in this sense means what a person must have for daily survival, not what Millennials consider "needs" to be. The idea that Millennials revere material objects and goods as a priority creates an even greater urgency for this generation to begin saving more consistently and creating a supplementary income for their retirement spending; we cannot expect this generation of people to change their spending habits overnight solely because of retirement. The effort to get Millennials to understand these alarming statistics and push them to implement their own retirement savings plan is the only solution to these dire outcomes.

The basic principles of retirement savings tell us that the average person who needs to replace 85% of their working wages would need to accumulate 8 times their ending salary. This is based on the assumption that the average person is not overindulgent and would continue to live as they normally had in the past (which may be of concern for Millennials due to the reputation they hold for their excessive spending habits). This principle assumes that the average person should start saving by the age of 25 at a rate of 6% of their income and increase their savings by 1% every year until they begin saving at a rate of 12% of their income, so as not to feel as though all their current income is going towards retirement alone (Kristof, 2012). This might prove to be a daunting task for many Millennials, but it is also necessary in order to ensure that the future population in our country does not accumulate unbearable amounts of debt.

Education Costs

Another major factor to consider when analyzing Millennials and their spending habits is the increase of education costs. The upward spiral of education costs has garnered increasing levels of attention over the past decade. In recent news, the average student-loan debt has increased to $26,500. "The college class of 2011 rose to about $26,500, a 5 percent increase from about $25,350 the previous year" (Lewin, 2012). As well, it seems that students are also having a hard time keeping up with their college debt. For instance, "Education Department data shows that payments are being made on just 38 percent of the balance of federal student loans" (Martin, 2012). Obviously, these numbers are not sustainable. At the rate that college tuition costs are rising and students are defaulting, it might be infeasible to bring them back down to manageable levels. This leaves us with the most logical solution being enhanced financial management.

If these statistics were bad, the statistics on Millennial unemployment seem even grimmer. The Pew Social & Demographic Trends have stated that, since 2010, the share of young adults that are aged between 18 and 24 that are currently employed ranks at 54%. That's the lowest number since the government began collecting this type of data in 1948 (Pew Research Center, 2012). Couple that with the staggering increase in tuition costs and you have a recipe for a generation of underemployed citizens with massive amounts of debt. Some might also say, however, that these statistics include young people who are full time students, and inherently theses students will be unemployed. "Among those enrolled in school, the employment rate fell from 47.6% in 2007 to 40.7% in 2011. And among those not enrolled in school it fell from 73.2% to 65.0% over that same period" (Paul, 2012). According to these statistics those who are currently not enrolled in school have also suffered from unemployment. The question then remains as to why college graduates continue to suffer from unemployment.

The answer to this question may be as simple as examining what types of degrees Millennials are graduating with. Ideally, a graduate will attain a degree that is marketable in order to attain a high level of income and use that income to pay back his or her college debt, and in doing so raise the level of savings among Millennials. However, one only has to look at the dozens of reports on college graduation rates to realize that Millennials are, in fact, not pursuing marketable degrees. As most realize, the most marketable undergraduate degrees at the moment seem to be in either hard sciences, such as engineering fields, or health care. That's why it is very alarming to see the actual numbers of what types of degrees that college graduates are acquiring. “Of the 1,650,000 bachelor's degrees conferred in 2009–10, the greatest numbers of degrees were conferred in the fields of business (358,000); social sciences and history (173,000); health professions and related programs (130,000); and education (101,000)” (US Department of education, 2012). This is a staggering statistic when considering that, of the top three areas of education, health care seems to be a distant third and engineering or other hard sciences aren’t even in the mix. Unfortunately, these numbers don’t even seem to be the worst part of the millennial education problem. Most would say that the average undergraduate degree should take roughly four years to accomplish, yet only “54% of new freshman level students graduate in 4 years” (Office of Resource Management and Planning, 2004). As these statistics show, at least some of the blame for such low unemployment of young people rests with the youth themselves. It is ultimately up to the students themselves to try and attain a marketable degree in a reasonable amount of time.

Financial Illiteracy

While education costs have been of increasing concern for many Millennials, an additional concern that must be noted is the widespread financial illiteracy of this generation. The credit crisis of 2008 was arguably the worst financial meltdown in world history since the great depression due to its extraordinary economic costs. Some put the total cost of the collapse at roughly $2.8 quadrillion (Elliot, 2008). Although there was much finger pointing and blame passing during the crisis, people unanimously agree that a culture of financial illiteracy was at least partially to blame due to the fact that most sub-prime borrowers were too financially illiterate to understand their mortgage conditions.

One possible explanation for this financial illiteracy is the increasing complexity of the financial world. For instance, forty years ago a simple understanding of how to maintain a checking and savings account may have been all an individual needed for an entire lifetime. However, in today's world a population now has to contend with an increasingly interconnected financial sector. It seems to most that the financial sector has advanced to the point of incomprehension. On top of this, many individuals are displaying a complete lack of concern regarding their use of credit. A Nellie Mae Education Foundation report in 2005 indicated that "56% of undergraduate college students have four or more credit cards in their final year and that these students have an average balance of close to $3,000. Only 21% of the undergraduates with credit cards pay their balances in full each month, and 11% paid less than the minimum amount. The average balance was over $999 for 49% of the students while 7% had balances greater than $7,000" (Lewis and Schmidt, 2009). These numbers prove that the level of financial illiteracy has reached a staggering level in America. However, some might say that these numbers merely show the level of immaturity of those in their youth. On the contrary, when one looks at the depth of financial illiteracy of those in retirement or those coming into retirement, that idea goes by the wayside. Obviously, those reaching retirement age should have a high level of savings and financial literacy if they wish to retire and maintain their current standard of living, yet many studies come back with information showing high levels of financial illiteracy in those aged 50 and older. To cite one example: "Using the 2004 Health and Retirement Study (HRS) to test basic financial knowledge of adults over the age of 50, Lusardi and Mitchell in 2006 developed questions related to the understanding of interest compounding and the effects of inflation and risk diversification. They found wide- spread financial illiteracy" (Lewis and Schmidt, 2009). Clearly this problem of financial illiteracy resonates with the young as well as the old. Combine that with a complex financial system and a culture of predatory lending, and you have a recipe for future financial meltdowns.

This leaves many with the conclusion that radical change is necessary. When there is a lack of education in one crucial subject in America, most often the best course of action tends to be education. Large-scale financial literacy education for adult and young Millennials might very well be the best and possibly the only option to resolve chronic financial illiteracy. The issue of financial literacy has been and will be one of the major issues of the Millennial generation.

The Importance of Financial Education

Although the flaws of the Millennial generation have been discussed, what has yet been properly analyzed is whether financial education is truly the answer to the illiteracy dilemma this country faces. It is evident that financial literacy does indeed have a positive correlation with an individual's ability to save, or at least their financial behavior. A case study conducted by Lewis Mandell and Linda Schmid Klein on the impact of a personal financial management course, "Jump$tart", on 79 different high school students further establishes this assertion. The study deconstructed other previously conducted studies as well to determine the effectiveness of financial literacy. "Several studies showed that financial literacy is positively related to self-beneficial financial behavior" (Mandell and Klein, 2009). Paradoxically, though, this same study also delved into the notion that education might not improve financial literacy first or even at all, yet it clearly improved financial behavior. This discrepancy was said to, at least partially, be a result of the fact that ". . . some of what is learned in high school financial education classes may lie dormant in the minds of the students until much later in life when they have sufficient resources to utilize what they have learned" (Mandell and Klein, 2009). That said, our study is all based on the Millennial generation, which financial programs would seemingly benefit much more than high school students who will not be putting anything they learn into practice at any time closely following the completion of the program.

With the demographic defined and targeted towards those individuals that would benefit the most from a financial literacy program, the benefits received from such a program also need to be outlined. It has already been said that education improves financial behavior, but, more specifically, “improvements in financial behavior” needs to be defined and assessed. The previous phrase can attain a variety of meanings in translation, but for the sake of being as explicit as possible these improvements will define specific changes in an individual’s financial actions as a result of becoming properly informed and educated. One of these changes is that, in a business-organization setting, upon completion of a financial literacy program, it has been noticed that workers become more productive and less vulnerable to major economic uncertainty (Employee Benefit News, 2012). In light of the recent recession, this is especially important because the current economic environment has shown that many individuals were in fact ill-prepared for such a major financial crisis. In fact, Thomas L. Harnsich suggested in a report for the American Association of State Colleges and Universities (AASCU) that this general lack of financial knowledge contributed, at least partially, to the financial crisis itself. “This widespread lack of financial understanding has made millions of consumers susceptible to misleading and fraudulent business practices. It has also contributed to national economic predicaments, such as the extensive consumer overleveraging that led to the subsequent economic downturn in the latter part of the last decade” (Harnsich, 2010). That is not to say that financial literacy alone would prevent such a crisis from recurring, but if individuals can expect to be more confident when making investments or choosing financial mediums to deposit their hard earned dollars, then if such a crisis were to recur, the nation as a whole would likely be able to recover much more efficiently. “Conversely, low levels of financial literacy may lead to poor health, decreased quality of life, and lower college attainment levels. The cost of poor financial decision-making and planning often gets shifted on to other members of the community, state and nation through higher prices for financial products, the diversion of economic resources, and greater use of public ‘safety net’ programs” (Harnsich, 2010).

On top of the productivity and confidence aspects, the Federal Reserve published in a 2002 bulletin two specific programs that benefitted those who participated and points to further specific improvements and changes experienced as a result of financial literacy programs. The first program observed was the *Money 2000* financial program sponsored by the US Department of Agriculture which aimed to provide necessary tools to those seeking to improve their spending and saving habits. The results were positive, to say the least. “Program participants reporting progress toward their financial goals increased their savings, on average, approximately $1,600 within a twelve-month period and decreased their credit balances an average of more than $1,200” (Braunstein and Welch, 2002).

The other program analyzed was the National Endowment for Financial Education’s (NEFE) *High School Financial Planning Program* which targeted high school age students and also aimed at improving the overall financial literacy of the students. A survey conducted following the completion of the program indicated a general usefulness of financial literacy training. “Nearly 30 percent of the students reported that they started saving after participating in the training, and 15 percent indicated that they began saving more. In addition, 37 percent of the students stated that they had better skills for tracking spending, 47 percent believed that they were more knowledgeable about the cost of credit, and 38 percent indicated that they were both better informed about investments and more confident about managing money after participating in the program" (Braunstein and Welch, 2002). Although this does not directly correspond with the demographic under observation, such a study was noted to provide specific benefits in the savings of these individuals and should, nonetheless, be taken into consideration when determining possible benefits from financial education. It must also be considered that if such an impact can be realized by adolescents, then surely an adult could experience these same effects. Adults must make many more financial decisions than high school aged adolescents and, thus, should understandably be able to apply the knowledge acquired in such a program much more effectively and in a wider range of scenarios.

As if the above studies did not provide enough benefits that can be expected from implementation of a financial literacy program, one more study points to even more specific benefits. A study by Elliehausen, Lundquist, and Staten in 2007 found that credit counseling (which implies financial education) improves the performance of those counseled across a wide array of specific performance measures, including debt levels, number of accounts, and delinquency rates (Martin, 2007). The following table shows those improvements between five different groups and the percentage decreases or increases experienced by those groups, with "Group 1" being the group which received financial education.

Factor Analyzed	Group 1	Group 2	Group 3	Group 4	Group 5
Empirical Score	0.63	0.11	-0.25	-0.78	-0.8
Bank Card Utilization	-5.98	-3.11	-0.99	1.56	3.92
Revolving Debt	-12.37	-10.36	-6.26	3.7	27.62
Total Accounts with Positive Balances	-9.54	-8.34	-5.15	-2.9	0.67
Total Debt	-9.71	-7.19	-4.23	-0.17	6.81
Consumer Debt	-10.59	-7.32	-2.2	5.97	23.32

(Martin, 2007)

The first column lists each of the six factors analyzed by the study. The numbers under each group represent the percentage change from the original scores within the groups before any type of credit counseling was administered to “Group 1”. The other four groups in this study did not receive any credit counseling, and can therefore be viewed as four different control groups. According to the data above, “Group 1” had the highest overall empirical score and the greatest percentage declines in every category. Ironically, this is a positive owing to the fact that the categories analyzed all deal with debt, and a negative percentage would indicate that there has been a decline in that category. In other words, the group that received the credit counseling not only utilized their bank card less frequently after receiving the counseling, but also decreased the debt they owed and their total balance.

All the above information definitively proves that financial education and financial literacy programs can and have had a significant impact on an individual’s vitality in the intricate financial realm. Deregulation of the financial sector as well as a proliferation of the variety of investment options and opportunities available to individuals in the recent decades can only aid in the belief that financial education is becoming increasingly necessary. For most, this is no true enlightenment, as most people realize that education and factors such as productivity and financial well-being are positively correlated. This analysis asserts this commonly held belief as undoubtedly true, and as such, it is necessitous that proper action be taken in order to ensure the future financial ardor of the Millennial generation.

Money Smart **Financial Program Analysis**

It has been established that financial education has many benefits that can be realized if conducted properly. Of course, one must also recall that there are a multitude of financial education programs provided by an ever increasing number of organizations, banks, and businesses. As such, it is particularly important that individuals seeking to become more financially literate choose the best program that will supplement their needs. In 2001, the Federal

Deposit Insurance Corporation (FDIC) launched a nationwide initiative to combat chronic financial illiteracy in the US in the form of *Money Smart*, an interactive financial literacy program that is available both online and through an instructor led course, and it is completely free to the public (FDIC, 2012). This research will focus strictly on the *Money Smart* program, as it is the premier financial literacy program revered by many financial institutions due to the seal of the FDIC.

This analysis will commence with a general overview of the program in question. *Money Smart* consists of eleven modules that each contains a separate 60 to 120 minute course focusing on a particular finance related topic. The 11 modules that constitute the curriculum are:

- *Bank On It*: an introduction to bank services
- *Borrowing Basics*: an introduction to credit
- *Check It Out*: how to choose and keep a checking account
- *Money Matters*: how to keep track of your money
- *Pay Yourself First*: why you should save, save, save
- *Keep It Safe*: your rights as a consumer
- *To Your Credit*: how your credit history will affect your credit future
- *Charge It Right*: how to make a credit card work for you
- *Loan To Own*: know what you're borrowing before you buy
- *Your Own Home*: what home ownership is all about
- *Financial Recovery*: steps to recover and rebuild financially

Originally, the program only contained 10 of the aforementioned modules, but the *Financial Recovery* module was later added. The program as a whole is offered both as an instructor-led and a computer based instruction (CBI) course. Furthermore, each module is flexible in that it can be taken at any time online directly from FDIC's government website. The intent of the curriculum is to enhance individual's money management skills and help them to understand basic financial services offered by the financial mainstream and build financial confidence to use banking services effectively (FDIC, 2012).

Although these may seem like lofty ideals and a good basis for the program to grow, a proper case study must be taken into account in order to convey whether or not *Money Smart* has truly delivered on its stated intentions. In 2007, such a case study was produced by the FDIC in conjunction with *NeighborWorks America* (NWA), which aimed to determine the effectiveness of *Money Smart* through surveys conducted before and after taking the financial literacy program. It must be noted that the *Financial Recovery* module was not used in this case study due to the fact that it was added to the program at a later time. In order to adequately identify changes in students' behavior, the assessment used a pre-training survey to acquire baseline data pertaining to the students' financial behaviors and knowledge before the *Money Smart* course was taken, a post-training survey immediately after the course, and a follow up survey via telephone 6 to 12 months following the conclusion of the course. Each of these surveys was subsequently compiled and scrutinized for statistical significance to determine the effectiveness of FDIC's financial literacy program (FDIC, 2007).

The results of the survey and applicable conclusions of the case study all demonstrate, with considerable confidence, that the program does indeed have a positive impact on those who complete the program in its entirety. To better understand and more properly relay the results of this case study, it is of considerable importance to initially examine the demographic that the surveys reached. Below is the first of various charts, reproduced on FDIC's website, that most clearly depict the demographic and results of the study.

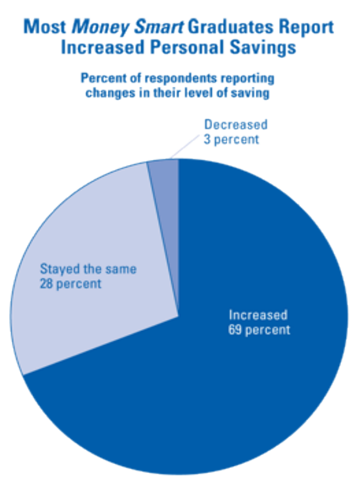
Demographics of Individuals Enrolled in *Money Smart* Courses Tend to Correlate with Minority and Low- and Moderate-Income Markets		
Characteristic	**Number of Respondents**	**Percent of Respondents***
Age		
Under 25 years	85	13%
25–35 years	188	30%
35–44 years	186	30%
45–54 years	118	19%
55 years or older	53	8%
Unknown	1	0%
Total	631	100%
Race/Ethnicity		
White	163	26%
African American	290	46%
Asian	22	4%
Latino	122	19%
Other	28	4%
Unknown	6	1%
Total	631	100%
Education		
Less than high school	79	13%
High school	162	26%
Some college or trade	266	42%
College	78	12%
Postgraduate work	45	7%
Unknown	1	0%
Total	631	100%
Annual Income		
Under $10,000	133	21%
$10,000–$19,000	170	27%
$20,000–$35,000	175	28%
$35,000 or over	118	19%
Unknown	35	5%
Total	631	100%

Source: FDIC, *A Longitudinal Evaluation of the Intermediate-term Impact of the* Money Smart *Financial Education Curriculum Upon Consumers' Behavior and Confidence* (Washington, D.C., April 2007).

* Percentages may not add to 100 due to rounding.

Although the demographic information does not reveal any unveiling information pertinent to the notion that the program does indeed enhance financial literacy and behaviors of the individual taking the course, it does provide us with a basis for proper analysis. Interestingly, at this basis, one is able to note that a significant percentage of those surveyed in this study were African American at 46% of the total. This was the largest proportion of any individual race or ethnicity in this study with “White” coming in second at slightly more than half of that percentage of African Americans (26%). Latinos constituted a staggering 19% of the total population surveyed, and were the third most prevalent race in the study. The significance of this demographic observation lies in that the surveys conducted by this study were predominantly based off of the responses from minorities who, as a whole, experience higher rates of poverty and are typically viewed as underprivileged. Examining the income and education levels alongside race and ethnicity can further enhance these observations. Only 12% of the 631 students surveyed had acquired a college degree at the time when the survey was conducted, and the income levels correspondingly reflect that many of the individuals earned a low to moderate income, as is shown by the fact that 76% of the total earned $35,000 or less per year. All of this led to the conclusion that there is a correlation between individuals enrolled in *Money Smart* courses and the likelihood of that individual being a minority or earning a low to moderate income (FDIC, 2007).

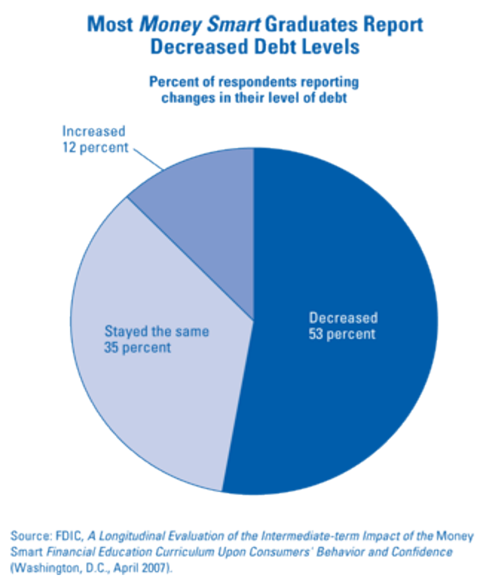
While this demographic information provides us with a starting point and an interesting correlation, it fails to convey any true analysis as to the effectiveness of the *Money Smart* program in question. Luckily, the case study cited digs much deeper into the potential benefits of this particular mode of financial education. One such benefit is that most *Money Smart* graduates reported an increase in personal savings. Below is the next chart in which this data has been compiled to produce.



Source: FDIC, *A Longitudinal Evaluation of the Intermediate-term Impact of the* Money Smart *Financial Education Curriculum Upon Consumers' Behavior and Confidence* (Washington, D.C., April 2007).

According to this chart, an impressive 69% of individuals completing the course offered reported an increase in their level of personal savings. When put in light of the Millennial generation, this is quite intriguing and could lead to various implications about the future use of this program. As previously discussed, the Millennial generation has demonstrated a seeming lack of willingness or ability to save for the future, which has put them in a grim financial position. If these results could be reproduced somehow though, there might be potential to combat this predicament.

In correspondence with the previously discussed increase in savings, this assessment also concluded that there is a correlation between *Money Smart* and a reduction in debt. The pie chart on the following page displays that 53% of the graduates reported a decrease in their individual level of debt and only 12% increased their debt levels following the conclusion of the course. Once again, this is undoubtedly a positive result that, if aptly reproduced, could have major implications relating to the further use of this program as a method to combat financial illiteracy and promote savings and debt reduction.



These were not the only benefits to be realized by this particular program either. "For example, after completing the Money Smart program: 43 percent of graduates without a checking account opened a checking account, 37 percent of graduates without a savings account opened a savings account, and 28 percent of graduates with checking accounts and 22 percent with savings accounts at the end of the course began using direct deposit for the first time"

(FDIC, 2007). This points to the fact that *Money Smart* can indeed increase participation and confidence within the financial sector, something not to be taken lightly.

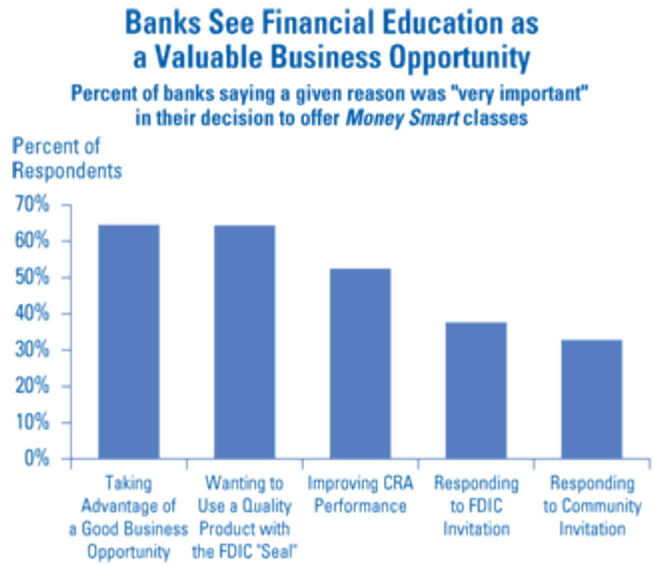
While one would think that such gains in financial literacy, budget management, and participation must come with some shortcomings, the case study analyzed has little, if anything, negative to say about FDIC's program. Nonetheless, it is critical that one maintains an open mind when reviewing such an analysis. There are many factors, both controllable and uncontrollable, that can affect any one individual's response to a situation. For example, the study noted, "African Americans and Latinos tended to be less familiar with certain financial concepts" (FDIC, 2007). In combination with the fact that the majority of the students surveyed in this study were African American or Latino, it must be acknowledged that these results mentioned can vary between any particular, observed group, and nothing can be guaranteed. Regardless, the end result remains that the *Money Smart* financial literacy program can and should have a positive impact on individuals that complete the course.

Policy Proposal

A plethora of research and statistics have been analyzed in regards to the Millennial generation, their spending habits, and the financial state of the demographic in question. Furthermore, it has been determined that financial literacy is undoubtedly a prerequisite to financial well-being in this era, and proper analysis has conveyed that the FDIC's *Money Smart* financial literacy program can aid in increasing savings and reducing debt for the individual. Nonetheless, nothing has been discussed regarding the ramifications of such findings in our research. Now that the research has provided us with conclusive data and a better understanding of the task at hand, a specific policy proposal can be effectively outlined. This proposal will begin by first identifying the goals and objectives at hand.

In sum, the overall goal of our policy proposal is to get people, and more specifically the Millennial generation, to increase their personal savings so as to allow for an optimistic outlook of the future. Increasing financial knowledge and understanding of the investment vehicles and tools available to individual participants in the financial sector is essential to the realization of these savings. As previously discussed, student debt, over the top spending habits, and an overall lack of understanding of basic financial concepts has put many Millennials in a grim financial state with an even more dismal outlook on the future. Of course, not all hope is lost, as has been proven by our analysis of the benefits of financial programs and the positive results from the case study on *Money Smart.* The next steps of our proposal will go into much greater detail about the explicit procedures that must be taken to achieve the stated goal of increasing financial savings.

First and foremost, it is recommended that the Federal Government endorse the FDIC *Money Smart* financial literacy program as the premier financial literacy program provided by the government, and, more specifically, focus on incentivizing individuals (with a focus on Millennials) to complete at least a few of the program's 11 modules discussed in the *Money Smart* analysis in the Computer Based Instruction (CBI) form. The previous analyses have proven that *Money Smart* is indeed a useful financial tool and promotes savings for the individual that completes the program. While there are a variety of programs available for the government to officially endorse and promote, it would be unwise to consider any other program because the FDIC "seal" has been proven to hold value within the financial sector, and research and studies have already been conducted further establishing its effectiveness. If the research already provided isn't enough, perhaps a further look into the case study of the program in question will shed more light on the issue.



Source: *FDIC* Money Smart *Survey of User Organizations, 2003 to 2004* (Washington, D.C., 2004).

The figure above was produced by the FDIC in response to a 2004 survey that asked banks to report the importance of particular categories in their decision to offer *Money Smart* classes. As one is able to see, more than 60% of banks that offered the classes and responded to the survey reported that "wanting to use a quality product with the FDIC 'seal'" was very important in their decision to offer the course (FDIC, 2007). These percentages reveal a great incentive to simply use the current financial program that the government already has in place. Granted, the studies cited were conducted in a pre-recessionary time period and many wonder as to whether they are still applicable today. Although the Financial Crisis of 2008 was undeniably detrimental to the US economy and caused many individuals to reevaluate their finances, it must also be taken into consideration that the FDIC has since added a new module to their program specifically relating to financial recovery and has been updating the program by making appropriate revisions since its inception. It must also be considered that the FDIC is a federal agency, which puts it under the umbrella of the Federal Bureaucracy and allows for the government to have greater oversight.

Owing to the fact that financial conditions are constantly changing, the next step that is advised is to create an oversight board within the FDIC that will annually reevaluate the program to determine possible additions or exclusions. This would require the advisory board to conduct studies throughout the year to determine if there have been any significant changes in the financial environment that should be noted. This will help to make decisions regarding the specific additions and exclusions to the program. As an additional benefit, the costs for implementation of such an advisory board could be significantly reduced through the use of government studies that are already conducted by the Government Accountability Office (GAO). The Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in Congress in 2010, specifically outlines that the GAO must conduct frequent studies on the current financial climate as well as oversight of the Securities Exchange Commission (GAO, 2012). These studies must be published and made available to the public to represent non-biased observations of financial regulations in place and their impact. The FDIC could benefit directly from these studies by carefully analyzing them and making recommendations based off of their findings, allowing them to avoid the cost of having to conduct lengthy studies themselves. This would simply leave the negligible cost of having managers from a particular department conduct analyses of these studies, which have been conducted since the beginning of the program.

Although an advisory board would be essential to the maintenance of the program, it would be even more beneficial if the government website had a direct URL (such as www.moneysmart.gov) to access the financial program modules, rather than having to navigate through the FDIC's government website. In addition, the layout of the website as a whole would need to be adjusted to allow for a more user-friendly interface. One such example of this is for the website to contain tabs with captions such as "Looking to buy a car?" that the user would simply click on and automatically be directed to the programs applicable to said tab. This would allow for easier access to the programs that *Money Smart* offers as well as making the site easier to identify an individual's specific financial needs. Simply put, if an individual does not know which particular modules will benefit them then they will likely ignore the program completely. The reconstruction of this website would be extremely cost efficient due to the advances in technology and the ability for the FDIC to simply reallocate an employee or manager's time spent on one project to another. This would imply that the organization would be paying that employee the same wage as previously, incurring no cost due to the hiring of another organization or employee. Web design is also a fairly negligible cost when considering the benefits from enhancing the navigation tools and the attraction of more individuals to the site.

Following the implementation of the advisory board and the change to the web design, the FDIC would then need to create some type of incentive to attract people to actually complete the program. As discussed, financial literacy shows a positive correlation with personal savings, but this correlation can only be achieved if there is an increase in financial literacy. *Money Smart* will provide savings benefits to an individual only if the program is actually completed. Yet, if everybody in this country truly desired to increase their financial knowledge through *Money Smart* then individual time and effort would be required. Unfortunately, a significant number of individuals could never be expected to devote such time and effort to complete a program without some type of additional benefit accrued, leading to the next step of our proposal.

In order to encourage financial literacy with all Americans, and especially the Millennial generation, the *Money Smart* program needs to be incentivized. There are various methods that the government could take to do this. Possibly the most simplistic and relevant incentive that could be offered is a flat tax break or refund based on the completion of various modules within the program. Although there are undoubtedly other routes that can be taken, this notion could be effectively advertised and implemented much more easily with a wider appeal due to the fact that the tax break or refund is essentially money inside the individual's pocket. Money simply appeals to the largest demographic possible and would only require the individual to prove completion of said modules in their income tax report. The tax break or refund would be offered to adults, ages 18 and up, who file an income tax report, although exceptions would be allowed if the individual in question was not required to file a tax report for that year but still completed the program. In the scenario of a joint tax return, both adults involved would qualify to receive the tax refund.

The tax refund would only be given to those individuals that complete the following five modules (within one year) on the CBI *Money Smart* program, accessed through the revamped website: *Bank On It, Borrowing Basics, Check It Out, Money Matters,* and *Pay Yourself First*. These five modules were chosen, as they reflect the core principles of finance and are less in-depth than the remaining six. Upon completion of all five of these modules, an individual would electronically record and submit their completion. This would allow them to receive a $300 base tax cut, if recorded on their income tax report. Those individuals not required to file an income tax report but completed the five modules would need to request their $300 rebate (in check form) via an electronic application that would be available on the website. The remaining six modules, although useful, do not cover as broad a range of topics as the five chosen as the requirement to receive the initial tax break. That being said, any individual may complete any 3 of the 6 remaining modules (after completion of the initial 5, and in any order) to receive an extra $100 rebate on their tax return. This allows any individual to accumulate a total of $500 in the form of a tax rebate. The following table will help to shed light on the numbers chosen above.

Distribution of the Tax Cuts* by Income Percentile										
Average Value of Tax Cuts Per Household (2012 dollars)										
Cash Income (in thousands of 2009 dollars)	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2004-2012 Total**
Lowest Quintile	75	93	129	131	581	99	99	92	127	**1,426**
Second Quintile	568	612	660	656	1,346	654	641	606	670	**6,414**
Middle Quintile	936	957	956	1,016	1,975	1,070	1,039	935	1,025	**9,908**
Fourth Quintile	1,394	1,486	1,590	1,823	2,831	1,854	1,825	1,620	1,813	**16,236**
Top Quintile	5,451	6,151	7,020	7,672	7,819	6,933	7,860	6,644	7,132	**62,682**
Top 1 Percent	44,711	54,181	63,307	65,679	57,506	50,107	66,818	56,174	63,580	**522,062**
Percentage Change in After-Tax Income										
Cash Income (in thousands of 2009 dollars)	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Lowest Quintile	0.9%	1.0%	1.3%	1.2%	5.6%	1.0%	1.0%	0.9%	1.1%	
Second Quintile	2.9%	3.0%	3.0%	2.9%	6.0%	2.9%	2.8%	2.7%	2.7%	
Middle Quintile	2.8%	2.8%	2.6%	2.7%	5.2%	2.9%	2.8%	2.4%	2.5%	
Fourth Quintile	2.7%	2.7%	2.8%	3.0%	4.7%	3.1%	3.0%	2.6%	2.8%	
Top Quintile	3.9%	4.1%	4.3%	4.4%	4.7%	4.3%	4.6%	3.8%	3.9%	
Top 1 Percent	5.3%	5.5%	5.8%	5.7%	5.6%	5.4%	6.7%	5.4%	5.6%	

*Includes full cost of AMT adjustments. Does not include estate tax cuts for 2011 and 2012. Includes 2008 stimulus tax refunds, but does not include tax provisions in the 2009 stimulus. See Appendix Two for details.

Source: Tax Policy Center tables (T10-0220, T10-0222, T10-0224, T10-0226, T10-0228, T10-0230, T10-0232, T10-0133, T10-0216) for individual year estimates; CBPP calculation of Tax Policy Center data for conversion into 2012 dollars and nine-year sums.

As previously analyzed, the demographic that experiences the greatest impact from financial literacy are those with low to moderate incomes. With that said, the determinant for the base tax rebate ($300) was the average value of tax cuts received by the lowest three quintiles (lowest 60%) rounded down. The actual average between the lowest three quintiles is calculated by adding the numbers from each of the lowest three quintiles for the 2012 average value of tax cuts per household (see table above) and dividing that number by three [($127 + $670 + $1025)/3 = $607.33]. Here, we see that the average tax break received by an individual in the lower 60% income bracket for 2012 was $607.33. From here, that number was cut in half and rounded down to the most convenient even, whole number, in this case, $300, and this amount was selected as the base for the appropriate tax rebate to be given for completion of the first 5 modules. The reasoning behind this selection was that, because the program is targeted towards Millennials and low to moderate income individuals, by providing a tax break that could potentially more than double the amount of money received back on their tax return, such a program would be much more beneficial to these individuals than to the rich where a $300 tax break would reflect a much lower percentage of their overall income and tax reduction potential. At the same time, the costs incurred by a decrease in revenue would be kept at a manageable level because there would be less of an incentive for the rich to participate in such a program. The average tax break per household for the top 40% in 2012 was $4,472.50 [(1813 + 7134)/2 = $4472.50]. A $300 tax break would thus reflect approximately 7% of that average, versus nearly 50% of the average for the lower 60% of taxpayers. If the individual were to complete all 11 modules, he or she would receive a total of $500, which is slightly above 80% of the average tax break per household for the lower 60% but only 11% for the top 40% of taxpayers. This creates great incentives for the appropriate people to participate in the program, while the rich would likely find the tax rebate miniscule and opt out of the program. Thus, the program would aid those who need the money the most, while keeping costs in check.

Nonetheless, the costs of these tax breaks must be considered. The government relies on tax revenue in order to fund social programs, the military, infrastructure, education and the like, meaning that a decrease in revenue will inevitably add on to the deficit if it is not outweighed by reductions in spending. Luckily, the tax break in this proposal would function primarily as a variable cost for the government. A variable cost can be defined as "a cost that is directly proportional to the volume of output produced" (Harvey, 2012). In other words, because the tax rebate carries a prerequisite in order to receive it, the cost will be based upon how many participants complete said prerequisite. If many people participate in this program, the costs would be relatively high, while if few people participate the costs would be relatively low and have little impact on the total revenue. The following table lists predictions of exactly what those costs would be if each individual who filed a tax return were to participate in the program and receive the rebate.

Tax Break	Total Federal Revenue (2013 Estimate)	Total Individual Tax Returns (2013 Estimate)	Total Possible Loss in Revenue	Total Loss as a Percentage of Revenue (%)
300	3,003,345,000,000	147,724,000	-44,317,200,000	-1.48
400	3,003,345,000,000	147,724,000	-59,089,600,000	-1.97
500	3,003,345,000,000	147,724,000	-73,862,000,000	-2.46

Each possible tax rebate is listed in the first column, followed by the total federal revenue as an estimate for 2013 (Office of Management and Budget, 2012). The next column reflects the estimated number of individual tax returns to be received for 2013 (IRS, 2011). The total possible loss in revenue follows the number of returns and was calculated by multiplying the dollar amount of each tax break by the number of estimated returns to be filed. A negative was placed before each amount to signal the loss in dollars. Finally, the last column reflects that loss from the previous column as a percentage of the total federal revenue estimate for 2013. As we can see, if every single American who files a tax return is to participate in the program, the overall reduction in tax revenue that would result could vary from around 44 to 74 billion dollars depending on how many modules the individuals complete. Although this cost does seem rather high for such a program that has no immediate, quantifiable payback, when put in perspective, those numbers actually only reflect between approximately one and a half to two and a half percent of the amount of revenue expected to be received by the government in 2013.

When examining these numbers, it is important to remember that this loss in tax revenue could possibly be compensated for by a subsequent increase in taxes on higher-income individuals. Although there is no intention in making a political statement here, President Obama has stated that he will end the Bush-era tax cuts for incomes of $250,000 or more a year. According to the CBO, this would raise $823 billion in revenue (CBO, 2012), more than enough to pay for such a program that, at most, would decrease revenue by $75 billion. Clearly, the costs of this program are in fact feasible.

Even if the costs for the tax rebate are feasible, one other cost must also be considered, the marketing cost. The final segment of our proposal covers the costs and effects of marketing on this program. Simply put, people need to be informed of the tax rebate as it becomes available. If people do not know that such a program even exists then there is no way that the government could expect Americans to actually go out and take this financial education program. Although no costs would be incurred by having to pay out tax rebates, no benefits would be incurred and there would be no change in the behavior of Millennials. Thus, prior to widespread implementation of such a program, a marketing campaign would need to be appropriately devised.

In recent years there has been a drastic shift between forms of media in which companies and organizations choose to advertise and promote their products. This can be attributed to many factors, but, primarily to a massive shift in technology and the use of social media sites such as Facebook and Twitter. Studies from the Pew Research Center show that 75% of Millennials have created a social networking profile (i.e. Facebook or blogs) compared to 50% and 30% of Americans comprising Generation X and the Baby Boomer generation, respectively. Also, 74% of Millennials find that new technologies make life easier (Pew Research Center, 2010). Thus, in order to target the desired demographic while still demonstrating effectiveness for other demographics, it would be in the government's best interest to incorporate social media outlets into their advertising and marketing strategy.

Our proposal would recommend a comprehensive, nationwide marketing campaign that would be funded by the government and focus on advertising through social media sites, YouTube, and word-of-mouth. Although television advertising is potentially beneficial, less and less people are actually watching television shows in their full. Often times, people will record their favorite shows and simply skip past the commercials, reducing the effectiveness of a marketing campaign based on TV advertising. It is also the most costly of all forms of advertising. According to an article on AdWeek "the average cost of a prime-time spot is just shy of $110,000" (Crupi, 2011). Considering the fact that such an advertising campaign would require the advertisement to air many times, this could prove to be much more costly than beneficial, as the $110,000 reflects each individual commercial aired.

Although television advertisements are expensive, if the social media campaign does prove to be successful, or if the budget for our proposal allots extra funds to advertising, such advertising could be pursued. Our approach to utilizing social media arose from the notion that such websites would inevitably function as a medium for the Millennial generation, or Americans in general, to share their experiences and successes resulting from the *Money Smart* program. The numbers retrieved from the Pew Research Center show that 14% of Millennials use Twitter. On the other hand, a study from Edison Research shows that 51% of Americans ages 12 and up have Facebook accounts. Because the percentage of the Millennial population on twitter is not as large as we would have wanted it to be, we would not limit our social media initiative to only Twitter and would at least expand to Facebook and a blog. On the Twitter platform, we would plan to have a profile including a promoted hashtag of “#isavebecause”. Our Facebook page would include a description of the program, the benefits, and would once again, aim to raise awareness and encourage sharing of experiences with the program. The blog would feature Millennial aged authors, discussing current issues directly affecting their generation as well as advertising the incentives to participate in the *Money Smart* program. Advertisements may also be made through other websites such as Google or YouTube.

These forms of advertising would also help specifically target the Millennial generation, as they are generally more exposed to social media than other generations. “Millennials compared to other generations reported greater awareness of newer, youth-oriented cause marketing campaigns, such as Dove’s Campaign for Real Beauty (33 percent versus 21 percent) or Gap RED (26 percent versus 9 percent). They report greater exposure to campaigns through social media (40 percent versus 22 percent)” (Fromm, 2012). With the combination of all the said forms of marketing, the program should effectively appeal to as many Millennials as possible, while still appealing to other Americans as well.

Furthermore, the costs of this program are seemingly minimal. From WebpageFX, a private company that handles many types of social media campaigns, the most comprehensive package would cost $8,000 for a one time campaign investment. There would also be a $2,000 monthly cost for management and promotion. Thus, if the government were to use this particular program, it could expect the costs to be $32,000 annually (8000 + (12 x 2000) = $32,000). This is a very minimal cost, all factors considered, and the private company would take on the burden of advertising the program through Facebook, Google, Flickr, YouTube, and various other popular online websites.

With all the above steps in our proposal implemented, there is a strong belief that the overall goal can be effectively ascertained. With incentives and a marketing campaign in effect, Millennials and Americans in general would undeniably be more likely to participate in the *Money Smart* financial education program and receive the type of education that they direly need. With a more financially literate population, the government could then reap the benefits later down the road. Such benefits would include an increase in disposable income for those individuals that complete the program which can in turn be used to increase savings or stimulate the economy through spending, less potential for a devastating financial crisis, a more financially informed public, and less of a reliance on entitlements and government programs due to adequate savings. All this has positive ramifications for the government, not only because American's will be saving more, but because there will be less of a reliance on the government. This will allow the government to possibly cut spending in order to deal with its own debt problem. Overall, the proposal outlined is comprehensive, and provides real, feasible changes to tackle the issues at hand.

Conclusion

The issue of Millennial consumption, lack of savings, and lack of financial literacy will be one of the defining issues of the current generation. If not assessed and mitigated, the financial mismanagement of the Millennial generation has the opportunity to once again plunge the world into a major financial crisis. For this reason, the initiatives stated in our paper are paramount to the continued success and stability of not only the nation's financial sector, but, in fact, the worlds'. In this report we have given ample evidence that financial illiteracy, as well as financial mismanagement, were root causes of the financial crisis of 2008. Couple that with the fact that many Millennials are drowning in student debt, and you have a recipe for disaster. Our plan, as outlined in the paper, gives a concrete solution for these problems. By giving the Millennial generation an incentive in the form of tax rebates, we will be able to direct the population into increasing their financial literacy and in turn their savings. In so doing, we have insured that the financial sector will enjoy increased stability for years to come. Every generation has a turning point. Will we continue the hazardous financial mismanagement of past generations, or will we instead learn from past mistakes and gain as a society? By implementing our policy, we as a Nation are choosing the latter. By taking these courses of action the Millennial generation has the potential to effectively take the future back into their own hands.

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