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Nefe Digest

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Uniquely in Peril

Without financial education, U.S. teens could struggle in retirement

We have known for some time that American 15-year-olds lag behind many other countries in financial literacy. But researchers have uncovered another pitfall. Other countries with low literacy rates offset citizens' knowledge gaps by replacing higher rates of income through national pension systems (e.g., Social Security). But where a country like Spain covers 89 percent of a person's working income in retirement, the American Social Security program only covers about 45 percent. Without the education to fund their own retirements, today's high school graduates face an uncertain future.

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NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Uniquely in Peril, continued from page 1.

Using data from the 2012 Programme for International Assessment (PISA) study, which was administered to approximately 29,000 students in 18 countries, a new NEFE-funded study by researchers at George Washington University links financial literacy to how much of one's working income one can expect to receive from their national pension system (e.g., Social Security in U.S.). American Social Security payments cover only 45 percent of workers' former income in retirement on average, compared to countries like Spain, which covers 89 percent, and Italy, which covers 80 percent.

It is up to individuals to cover the gap between what their country provides and what they need to maintain their desired lifestyle in retirement. Workers decide how they will (or will not) cover the shortfall. Some of this gap is covered by employers' pensions, and some must be supplemented by individual savings and investments. High financial literacy helps savers successfully reach their goals, but without the knowledge, skills and support to start a savings and investment strategy, many Americans will struggle to make up the additional 55 percent of their expenses not covered by Social Security.

A Uniquely American Problem

Researchers analyzed the PISA financial literacy data alongside pension generosity data compiled by the Organization for Economic Cooperation and Development (OECD), PISA's oversight agency, and discovered an alarming scenario.

In countries with higher income replacement rates, students had lower financial literacy scores. "Lower financial literacy is definitely a concern," says Billy Hensley, Ph.D., senior director of education at NEFE, "but this is less of a threat to retirement security, since higher pensions take care of retirees."

Students had higher financial literacy scores in countries with lower income replacement rates. "Since more of the burden falls to individuals, they have an incentive to boost their financial capability to save and invest successfully for the long term," says Hensley.

The United States is the only country in the study with both comparatively low income replacement rates and lower financial literacy scores. "Young Americans have to finance 30-year retirements with 40-year careers, and the math just doesn't add up unless they have the financial intelligence to meet the shortfall with accumulated assets," says Ted Beck, NEFE president and CEO. Referring to the United States' income replacement rate of just 45 percent, he asks, "Could you absorb a 55 percent pay cut without any consequences?"

The Continuing Case for Financial Education

"These findings underscore the importance of financial education, early and repeatedly at school and at home," Hensley says. "We also need to support the financial education infrastructure, such as improving teacher preparedness and promoting a coherent set of national standards for teaching personal finance in middle and high schools."

Working income one can expect to receive from their national pension system

Financial Literacy and Retirement Income Replacement Rates

Examples of Countries	New Zealand, Australia	Italy, Russia, Slovak Republic, Spain	United States
Financial Literacy Levels	Higher	Higher or Lower	Lower
Income Replacement Rates in Retirement	Lower	Higher	Lower
Implication	Higher financial literacy prepares individuals to cover the shortfall between their working income and their post-retirement income with their own savings. This is critical because the country offers a low income replacement rate.	Individuals will receive relatively more of their income in retirement, signaling a lower need for individual preparation and financial literacy. Pensions will (in most cases) cover individuals' needs in retirement.	Extremely worrisome, as individuals receive less income in retirement and are less equipped to plan and invest successfully to cover the shortfall in retirement income.

Visit nefe.org/building-future-security for the executive summary and final paper, Enhancing Retirement Savings with School-Based Financial Education, by Annamaria Lusardi, Ph.D., academic director of the Global Financial Literacy Excellence Center (GFLEC) and Denit Trust Chair of Economics and Accounting at George Washington University School of Business; and Carlo de Bassa Scheresberg, senior research associate at GFLEC.

Smart About Money.org Free Financial Education Courses

Money Basics

Course Overview

How do I improve my credit score? How many credit cards should I have? Where can I get help with my debt? How much debt is too much debt?

The Credit and Debt course will help you explore:

- Borrowing and using credit wisely
- Working with lenders
- Getting help with credit card issues
- Improving credit scores

From the Course

A debt-to-income ratio higher than 20 percent can limit your ability to meet other obligations. Calculate your debt-to-income ratio by dividing your monthly consumer debt payments by your net (after-tax) monthly income.

For example:

\$400 (monthly consumer debt payments)

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\$2,500 (monthly take-home pay)

400 ÷ 2,500 = 0.16

Move the decimal point two places to the right to get the percentage:

Your debt-to-income ratio is 16%

Course Overview

Our choices about how we spend money can leave us feeling either empowered or defeated. Often simple adjustments can ease stress in our daily spending and saving habits.

The Spending and Saving course will help you explore:

- Your current spending and savings habits, challenges and opportunities
- Tips for cutting spending and increasing savings
- Payment methods and record-keeping guidelines

From The Course

Take charge of your spending and saving by setting goals that are Specific, Measurable, Achievable, Realistic and Time-bound.

For example, your goal might be to save \$20 per week over the next year for a vacation. Your motivation will grow when you track and celebrate small milestones along the way.

Specific
Measurable
Achievable
Realistic
Time-bound

Course Overview

Often it takes an accident, illness or disaster for us to appreciate our insurance coverage. Most of us recognize the benefit of insurance in the abstract, but when money is tight, it can seem like just another expense.

The Insurance course will help you explore:

- Specialized insurance and policies you might not need
- Your current insurance coverage and potential ways to save money
- Tips for choosing an insurance carrier

From The Course

Some things that factor into your insurance premiums, such as your age and gender, are out of your control, but there are tactics you can use to get better premiums if you are willing to make the effort. SAM's Insurance course highlights some ways to make your insurance work for you.

Whether you want to build your knowledge of personal finance or you just need a refresher, SAM's free online courses can help. Each course takes approximately 45 minutes and includes tools, worksheets and calculators. Research shows that financial education is most effective when related to a decision you are making now. Choose the course that best fits your situation or start with Money Basics to build a strong foundation.

SAM Courses

Course Overview

Choosing where and how to invest your money can be daunting when you're just getting started. How do you pick a financial advisor you can trust, and how do you pick investment products that give you returns (and risks) that you are comfortable with?

The Investing course will help you explore:

- Your current long-term savings and investments
- Your investing risk tolerance level
- Tips for choosing the right savings and investment options

From The Course

Because of inflation, the same items you purchase today will cost more in the future.

When you keep your money in low-interest savings accounts, you miss out on the interest you would earn from a simple investment account to offset this loss in purchasing power.

Same Item, Different Price

Course Overview

Whether you are looking for a new job or want to maximize the benefits of your current job, SAM's Employment course has tips and best practices to get you started.

The Employment course will help you explore:

- Your current employment circumstances
- Tips for finding a new job, understanding your pay, and knowing your rights when you leave an employer
- Information on protecting your rights and resources for handling disputes

From The Course

DECIDE Steps

1. **DEFINE** the problem.
2. **ESTABLISH** your criteria.
3. **CHOOSE** a few options that match your criteria.
4. **IDENTIFY** and compare the pros and cons of each option.
5. **DECIDE** the most logical option for your situation.
6. **EVALUATE** the results and make adjustments for next time.

Use the DECIDE steps to assess your choices when you are ready to make a change to your employment situation.

Course Overview

Something always comes up. Whether it's a major catastrophe or a minor setback, when you need money fast, tapping into your emergency fund is a lot less stressful than borrowing funds you don't have from the credit card company.

The Emergency Fund course will help you explore:

- Reasons for starting and maintaining emergency savings
- Tips for starting, using and replenishing an emergency fund
- How to set and track emergency fund savings goals

From The Course

According to a NEFE survey, 63 percent of people experienced a major financial setback in the past year, and 36 percent said they would rely on credit cards to cover such expenses.

The most common financial setbacks were:

22%	21%	16%
Transportation issues	Housing repairs	Debt payments and falling behind on bills

Course Overview

Data from the U.S. Census show that most Americans move only a couple times after age 45, but those later-in-life housing decisions can be some of the most financially challenging if you're unprepared.

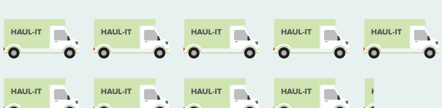
Whether you are just starting out on your housing journey or you are looking to downsize for retirement, there are some basic questions to consider.

The Housing course will help you explore:

- Your current housing expenses and opportunity costs
- Tips for how to decide whether to rent or own
- Preparing your finances to rent or buy a home

From The Course

11.7x The average person in the United States can expect to move 11.7 times in their lifetime.



9.1x At age 18, you can expect to move 9.1 more times.

2.7x At age 45, you can expect to move 2.7 more times.

Course Overview

After housing, transportation costs tend to take the biggest bite out of our monthly budgets. There are ways to save — from choosing lower-cost vehicles to adjusting insurance and trying public transportation.

The Transportation course will help you explore:

- Your current transportation expenses, challenges and opportunities
- Preparing your finances to buy a new or used car
- How auto insurance premiums are calculated and tips for lowering premiums

From The Course

Under 25	$5,700
25 - 34	$9,000
35 - 54	$10,500
55 - 64	$9,500
65 - 74	$5,500
75 or older	$5,100

The average annual U.S. household spends nearly 14 percent of all household expenditures on transportation, according to data from the Bureau of Labor and Statistics. This spending tends to vary with age, with the highest cost from age 35 to 54. How do you compare?

Course Overview

Many of us know what it feels like to be stressed about money, but beyond dreaming of winning the lottery, few of us ever stop to ask ourselves what it would take to feel financially well. The Financial Well-Being course uses the definition of financial well-being outlined by the Consumer Financial Protection Bureau (CFPB) to envision what it would be like to achieve long-lasting financial wellness.

The Financial Well-Being course will help you explore:

- Your own personal definition of financial well-being
- How aspects of personal finance, such as credit and debt, affect your well-being
- Habits and patterns that affect your well-being

From The Course

Financial Well-Being

[fi-nan-shuh l] [wel] [bee-ing]

1. A *state of being wherein you have control over day-to-day, month-to-month finances; have the capacity to absorb a financial shock; are on track to meet your financial goals; and have the financial freedom to make the choices that allow you to enjoy life.*

Definition from CFPB.

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Introducing NEFE's Conference Twitter Account

You already follow our corporate Twitter account **@NEFE_ORG;** now follow **@NEFE_OnTheRoad** to keep up with us at conferences and events.

Stop by our booth or look for us at the following conferences:

Nonprofit Leadership Alliance	Jan. 3-5	Denver
DNN Summit	Jan. 19-20	Denver
National Academy of Social Insurance (NASI)	Jan. 25-28	Washington, D.C.
National Council for Community and Education Partnerships (NCCEP) Gear Up Conference	Feb. 2-6	New York City
CFP Board Academic Research Colloquium	Feb. 7-10	Alexandria, Va.
First Year Experience Annual Conference	Feb. 12-14	Atlanta

HOLIDAY CLOSINGS

NEFE will be closed Jan. 2 for New Year's Day and Feb. 20 for President's Day.

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The mission of the National Endowment for Financial Education is to inspire empowered financial decision making for individuals and families through every stage of life.

All questions regarding *NEFE Digest* may be addressed to the Marketing and Communications department. Editor: Cara Hopkins. NEFE is open Monday through Friday, from 8:30 a.m. to 5 p.m. Mountain Time. The main telephone number is 303-741-6333; the fax number is 303-220-0838.