

Nefe Digest

November/December 2008

Myths of Retirement
(Page 4)

The Year in Review (Page 2)

Faces behind NEFE
Mary "Jeannette" Schultz:
Translating Ideas
into Action (Page 3)

Students and Money... Money... Money...



NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Just over half of all students have a passable (although hardly stunning) understanding of personal finance and money management; men are more likely to max out their credit cards than women; and students generally think they are pretty good when it comes to finances. Their friends? Well, maybe not that much.

Continued on page 3

The Year in Review

In 2008, NEFE enhanced its financial education mission by expanding resources for consumers and intermediaries; promoting programs and tools in new, innovative ways; and developing research that increased the financial literacy community's body of knowledge.

NEFE CEO Appointed to President's Advisory Council on Financial Literacy

The Council recommends to President Bush better ways of educating the public on matters related to their finances and their future. The Council's National Financial Literacy Challenge — a voluntary test for high school students on financial knowledge — motivated students to learn more and better understand personal finances. To stay up-to-date on the Council and its activities, visit www.nefe.org/publicpolicy.

Educating College Students on Finances

CashCourse, NEFE's online financial education resource available for college students and recent graduates through their schools, exceeded expectations for its pilot year. Currently, 178 schools have signed up to use the site and 120 schools are in the process of enrolling. New improvements include an interactive budgeting tool, quarterly e-newsletter, and workshop materials that currently are in development. Learn more about the program at www.CashCourse.org.

Focus on Smart Retirement Income Decumulation

The Strategic Programs and Alliances department continues to present important messages about decumulating, or spending down, retirement income wisely. NEFE staff has refined messaging, written and will post a white paper on the Retirement Income Decumulation Think Tank results, and mapped out its two-year strategy plan. Visit www.nefe.org/spa and read the article on page 4 for more information on this project.

Improved Resources and Tools for Consumers

The redesigned *Smart About Money* Web site (www.SmartAboutMoney.org) launches in January 2009, but the behind-the-scenes work began in June. Consumers can look forward to more relevant content, interactive tools and quizzes, an e-newsletter, forums, and more. Stay tuned for more information in the January/February 2009 *Digest*.

Grants Completed in 2008

We'd like to honor the following grantees who've completed their extraordinary research in 2008: Lois Vitt at the Institute for Socio-Financial Studies, and the researchers at the University of Notre Dame. Look to the *Digest* in the coming months for articles on their research conclusions.

HSFPP Keeps Growing

NEFE's High School Financial Planning Program® (HSFPP) sent out its millionth copy of the revised student guide in August 2008. Also in August, the HSFPP held a task force meeting that started work to provide training opportunities to teachers nationwide through a variety of channels. The task force used NEFE-funded research to help inform their work. Learn more about the HSFPP at <http://hsfpp.nefe.org>.

Spendster: Show Us Your Stuff

The bells and whistles on Spendster.org — an interactive calculator, user-generated videos and photos, and message boards — are unlike any NEFE has used before. But, more importantly, we use these tools to cause a mental shift in people who might not otherwise be interested in personal finance concepts, such as needs versus wants. Visit www.Spendster.org to see what ordinary people are saying about the stuff they shouldn't have bought and their larger financial goals.

Name Changes

In 2008, the Collaborative department changed its name to Strategic Programs and Alliances (www.nefe.org/spa), and NEFE's Grants department became Grants and Research (www.nefe.org/grantmaking).

Digest Refreshed

While the redesign of the *Digest* was obvious to readers, other *Digest* changes might not have been. In the past year, we improved content with more substantial writing, inspired interaction among readers with polls, and allowed for easier access and communication with NEFE. We will continue improving the *Digest* and welcome your comments and suggestions at www.nefe.org/digest.

Getting Out There

NEFE considers it vital to keep a pulse on the concerns and priorities of consumers. As a result, we strive to stay in touch with important intermediaries, including journalists, financial planners, college administrators, nonprofit organizations, and consumers. Over the last year NEFE has exhibited, presented, or attended 81 conferences, and we plan on continuing that trend into 2009.



Money...Money...Money

Continued from page 1.

Call that the “executive summary” of preliminary results in a study funded by the National Endowment for Financial Education® (NEFE®) in partnership with University of Arizona.

Not surprisingly, the students’ own subjective sense of their knowledge of personal finance and money management was different than the objective testing of their knowledge. As a group, 78 percent rated themselves as having either moderate or good understanding of personal or financial money management.

Subsequently, students participating in the study were given a series of 15 true/false questions on personal finance and money management. The results? A combined 53 percent scored between 61 to 100 percent correct. Most of the group fell in the 61 to 80 percent bracket.

A closer look indicates virtually all understood the impact of a late payment on a loan, while just over half correctly answered the question on credit cards and the need to choose one with a low APR if you carry a balance.

And while students thought highly of their own understanding of financial knowledge, they had less faith in their peers. A full 58 percent said they had a better understanding of personal finance and money management than their friends.

The study also found that students were generally responsible. Most paid their bills on time, spent within a budget, and paid off their credit cards every month. Few maxed out their credit cards or took out a cash advance from them.

Of concern, however, was the increased number of students using so-called “payday” loans. The number of students using these ultra short-term loans that come with a collection of high fees and interest rates jumped from 2 percent in a pilot study of students to almost 5 percent of freshmen just two years later.

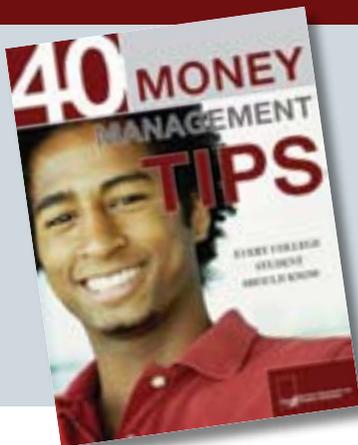


As a group, those with higher GPAs generally did a better job of handling their finances, and women did a better job than men in not maxing out their credit cards, getting cash from them, or using payday loans.

The study also asked those of different ethnic groups to assess their subjective understanding of personal finance and money management. While there were no actual differences, Asian-American students rated themselves decidedly lower in overall understanding than Hispanic-Americans and Caucasians did.

The researchers — Dr. Soyeon Shim, Dr. Joyce Serido, Dr. Jiao Xing, and Dr. Bonnie L. Barber — will continue to track and analyze these students’ financial behaviors and knowledge throughout the rest of their time at college. Look to future *Digests* for updates on this study.

Popular College Resource Revamped



NEFE recently updated and redesigned one of its most popular booklets, *40 Money Management Tips Every College Student Should Know*. The resource helps students get organized and takes them through information on financial aid, checking, spending plans, dorms and apartments, savings, jobs, and debt. On average, the booklet is downloaded 1,349 times monthly from the *Smart About Money* Web site. Check it out at www.SmartAboutMoney.org/40MoneyTips.

HOLIDAY CLOSINGS

NEFE will be closed on November 27 and 28 for Thanksgiving, December 24, 25, and 26 for Christmas, and January 1 for New Year's.

Myths of Retirement

Ever have someone tell you that after working hard for the last 40+ years they are “finally ready to retire?” *Retire on WHAT*, you think. They have virtually no investments, little savings, maybe a house with limited equity, and not much else.

We in the financial education community have to explode the many myths associated with living in retirement and on Social Security. Astoundingly, many Americans still believe that they can somehow live their life in retirement by relying almost exclusively on that monthly government check. Social Security was designed to be a supplemental income source, not the whole retirement package.

At least 50 million families are currently “undersaved” and racing headfirst towards retirement. Many soon-to-be retirees often don’t think about (or are too overwhelmed to think about) how they are going to pay for retirement. And once they actually get there, they realize they have not adequately calculated the cost of living through retirement. Alarming, they often overestimate how long their personal savings will last once they retire and begin spending their limited nest egg.

Too many people think of 65 (or even earlier) as the so-called “magic number” when they will stop working. Quite possibly they spent their life working at a job they didn’t like, but it paid the bills. Even worse? A life spent at a job they didn’t like that didn’t pay the bills.

But absent significant health issues, there is no particular reason to retire at 65. All of us have significantly more years beyond that arbitrary date in which we can have vibrant, intellectually stimulating, and challenging lives. Regardless, many stop working, more than likely too early. Doing that and claiming Social Security before full retirement age will reduce lifetime inflation-adjusted earnings by up to a third.

So, how do we motivate people to work longer and save more? It is not an easy sell. Since the 1950s, when the retirement age was roughly 68, we’ve been marching steadily towards a younger retirement age. Right now, it is about 63 according to the Bureau of Labor Statistics.

But working longer and planning too far into the future is counterintuitive to most of us. We’ve been the target of a lifetime of advertising telling us that if you want it, buy it *now* on credit and worry about tomorrow—*tomorrow*.

Regardless of whether someone is in their forties, fifties, or beyond, we as financial educators need to affirm that building up large retirement savings is not a luxury but a necessity. Soon-to-be retirees need to understand not only to save for the “fun” part of retirement, but also for the unavoidable. Medicare co-pays will sap their accumulated savings as they grow older. Inflation will not stop just because they have gone into retirement. As they age, just about everything will cost more, even as they draw down their accumulated savings and investments.

There are some solutions. By retiring later, people can avoid drawing down what little savings they have accumulated and actually can continue to add to their savings. In many cases, they’ll also be able to keep their employer-sponsored health insurance.

An added bonus of working past 65: more time to pay off any high-interest outstanding debts, like credit cards, car loans, or personal lines of credit. The goal is to go into retirement debt-free or close to it.

As professionals, it is imperative we provide more education and retirement product options for those in or nearing the retirement phase of their life. Obviously, we also must provide comparable direction and assistance for those in the savings and accumulation phase.

In particular, we must get soon-to-be retirees to talk about annuitizing at least a part of a lump sum distribution from an IRA or 401(k) to provide a stable, secure, and predictable income. But would-be buyers need to know to shop around and ask lots of questions, because fees and surrender provisions vary significantly.

We need to motivate people to seek out professional investment advice regardless of their current income and how little investment income they may have accumulated. A few hours and a few hundred dollars’ worth of professional advice can make a significant difference in the long run to someone with even limited savings.

As much as anything else, we need to help people understand that retirement is a goal that you can ease into, not an event that has to take place at a specific, pre-determined age. Individuals can go on “retiring” for decades. Retirement, as we see it now, undoubtedly will look different in 10 or 20 years time.

Written by Brent A. Neiser, CFP®, director of Strategic Programs and Alliances and chief organizer of NEFE’s Retirement Income Decumulation Think Tank, which focused on the more than half of American households whose combined pre-retirement income is between \$30,000 and \$100,000.





Faces behind NEFE

Mary "Jeannette" Schultz:

Translating Ideas into Action

A normal project within the Strategic Programs and Alliances (SPA) department takes about nine months to complete, so Jeannette likens it to having a baby. She prepares for the creation of the end product (the "newborn") by getting to know the partnering organization and the audience intimately. With over 100 projects completed by the SPA team, Jeannette familiarized herself with many different organizations and audiences. Prior to working at NEFE, Jeannette was a business reporter at two newspapers and was an editor of trade publications.

Jeannette, if you were to describe your job to a fifth grader, what would you say?

Jeannette: It's a lot like being a publisher. I publish mini-books, Web sites, and guides that teachers use to teach a class. But it's not as simple as reusing what we've done before. I've got to make sure that the material fits the people who are going to read and use it in the end.

In terms of your work at NEFE, what would you say has been the achievement you're most proud of?

Jeannette: Three years ago, I started public speaking for NEFE with our Daniels Fund project and am proud of the responses I've received. For example, after one session, a teenage boy came up to me and said "You know, when I saw that we were going to talk about money management for three hours, I thought it was going to be so boring. But, it actually was a lot of fun." Even though it wasn't easy getting up in front of a group of high school students, it has been worth it.

What would you say you would most like to achieve while at NEFE?

Jeannette: One of my goals is for more of our projects to be used by the partnering organizations on a national scale. For many of them, there is a tremendous lack of resources that stops them from growing these programs. Another goal is to

create programs that are so innovative and useful that people get those "aha" moments from them.

What personally drove you toward financial education nonprofit work?

Jeannette: I'm no angel of financial planning. I'm just a regular person trying to translate this information to the people who need it most. I've had to coach some of our writers to be more mindful of who they're writing to. Working at NEFE has shown me that, even with the doom-and-gloom financial news on the television, there are actions that people can take to overcome their financial problems. I think it's so important for people to realize their financial situations *can* get better.

Can you describe one memorable NEFE program that you have witnessed?

Jeannette: That would have to be Dress for Success. We created a booklet for them to use and I actually sat in on a session where it was used, without the volunteer financial planner knowing. He kept going on and on about how there were some really good nuggets of personal finance information in the booklet. It was very gratifying to hear that and see the booklet in use by the women.

If you are interested in learning more about Jeannette Schultz's department, visit www.nefe.org/spa.



NEFE Recognized for Publications

The Strategic Programs and Alliances department recently won two awards for programs it developed. The Award of Merit was given for the Daniels Fund Scholars booklet series from the Intermountain Chapter of the Society for Technical Communication. In addition,

Associations Advance America awarded NEFE the 2008 Honor Roll for the National Center for Family Literacy's booklet, *Financial Opportunity: Family Progress*. Learn more about NEFE's other partnerships at www.nefe.org/spa.

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

- American Association for Adult and Continuing Education (AAACE) Conference November 11-14 Denver, CO
- Financial Behavior in Retirement Conference presentation. November 12-14 Miami, FL
- Association for Financial Counseling and Planning Education (AFCPE) Annual Conference November 19-21 Garden Grove, CA
- Consumer Federation of America (CFA) Financial Services Conference December 4-5 Washington, D.C.
- National Center for Family Literacy Conference March 1-3 Orlando, FL
- Student Affairs Administrators in Higher Education (NASPA) Conference. March 7-10 Seattle, WA
- Salvation Army National Social Services Conference presentation March 14-18 Chicago, IL
- American Association of Community Colleges (AACC) April 4 - 7 Phoenix, AZ
- American Savings Education Council (ASEC) Partners Meeting April 15 Washington, D.C.
- Association to Advance Collegiate Schools of Business (AACSB) April 26-28 Orlando, FL

The mission of the National Endowment for Financial Education is to help Americans acquire the knowledge and skills necessary to take control of their financial destiny.

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