

CONNECTING

FINANCIAL EDUCATION TO CONSUMERS

Networks Financial Institute (NFI) and the Federal Reserve Bank of Chicago presented a symposium addressing financial literacy on October 7, 2008, in Chicago. *Connecting Financial Education to Consumers* convened several of the nation's leading financial literacy practitioners and thought leaders to examine the current state of financial literacy and its relationship to economic problems ranging from the housing foreclosure crisis to retirement planning. In addition, the symposium identified various financial literacy programs and resources and examined their effectiveness.

THE STATE OF ADULT FINANCIAL LITERACY

NFI executive director Elizabeth Coit opened the symposium by sharing results of two surveys NFI undertook in 2007. The surveys reveal discrepancies between financial education institutions' and adults'

self-reported satisfaction with the availability and quality of financial education resources. Comparing the two surveys, Coit noted three primary implications for financial education providers interested in addressing financial literacy. First, while financial education providers believe they are effectively educating consumers, more than 40 percent of adult consumers rate their financial literacy as poor. Secondly, there is a lack of awareness among consumers regarding the need for financial education. The majority of adults surveyed feel comfortable with their current level of financial knowledge. Finally, there are issues of perceived accessibility with regards to learning about financial matters. The majority of consumers surveyed report relying not on banks or other financial literacy practitioners, but on friends and family, for financial information.

Financial education providers and consumers also cite different barriers to accessing financial education. Financial educators report consumer awareness of available resources as the biggest impediment interfering with access to financial education. Affordability of financial education is the most frequently cited barrier by consumers.

Coit noted that the surveys of consumers and financial educators reveal a need for enhanced communication and collaboration between financial education practitioners and the consumers they serve.

GROWING THE MIDDLE CLASS

Morning keynote speaker John Bouman, president and director of advocacy of the Sargent Shriver National Center on Poverty Law,

discussed the role of asset building to achieve economic stability and upward mobility. Bouman noted that asset building is not a new concept, but an approach rooted in earlier successes such as the GI Bill and Homestead Act. Assets beyond annual income are what create financial stability, upward mobility and middle class status. These behaviors include savings, investing for retirement, establishing good credit, home ownership and access to capital.

The Shriver Center Community Investment Unit has developed an organic approach to building financial literacy through grassroots programs including student-run banks, children's savings accounts, anti-predatory lending programs and financial literacy outreach.

Bouman concluded his remarks by noting that financial literacy is important throughout life and provides an important measure of control and self-determination. He noted that the link between financial literacy and other quality of life assets including health, community and relationships makes financial education an important tool in creating a sense of the possible, particularly for the underserved.

FINANCIAL LITERACY AND DECISION MAKING

Annamaria Lusardi, Professor of Economics, Dartmouth College, presented research revealing that discrepancies in self-perceived financial education levels also exist across age, educational achievement levels, and other demographics. While the elderly perceive their financial knowledge as higher than other age groups, research indicates that they are actually less



Keynote speaker John Bouman is the president of the Sargent Shriver National Center on Poverty Law.

knowledgeable than other age categories. Lusardi noted that this overconfidence in financial knowledge puts the elderly at risk for a range of monetary scams. Other groups representing the lowest levels of financial literacy included women; individuals divorced, widowed or separated; and ethnic minorities.

Beyond age, educational status also presents risks when it comes to saving and spending decisions. While over 70 percent of college-educated consumers demonstrate knowledge of the benefits of risk diversification, just over 30 percent of consumers without a high school education understand the concept of diversification.

Lusardi advised participants that the critical word in the phrase financial literacy is “literacy.” “You must be literate with money to live in the new world. It is more tragic to lose retirement savings than to lose a job in today’s environment,” she noted. Quick-fix one-hour seminars on financial decision making will not deliver the intended changes in behavior. She advised practitioners to convey financial literacy concepts in terms easy for consumers to understand, integrating stories and real-life applications. She advised making the approach graphic, pointing to the success of the food pyramid and terror-alert color categories as means of educating consumers.

GENERATION WARFARE. FINANCES AND THE BABY BOOMER GENERATION

Nationally recognized financial authority and syndicated Chicago Sun-Times columnist, Terry Savage discussed how the overall economy influences consumers’ financial behaviors. Referencing the recent downfall of several investment banks and holding companies, the chaos in the stock market and the graying of the Baby Boomer generation, Savage noted that the next generation is more likely to adapt the prudent, frugal financial behaviors of the generation that followed the Great Depression, as opposed to the free-spending boomer generation that came of age during the soaring stock market period in the 1980s.



Terry Savage is a nationally recognized financial authority, syndicated Chicago Sun-Times columnist and author of several best-selling books on personal finance.

Nothing that the current problems in the economy are not a sudden phenomenon but reflective of problems that have escalated over time, Savage cited the steady decline in savings rates; since June 2005, the U.S. savings rate has been zero or lower. Savage also noted that the current economic downturn differs significantly from prior recessions, such as the 1981-1982 period when record high interest rates existed in an environment with a relative lack of unsecured credit and a comparatively robust savings rate of 11 percent.

The aging of the baby boomer generation will have a significant economic impact on the future prosperity of not only the boomers themselves but the generations following them. Since, in 2030, 52 percent of every tax dollar collected is projected to be needed to fund Medicare, Savage points out that individuals will be required to work longer to fund life spans that continue to lengthen. This increased boomer longevity will translate into higher health care costs. Savage urged symposium participants to purchase long term care insurance.

Despite recent volatility in the stock market, Savage advised that continual investing in the market remains the key to wealth. “There has never been a 20-year period in which you would have lost money in a diver-

sified portfolio of large American stocks with dividends reinvested,” she stated.

PANELS ON CRITICAL ISSUES

In addition to these speakers, panels of expert practitioners, policymakers and thought leaders addressed the home foreclosure crisis, preparation for retirement, and meeting the financial needs of financially underserved populations, all timely economic and societal issues with strong ties to financial literacy.

The implications of the research for financial institutions point to heightened interest on the part of consumers for financial information and learning how to be smart consumers given current conditions. The presenters note that there likely will be many changes in the regulatory environment that will impact consumers. Of central concern is the likelihood that current financial turmoil will make consumers less trusting of financial institutions; particularly those who are financially disadvantaged. This could result in a higher number of unbanked customers in the future. For more sophisticated consumers, traditional products and institutions – such as fixed mortgages offered through commercial banks versus brokers – are likely to become more attractive.

NEXT STOP FOR

Addressing a National Crisis in Financial Literacy

Networks Financial Institute, along with other academic, business and community organizations is embroiled in fight to address the significant financial challenges facing consumers in Indiana and throughout the nation. NFI solutions go to the heart of the issue: reaching consumers in their formative years, ideally in elementary school where educators can affect sound behaviors and values, while imparting the knowledge and skills necessary to be successful money managers.

NFI research indicates that many parents believe personal finance is taught in school; however, only about half of classroom teachers report actually teaching their students anything about money management. In fact, many teachers themselves do not feel knowledgeable about the subject. As we have communicated in previous publications, we have started at the ground level and close to home. And, now we are poised to expand our scope and reach.

Having completed the second full year of elementary school visits, the demand for *Kids Count on the Money Bus*™ has been so great that NFI is focused on the issue of providing financial literacy resources to more schools than the Money Bus® can possibly visit. In fact, NFI has received inquiries about the Kids Count program from schools and institutions around the nation. And, while *Kids Count on the Money Bus*™ was developed to meet the needs of a specific under-served group, third through fifth grade students, NFI has consistently received requests from educators that the program be broadened to address other audiences, such as the middle school grades, college students and adult learners.

At the same time, NFI has worked with policymakers from California to Indiana and Washington D.C. to affect top-down policy change in financial literacy education.

With new funding, NFI is able to expand both in scope and geography, more broadly impacting America's financial literacy crisis. By making the tested Kids Count model available to states

across the U.S, developing a comprehensive professional development program for educators, and focusing on policy work in Washington, D.C., hundreds of thousands of future consumers will learn the foundation skills necessary to put them on a path of financial stability and security.

NFI's first priority in financial literacy moving forward is to disseminate the Kids Count educational model as broadly as possible throughout the U.S. This program has proven that it provides students, educators and teachers with an effective and engaging means of delivering financial literacy education. New funding received from the Lilly Endowment is being used to develop a few strategic options for delivering the *Kids Count* curriculum into additional communities, ranging from a virtual program to the holistic program complete with the Money Bus®. By offering the program in a variety of "sizes," NFI can increase access to the valuable content, regardless of an institution's budget.

However, before NFI can expand the reach of Kids Count, we were faced with creating a viable alternative to the cost-prohibitive and capacity-limited Money Bus®. Evaluation of the program finds that while much of the learning takes place via the classroom lessons, the Bus visit is a crucial component to building interest in the program among the students and teachers. It also serves as a hands-on capstone activity to put the concepts into action. No doubt about it – the Money Bus makes a tremendous impact by virtue of its physical presence which allows it to function effectively as a field trip-on-wheels. However, the concepts can be sustained and the capacity to impact young minds enhanced through the development of alternative delivery mechanisms.

The first pieces of this new, more accessible program will be launched this winter with our online curriculum and the Money Bus board game (*Financial Focus*, Spring 2008). From there, NFI will begin developing a series of additional interactive activities to bring the core lessons and concepts of Kids Count to life for teachers, students and their families.

KIDS COUNT



Building on the national expansion of the Kids Count program, NFI is developing a professional development program to better prepare educators to teach financial literacy. NFI national research of teachers released in April 2007 unveiled a host of challenges teachers face as they consider whether and how to address financial literacy in their classrooms. Overall, the survey indicated that financial literacy knowledge varies greatly among teachers, presenting significant opportunity for improvement and a critical barrier to achieving broader participation in financial education in the classroom. Reinforcing the research is feedback we receive directly from educators. Time and time again, teachers participating in the Kids Count on the Money Bus™ program and NFI's Indiana Teachers Financial Literacy conferences have shared their own concerns about managing money and their conviction that financial literacy is an important part of the educational experience. Despite the barriers, the 2007 survey indicates that over 95% of the nation's classroom teachers believe financial literacy should be part of the school curriculum.

NFI is taking the next step to ensure that educators become skilled at teaching financial literacy by developing a comprehensive professional development program. The program will provide teachers with resources that broaden their own knowledge of financial literacy as well as their effectiveness at teaching this subject. The program also will help time-starved teachers effectively integrate financial literacy content into a variety of subjects such as social studies or mathematics.

While significant effort at NFI is directed into the classroom, NFI continues to focus efforts in policy support for financial literacy. The successful classroom model of Kids Count combined with the proposed professional development program will provide a strong model for affecting change at the grassroots level. NFI intends that the work and outcomes that it has and will continue to pursue will be an important component of understanding and addressing the national crisis.



What's New?

Happenings around the College of Business

CHINA CONFERENCE

On September 14, 2008, Indiana State University joined with co-sponsors Baker and Daniels/B&D Consulting and Liaoning University for an important conference on Sino-American economic relations and regional economic development. Liaoning University is located in Shenyang, an important industrial center in China, and the transportation and commercial center of China's northeastern region. A delegation from ISU, with representatives from NFI, Networks Scholars, the ISU Foundation, Baker and Daniels and from the state of Indiana, traveled to Liaoning University for this event, titled "Bridging China and America."

In addition to the conference proceedings, the event featured two additional days with opportunities for Hoosier government, business and higher education leaders to visit local enterprises and historic and cultural sites and to meet with their counterparts from both Shenyang and Dalian, the two leading cities of Liaoning Province.

The conference welcome was jointly made by ISU's Dr. Lloyd Benjamin and Professor Wang Shan of Liaoning University. In addition, ISU's professor of economics John Conant and NFI's director of research Dr. John A. Tatom addressed the event. The keynotes were delivered by President Cheng Wei of

Liaoning University and Mr. Michael J. Alley, ISU's Chairman of the Board of Trustees. Other prominent Hoosiers and regional experts who addressed the event included Mark Miles, president and chief executive officer of the Central Indiana Corporate Partnership; former Governor Joseph Kernan; Mr. Steven Chapman, group vice president for emerging markets and businesses of Cummins, Inc.; Ms. Jacqueline Simmons of Baker & Daniels LLP; the Chicago Federal Reserve Bank's senior economist Richard Mattoon; King Lin of ICF International; and Christofer Matney, air service director at Indianapolis International Airport.

The conference consisted of panels in which these U.S. experts were matched with equally prominent Chinese counterparts to discuss the topics of promoting two-way investment, addressing the Sino-U.S. balance of trades, and rejuvenating the regional economies in both Liaoning and Indiana, both industry-based and agricultural economies that have suffered due to recent economic turmoil. ISU College of Business dean Nancy Merritt commented that "These meetings will provide an excellent opportunity for Indiana businesses to extend their network of contacts and explore business opportunities in these two booming cities."

Participants at a conference on Sino American economic relations and regional economic development at Liaoning University in Shenyang, China.



NEW FACULTY APPOINTMENT

This fall, the College of Business welcomed Analytical Department assistant professor Lakshmi Balasubramanyan, a recently-minted Ph.D. from the Penn State University agricultural economics program;

her major fields are finance and production economics. Dr. Balasubramanian's teaching and research interests include financial markets and institutions, investments, money and banking (including risk management and credit analysis in commercial banking), financial economics, econometrics, business finance, and production analysis. Her dissertation, entitled "Essays in Bank Consolidation, Risk Management and Efficiency," examines consolidation rate measurement, its impacts on assets-liability management in conjunction with risk management strategies, and efficiency gains of consolidation. In addition to her teaching and research experience gained at Penn State's University Park campus, Professor Balasubramanian has served as a systems review officer in the policy wing of Singapore's Ministry of Education and has published in the *American Journal of Agricultural Economics* and *Journal of International Money and Finance*.

HONORARY DEGREE

At the Spring 2008 commencement, Indiana State University College of Business master's degree alumnus and international banker and financier Paul Lo was honored with an honorary doctor of laws degree and a medal recognizing his international service. Lo, chairman of Bank SinoPac in Taiwan, founded his bank



The College of Business' Trading Room allows students to experience a bit of Wall Street. It opened in November 2007 with funds from the Lilly Endowment, ISU alumnus and Randall and Nancy Minas.

in the early 1990s after raising \$400 million in capital. He had nearly two decades of prior experience with Citibank and has long served as a leading force for international trade between the U.S. and China. Named in 1999 as one of *Business Week's* 50 Stars of Asia, Lo has also been featured in *Euromoney*, *The Banker*, *Global Finance* and *The Asset* magazines. In January 2007, Lo presented at NFI, ISU and Liaoning University's joint conference, "China: A Two-Way Street," held in Indianapolis. He has been particularly supportive of the NFI's Scholars program, a four-year scholarship for qualified freshman accepted to Indiana State University, who choose to pursue a career in the financial services industry.

STUDENT NEWS

ISU's College of Business was represented in force at the world's largest student investment conference, the Redefining Investment Strategy Education (RISE) Forum, held in Dayton, Ohio in March of 2008. ISU's Student Investment Club (SIC) sent eight of its members – all finance majors – to join the 17,000 participants, representing 218 colleges and universities and drawing from 58

countries. Rebecca Shorter, director of career development at the ISU Gongaware Center and former NFI graduate fellow, said about the RISE Forum that this opportunity for students to learn from executives and Wall Street experts allows the students to "excel and foster an interest in financial services, specifically in the area of capital markets and asset management." ISU's financial services program, allowing for either a major or minor, commenced in the College of Business in the fall of 2007 and is recognized by the university as one of its two Programs of National distinction, as part of an initiative funded by the Lilly Endowment.

The Student Investment Club makes extensive use of the College of Business's Trading Room. Opened during the prior academic year and funded generously by the Lilly Endowment and ISU alumnus and Merrill Lynch senior vice president Randall Minas (B.A., 1975, Management) and his wife Nancy Minas, the Trading Room has aided the SIC in managing their portfolio, now worth a half million dollars. The Trading Room provides College of Business students with a slice of Wall Street, allowing them to look up company information and securities prices, undertake class research, and gain hands-on experience.

making an IMPACT

NFI Research Affects Financial Services and Public Policy

Through its research program, NFI has had major effects on the financial services sector and its public policy. NFI recruits experts in financial services and public policy to produce new research on issues facing the financial services industry and its thought and policy leaders, which is delivered through a variety of public programs, research meetings and on our website. Through our ongoing efforts to connect our research to the national policy agenda, NFI has engaged many top experts in the world and has reached out to the industry and to the nation's financial services policy leaders.

NFI has narrowed the direction of its financial services research to focus on industry regulation and financial literacy. Both of these areas have been part of the research program since the beginning, but with heightened emphasis in the marketplace, NFI has elevated these areas to our top priorities.

Putting researchers together to discuss ideas and their work in order to further their own thinking and to learn more about the latest directions of their colleagues' work is a major part of what NFI does. Currently NFI has six Senior Fellows and eleven Fellows. In addition to

their research activities, Fellows are important advisers to the research program. In addition to the Fellows, NFI benefits from the involvement of numerous other experts who present their research at NFI events and in our publications.

For example, at NFI's 2008 Insurance Reform Summit, Therese Vaughan, Distinguished Professor of Insurance and Risk Management, Drake University and former president of the National Association of Insurance Commissioners, presented her research on the implications of prompt corrective action requirements in new legislation for proposed federally chartered insurance firms. She joined Sharon Tennyson, NFI Fellow and associate professor at Cornell University, who presented her latest work on consumer complaints in the insurance industry and her perspective on the effects of a federal charter arrangement on the complaint numbers and ability to service consumer complaints.

NFI's annual Insurance Reform Summit in Washington D.C. has provided a forum for policymakers, the financial services industry and academics to discuss the latest proposals and issues confronting the nation's financial policymakers and to

hear academic research and industry perspectives on these issues. In recent years, the Summit has concentrated attention on insurance regulatory reform, especially the prospects for an enlarged federal role in the chartering and regulation of the insurance industry.

The fifth Summit, held on March 5, 2008, included presentations by Representative Ed Royce (R-CA), who serves on the U.S. House Financial Services Committee, and by senior staff from this committee and from the Senate Banking, Housing and Urban Affairs Committee. In addition to the academic experts noted above, Michael T. McRaith, Illinois Director of Insurance, provided the National Association of Insurance Commissioners' perspective on recent proposals, and several senior officials from the insurance industry provided diverse perspectives on current and proposed regulation. This Summit also included a discussion of climate change, its risks and consequences and potential solutions presented by Dr. Howard Frumkin, Director of the National Center for Environmental Health. There is growing concern for climate change and the effects that it, or policies to address it, will have on the financial services industry and NFI was pleased to be a leader in

introducing this discussion among industry leaders and policymakers.

The NFI Insurance Reform Summits have become an important component of regulatory policy discussions on Capitol Hill. Leading policymakers on financial regulation have participated in the Summits, including former Representative Richard Baker (R-LA) and Senator John E. Sununu (R-NH), and Representatives Paul E. Kanjorski (D-PA), and Barney Frank (D-MA). These individuals have been among the major sponsors of new legislation that would provide new regulatory structures for the insurance industry. These Summits initiated the discussion of financial services regulatory reform for insurance in 2003 and have played a leading role in organizing and leading the debate on the case for regulatory reform.

Another highlight of the research program is the importance of work on the leverage ratio as a standard for capital regulation in financial institutions. Work by Senior Fellow Alton Gilbert successfully emphasized the importance of this standard for competitiveness and safety and soundness as banking regulators moved to the adoption and implementation of Basel II capital standards for U.S. banks. More recently Senior Fellow George Kaufman laid out a detailed policy program for bank failure in which prompt corrective action relying on the leverage ratio played a critical and central role. As the credit crisis roiled the financial services industry and bank failures have risen, the instrumental role of the leverage ratio and prompt corrective action have become central to the policy discussion.

The most frequently viewed NFI paper on our website has been NFI Fellow Christopher Whalen's March 2008 NFI Policy Brief 2008-PB-04, "The Subprime Crisis: Cause, Effect and Consequences." Whalen, cofounder of Institutional Risk Analytics, has been interviewed and quoted regularly in the Financial Times, Wall Street Journal, Investors Business Daily and other publications and on national business television programs on the subject of the subprime and financial

crises and their implications for regulation and industry performance.

NFI has published several books on critical issues facing financial markets and public policymakers including the housing bubble, the social security crisis, the health care financing crisis and corporate governance reform. Of particular interest are the health care financing and social security volumes, which contain papers by Douglas Holtz Eakin, currently a senior policy adviser to Republican presidential candidate John McCain, and Jason Furman, currently a senior policy adviser to Democratic presidential candidate Barack Obama. Their views on Social Security and Medicare reform have taken on even more significant prominence as leading forces in the policies that are now being proposed for the new administration.

From January to August 2008, NFI Fellows have presented their research in numerous forums. Dr. Ronnie Phillips testified before a state congressional hearing on payday lending and the need for reform in Colorado on March 6, 2008. In February 2008, the Alabama Cooperative Extension System requested and informed us of their plans to distribute 100 copies of NFI's award winning book, *Assessing Adult Financial Literacy* to educational and financial leaders in Alabama. Senior Fellow Dr. David VanHoose published his NFI working paper, "Bank Capital Regulation, Economic Stability, and Monetary Policy: What Does the Academic Literature Tell Us?" in the *Atlantic Economic Journal* (March 2008). Dr. Angela Lyons, published her NFI working paper, "No Pain, No Strain: Impact of Health on the Financial Security of Older Americans," in the *Journal of Consumer Affairs* (Vol.42, Issue 1, pp.9-36). Professor Jean Kwon's Policy Brief 2008-PB-01, "Cross-accountability in Insurance Regulation," was reprinted in the Institute of Chartered Financial Analysts of India (ICFAI) *Journal of Insurance Law*. These are described more fully along with other presentations, publications in Quicktakes in this issue of *Financial Focus*.

Together Dr. James Barth, Dr. Glen Yago and Jack Tatom, Director of Research at NFI, are contributors to and edited volume, *China's Emerging Financial Markets: Challenges and Opportunities*, to be published in early 2009 by Springer as part of the Milken Institute Series on Financial Innovation and Economic Growth. The book is an outgrowth of the conference "China: A Two-way Street," jointly sponsored by Indiana State University, Liaoning University and Networks Financial Institute on January 24-25, 2007. The volume includes three updated papers that were presented at the conference or written for it, as well as sixteen others written by leading Chinese and American scholars and financial experts on the Chinese financial system.

Dr. Tatom also presented an NFI working paper, "The Foreclosure Crisis: A Two-Pronged Assault on the U.S. Economy" (2008-WP-04) at the North American Economics and Finance Association/Western Economics Association International meetings June 30-July 5, 2008 in Honolulu. This paper is an outgrowth of the NFI Financial Forum "The Nation's Foreclosure Epidemic: Causes, Consequences and Remedies" (August 28, 2007) and was the basis of an invited presentation to the 24th Annual American Real Estate Society (ARES) Meeting on "The Subprime Crisis in the Midwest and the Monetary Policy Response," held April 17, 2008 on Captiva Island, Florida.

NFI will continue its efforts to serve leaders of the financial services industry and policymakers in providing critical research on current and future issues, especially regulatory reform and financial literacy. Our goal is to build our relationships with the research community in these areas and to reach out to industry and policy leaders to communicate this research and to support their contributions to understanding and decision-making.

NFI research is available at our web site, www.networksfinancialinstitute.org, as well as on the Social Science Research Network (SSRN).



6TH ANNUAL INSURANCE REFORM SUMMIT

SAVE THE DATE

March 4, 2009

8 a.m.-2 p.m.

Ronald Reagan Building and
International Trade Center
Washington, DC



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More. From day one.



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Networks Financial Institute
2902 N. Meridian St.
Indianapolis, IN 46208