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IT'S TIME FOR AMERICANS TO BECOME MORE FINANCIALLY LITERATE, AND ACCOUNTANTS CAN HELP THEM DO SO.

By Suzanne N. Cory, CPA, and Andrew D. Pickard, CPA

No nation, regardless of its economic model, can afford to waste capital, and yet that's exactly what we in the United States are doing through our national financial ignorance. Many Americans lack the basic skills necessary to balance a checkbook, and our degree of financial illiteracy manifests itself in a crushing burden of credit card debt and an inability to manage defined contribution retirement plans.

During 2005, it actually resulted in Americans spending more than they earned. Remarkably, this pattern of dissaving hadn't occurred since the Depression era of the 1930s. Furthermore, the number of individual bankruptcies doubled over the 10-year period ending in 2004 when approximately 1.59 million Americans filed for bankruptcy protection and we witnessed a frantic rush to reform bankruptcy law. Sadly, far too many Americans no longer consider carrying huge amounts of debt to be the embarrassment it was just 50 years ago. Taken together, these problems can't bode well for our economy, yet too many Americans seem oblivious to the impending crisis our excessive borrowing creates (and we aren't talking about the subprime mortgage crisis).

But educated Americans haven't always been financially illiterate. Throughout the 19th Century, the most popular numerical primer, *Ray's Practical Arithmetic*, used in grades five and six, included challenging problems that introduced the concepts of simple interest, compound interest, discounting notes at a bank, foreign exchange, insurance settlements, taxation, partnership interests, and bankruptcy. During grades seven and eight, *Ray's Higher Arithmetic* expanded on these topics and introduced the students to the concepts of profit and loss, issuance of stocks and bonds, premium and discount on bonds, and brokerage commissions.

BACK TO BASICS

Unfortunately, the educational community began abandoning *Ray's Arithmetic* during the 20th Century, and most students today aren't exposed to the fundamentals of financial literacy. We have, however, witnessed a concerted effort during the past 10 years by various government, financial, and even charitable organizations to increase the financial literacy of all Americans.

Among the not-for-profit entities addressing this is the Jump$tart Coalition for Personal Financial Literacy (www.jumpstart.org). Jump$tart's primary mission is coordinating the efforts of the other organizations that provide information and instruction to those who need to improve their financial literacy. It also supplies financial education materials for grades K through 12 and has developed 12 "must-know" principles of personal financial management for young people. (You can find these principles at www.jumpstart.org/principles.cfm.) These principles have become benchmarks for measuring the financial literacy of primary and secondary students in the United States.

In addition, Jump$tart administers a biennial survey that measures the financial literacy of high school students throughout the nation. Since 1997, almost one-half of the students have shown themselves to be incapable of balancing a checkbook or correctly answering general questions regarding earning, spending, saving, and investing money.

Furthermore, Jump$tart has discovered that far too many young people fail to prudently manage their first consumer credit experiences, are prone to developing

Getting Involved

AUTHOR SUZANNE CORY has seen the importance of financial literacy firsthand. She became aware of Jump$tart as a volunteer for Junior Achievement. While preparing a presentation to teens at a high school in San Antonio, she ran across some of Jump$tart's educational materials.

"It piqued my interest in the subject, especially after working with these students who were all seniors and seemed to know so little about financial issues, most specifically those dealing with credit cards," she recalls.

Some already used credit or debit cards, but most had relatively low limits. She asked them how long they thought it would take to pay off a $3,000 credit card balance at 18% interest if they made the minimum payments and never used it again. No one got it right; while their answers varied from six months to four years, the correct answer is 15 years.

"There is a member of my own family, a college freshman, who signed up for a store credit card because they gave her a free makeup case and 15% off that day's purchases," Cory says. "She loved being able to buy whatever she wanted and had the feeling she was saving lots of money. At the end of the month when the bill came, she couldn't pay it. She was astounded that it took her several months to pay off the credit card. When she was finished, she had paid far more for what she bought than if she had just paid full price for everything and bought the makeup case."

One-third of the high school class thought winning the lottery was the most practical way to become wealthy. "When I told them what the odds of winning were—about 1 in 47,500,000—one response was, 'Well, someone has to win, and it might be me.' Few were interested in my examples of becoming wealthy by simply living below their means and investing for the long term," she says.

Cory talked to the students about the importance of a college education and its potential impact on their poor spending habits, and generally stumble through various financial situations, learning by trial and error. As a result, a great number experience considerable difficulty obtaining home mortgages, car loans, business loans, or other types of credit at reasonable interest rates. Given their dire economic circumstances, many become targets for financial con artists of all persuasions who prey on their lack of knowledge.

Jump$tart's first survey, administered in 1997, found that only 57.3% of the high school students who participated answered the 30 questions correctly. The 2008 survey results, released April 9, revealed that financial literacy is even lower now. The survey covered roughly 6,800 high school seniors from diverse economic backgrounds, and they correctly answered less than half the questions (48.3%) about personal finance and economics—the worst results of all six surveys conducted so far. This year Jump$tart also conducted a survey of 1,030 college students, using the same questions they asked the high school seniors, and they fared a little better, answering 62% of the questions correctly.

A CALL FOR HELP

When these figures were released, Federal Reserve Chairman Ben Bernanke noted that they show just how much we need to improve financial literacy. "In light of the problems that have arisen in the subprime mortgage market, we are reminded of how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace," Bernanke told reporters.

He also urged more states to make a personal finance class mandatory for graduation, noting that only eight states now do this. Roughly one-fifth of the students polled in the 2008 survey, or 21.4%, had completed a course in personal finance or money management, and 26.2% took a course that devoted at least a week to the topic. But 44% had taken a full economics course. (Visit www.jumpstart.org/fileindex.cfm to download Bernanke's remarks and view the entire report.)

Clearly, we still have much work to do in combating our lack of financial literacy. While it may increase awareness to declare April "Financial Literacy Month," April 25 as "National Teach Children to Save Day," and October 19 as "Get Smart about Credit Day," none of these solves the problem. Given Jump$tart's call to action, professionals throughout the financial industry have stepped forward to tackle this problem. Perhaps best known is the American Institute of Certified Public Accountants' (AICPA) "360 Degrees of Financial Literacy" program (www.360financialliteracy.org). Through this program, CPAs from across the nation present classes to many different types of audiences on financial concepts. Other organizations include the National Endowment for Financial Education (www.nefe.org), which provides an instructor's manual and student workbooks. The American Bankers Association www.aba.com/about+aba/abatoolboxes.html) provides financial education resource kits for grades K through 12 to its members, who then go

lifetime earnings. While most wanted to go to college, she sensed the true cost of a four-year degree was beyond them. Most assumed they could get scholarships to fund the majority of their tuition.

The experience led her to join the Financial Literacy Committee of the San Antonio Chapter of Texas Certified Public Accountants, of which coauthor Andrew Pickard was already a member. Committee members sign up to team-teach selected sections of a financial literacy course that meets 11 times over a three-month period. They use materials from several sources, and both professors have participated in this program.

In 2006, the local United Way recognized the San Antonio Chapter for its community volunteer efforts. The Chapter received the Volunteer of the Year Award (Night of 1000 Stars) for Group In-Service/Civilian work and was commended for improving the lives of individuals and families in the community, specifically for demonstrating leadership in increasing financial literacy through offering courses addressing this issue.

ILLUSTRATION: JASON SCHNEIDER/WWW.JASONSCHNEIDER.COM

Table 1: State Affiliates of Jump$tart
See www.jumpstart.org/states.cfm

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Alabama	Buffy Murphy	buffy.murphy@bxs.com
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Arkansas	Curtis Arnold/Billy Britt	Use "Contact Us" button at www.arjumpstart.org
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into schools much like Junior Achievement volunteers.

It should be obvious to everyone by now that we can't rely solely on our current system of public education to fix this problem and that many of the people who most need to learn about financial literacy are already in the workplace. Just as many American businesses have been forced to implement employee education and training programs to get their workforce up to the necessary levels of proficiency, the financial community must now step up to the plate and become decisively engaged in this effort.

The accounting, banking, and investment professions are all ideally suited for this task, and we all must get up from our desks, out of our offices, and into our communities if we are to solve this problem. As we write this article, Jump$tart's coalition now includes 180 national partners from the nonprofit, corporate, and federal government sectors, as well as affiliated coalitions in 47 states and the District of Columbia. Only three states (Delaware, Hawaii, and Maryland) don't have a group of individuals or organizations affiliated with Jump$tart (see Table 1 for state contact information or www.jumpstart.org/states.cfm).

Members of the financial community in every state should contact this organization or a similar one, obtain the instructional materials, and begin educating those most in need. Financial literacy isn't an innate behavior; it's a learned behavior, and it is past time for the learning to begin. ■

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