Fostering Financial Literacy and Economic Opportunity

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Second Annual Financial Literacy Day: An Update on the Financial Markets and Economy
University of South Florida Sarasota-Manatee
Sarasota, Florida

April 5, 2018

- Atlanta Fed president and CEO Raphael Bostic speaks about financial literacy and economic opportunity at the Second Annual Financial Literacy Day event held at the University of South Florida Sarasota-Manatee.

- Bostic thinks knowledge and information about how to fully participate in the financial system are essential to the success of our economy.

- He says limited basic math skills are correlated with lower levels of saving, less planning for retirement, and poorer understanding of credit. He cited research finding that only 32 percent of Americans could correctly answer three basic questions about personal finance.

- Bostic feels the Federal Reserve's success in achieving its mandated goal of trying to maximize employment depends on the degree to which people have access to economic opportunity.

- Bostic believes economic opportunity has four foundational aspects: equality, mobility, stability, and resilience.

- The Atlanta Fed, says Bostic, has been very active in helping to increase financial literacy and economic opportunity. Its economic education work has focused on schools across the Atlanta Fed's territory, reaching more than 10,000 teachers a year.

- Bostic points out that the Atlanta Fed also partners with nonprofit organizations like Junior Achievement, Jump$tart, Academy of Finance, and Habitat for Humanity.

Good afternoon. It's wonderful to be here today at this important conference.

I'd like to thank David Kotok of Cumberland Advisors for hosting the event and for inviting me to speak. I'd also like to recognize Bob Eisenbeis, a former research director at the Atlanta Fed, who is joining us today.

I think we can all agree that knowledge and information about how to fully participate in the financial system are essential to the success of our economy. But we have a problem. Limited basic math skills are correlated with lower levels of saving, less planning for retirement, and poorer understanding of credit, according to several economists. And there is reason to believe that many Americans are limited where math proficiency is concerned. In 2015, two scholars, Olivia Mitchell at the University of Pennsylvania and Annamaria Lusardi of George Washington University, found that only 32 percent of Americans could correctly answer three basic questions about interest rates, risk diversification, and inflation.

We have some big work to do on many levels—both individually and collectively.

Today, I'd like to explore the connections between financial literacy and economic opportunity—in terms of equality, mobility, stability, and resilience. Then I'll talk about what we at the Atlanta Fed are doing to help foster financial literacy. I'll close with some thoughts on what we can all do to keep the momentum going.

Before I begin, let me offer a quick caveat. I'm speaking only for myself today—not for anyone else in the Federal Reserve or for the Federal Open Market Committee, or FOMC.

Financial Literacy and Economic Opportunity

When I think about the Federal Reserve's mandated goal of trying to maximize employment, I have come to a view that our success in achieving this mandate will depend on the degree to which people have access to economic ***opportunity*****.** I see four foundational aspects of economic opportunity, and financial literacy is key to all four.

The first aspect is ***equality*** of opportunity. In the context of our work at the Fed, this means equal access to opportunity in the labor market and at educational institutions. While there will be differences in labor market outcomes depending on people's individual actions and aptitudes, these outcomes should not be predicted by a person's socioeconomic background, race, or ethnicity. Without equal access to opportunity, the country leaves economic potential on the table and limits the possibilities of its people.

How does financial literacy intersect with equality of opportunity? It's through the power of education—from primary school age onward. Ensuring that everyone has access to reliable, unbiased information to help them navigate our increasingly complicated financial system is essential. In a few minutes, I'll speak to how the Federal Reserve plays a big role in that effort.

The second aspect of economic opportunity is ***mobility.*** People have economic mobility when they have a decent chance to advance in economic standing as a worker or household. How does financial literacy connect with economic mobility? Making sound financial decisions allows people to avoid making costly mistakes that can work against advancing their careers and well-being. Everyone has dreams of having a better standard of living. That doesn't happen without understanding how to build wealth and prepare for the future.

Evidence abounds that Americans need better financial and economic literacy. Let me cite just a few examples from the Federal Reserve's *Report on the Economic Well-Being of U.S. Households in 2016*:

- About half of American adults have no rainy-day fund that would cover three months of expenses.
- Nearly half of the population—44 percent—report they either could not come up with $400 in an emergency or would have to cover that expense by selling something or borrowing money.
- And only 47 percent of respondents said their income exceeded their spending in the prior year.

The follow-on effects can be profound. An Atlanta Fed economist, Kris Gerardi, and his co-authors found that poor financial literacy on the part of borrowers played a real role in the subprime mortgage crisis. As we all know, the subprime crisis helped bring on the worst economic downturn since the Great Depression.

Finally on this point, the cost can be more than just financial. Atlanta Fed economist Melinda Pitts and her co-authors found that carrying heavy loads of delinquent debt can even literally take months off a person's life.

Third on my list of key components of economic opportunity is ***stability.*** Economic stability is the ability to predictably earn, save, and meet financial obligations. Evidence from the Federal Reserve Board of Governors' Survey of Household Economics and Decisionmaking suggests that increasingly unpredictable and intermittent incomes create challenges for households that can lead to financial stresses. Think about what a bad credit rating does to people. They will incur higher interest rates on loans—if they can even get a loan. They risk being rejected on a lease for an apartment and could be disqualified for a job. Knowing how to save, budget, and pay bills are all foundational aspects of financial literacy.

The fourth component of economic opportunity is ***resilience***. The resilient person or family can adapt to personal financial crises like those caused by loss of a job or unexpected expenses and weather them with relatively little financial upheaval. I think of financial literacy as being key to economic resilience. Literacy will help families and individuals appreciate the importance of saving.

Planning and saving matter—a lot. For many households, it's not a question of *if* but *when* a financial emergency will happen. According to a 2015 report from the Pew Charitable Trusts, 60 percent of households had experienced a financial shock in the past 12 months. An unexpected car repair can drain resources and threaten employment—because you have to be able to get to work to earn a paycheck. A health crisis can drain savings and lead to time away from work, either to care for yourself or to care for a loved one. Having a rainy-day fund to help mitigate these shocks is an essential part of economic resilience. And sadly, as I've noted, too few families have saved enough to be close to a resilient position.

The Federal Reserve's Role in Promoting Financial Literacy

Everyone in this room has an obligation to increase financial literacy—including me. I'm proud to say that we have been very active in this area at the Atlanta Fed over the years. Our economic education work has focused on schools across the Atlanta Fed's territory—the Sixth Federal Reserve District—which encompasses Florida, Alabama, Georgia, and big parts of Louisiana, Mississippi, and Tennessee.

All six states in our district require the implementation of state standards in economics and personal finance. Yet most teachers in these classes have limited training in these subjects. To address this constraint, we often partner with groups like the Florida Council on Economic Education to train teachers in economics and personal finance. We believe this is where we can add value and where there is a substantial multiplier effect: we aim to reach more students by reaching their teachers. Overall, our economic education team reaches more than 10,000 teachers a year through about 300 workshops and presentations.

Through workshops, including hands-on sessions at economic centers such as seaports and auto assembly plants, we not only engage the educators through effective teaching methods, but also equip them with lesson plans and tools they can immediately use in the classroom. These materials focus on the Fed, personal finance, and the broader economy. We make a concerted effort to serve underserved constituencies. Between 2015 and 2017, our team reached teachers at 75 percent of inner-city, majority-minority, and girls' high schools in our district.

The teach-the-teacher approach works. For example, researchers at the Georgia College and State University Center for Economic Education found that students of teachers who attended Georgia Council on Economic Education workshops, some of which were conducted in partnership with the Atlanta Fed, scored higher on required end-of-course exams than did students whose teachers did not attend the sessions.

In addition to our work with teachers, each year we reach hundreds of high school students directly as part of the Federal Reserve System's Financial Education Day program. Students take part in employability skills boot camps, where they learn and practice soft skills like résumé writing, interviewing, and networking. Federal Reserve hiring managers as well as professionals from community partner organizations serve as mock interviewers and provide constructive critiques to students. We also partner with nonprofit organizations like Junior Achievement, Jump$tart, Academy of Finance, and Habitat for Humanity to deliver personal finance programs that introduce middle and high school students to the basics of budgeting, saving versus investing, and the importance of using credit wisely.

We aren't alone in this pursuit. Eleven of the 12 regional Federal Reserve Banks conduct educational programs. The tactics vary across regions, but the overarching goal is the same: to increase knowledge of economics, banking, and the Fed, and to bolster financial literacy among teachers, students, and the general public.

Further directions

I'd like to close with a few thoughts about what you can do to help improve financial literacy. First, reinforce financial literacy lessons at home. Personal financial patterns start taking hold early. One study by researchers at the University of Cambridge in the United Kingdom found that many money management habits of adults are established as early as age seven. So talk with your kids and grandkids about the importance of saving and investing. Maybe give them a piggy bank or set up a college fund that gets regular contributions. Take time with them to track the progress you make over the years. Make it fun.

A second thing you can do is to help ensure that personal finance classes remain a requirement here in Florida. If you are from a state that does not require these classes, press for them.

Third, you can push for financial literacy materials to be shared at the point of sale. Institutions that sell goods often offer some degree of financing to their customers. They should all do their part to ensure that people are making sound financial choices. I would argue that the days of "let the buyer beware" should have ended with the financial crisis a decade ago.

Finally, employers should offer access to financial literacy materials to their staff. If you have employees who are preoccupied with financial stress, they cannot be fully engaged in their work. Tools and pointers can help reduce that stress and help them become more fully productive. To help you with this one, we have placed at your tables some note cards we created that show you how to find financial tips on our website. As you engage with your staff and friends, feel free to use these materials liberally.

Thank you for the opportunity to talk about this important subject with you. As you have likely guessed by now, financial literacy is something I’m quite passionate about. The Atlanta Fed is committed to doing our part to innovate and improve outcomes in this area. I know you are, too.

Now I’ll be happy to take your questions.