

FINANCIAL LITERACY ISSUES BRIEF

Summary of Financial Finesse's Research Findings on Financial Literacy

In response to a 10 year study on financial literacy among US employees, Financial Finesse today announced the launch of the nation's first financial advocacy web site, www.getfinancialfinesse.org—designed to address a national financial literacy problem that has reached crisis proportions and will continue to create economic instability if not resolved.

The company first began to study financial literacy in 1999, by reviewing employees' most pressing financial questions at its workshops. Since then, the study has grown into a national research project, drawing upon primary data from over 300 companies who offer Financial Finesse's financial education services to their employees as a free employee benefit.

The research findings revealed a significant national financial literacy problem—one the company believes played a major role in the current financial crisis.

Among the research findings:



86% of employees indicated that they have no idea whether or not they are on track to retire comfortably.



53% admit they lack a basic knowledge of stocks, bonds and mutual funds.

73% are not sure if the asset allocation of their portfolios is appropriate based on their risk tolerance and time horizon.



43% do not have a handle on their cash flow and spend more than they make each month.



62% have not set up an emergency cash reserve.



23% do not pay their bills on time each month.

According to Financial Finesse's proprietary financial wellness scale, designed by its Think Tank of Certified Financial Planners, employees are in jeopardy in most areas of their financial management, with scores well below what they need to be in order to resolve their financial problems and achieve their financial goals.

On a 1- 10 financial wellness scale, with 10 being optimal financial wellness, employees scored as follows:



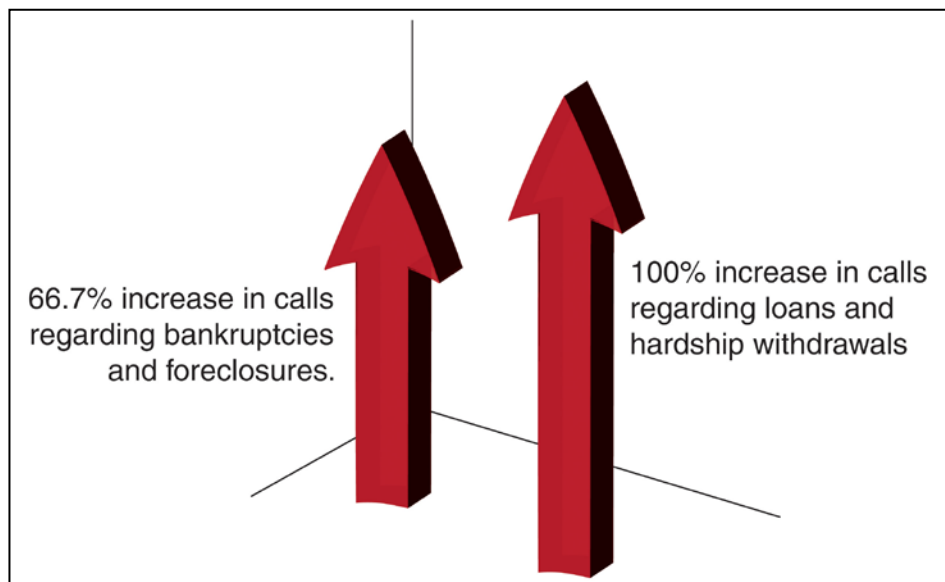
Consequences of the Lack of Financial Literacy Among US Employees

Employees' lack of savvy contributed to the current financial crisis, with millions of Americans taking on mortgages they couldn't afford, incurring too much high-interest-rate credit card debt, investing too aggressively in the stock market and failing to set up a strong financial foundation. All of these mistakes are avoidable with the right education and training—but the vast majority of Americans don't receive financial education in school or at work.

As a result of poor financial literacy and decision-making, financial dynamics have shifted in most American households, away from long-term financial planning and towards day-to-day financial management as Americans scramble to regain their financial footing in the wake of the recession:

- In 2007, 46% of employees who called Financial Finesse's financial helpline focused on long-term financial issues such as retirement planning, sending children to college, estate planning and investing.

- In 2008, the number dropped to just 29% and it currently stands at just 19% with a full **81% of employees focused on day- to- day issues at the expense of longer- term financial planning.**
- **Most calls today center around resolving critical financial problems,** such as cutting expenses in the wake of layoffs, pay decreases, and furloughs, avoiding bankruptcy and foreclosure, taking out 401(k) loans to pay for day-to-day expenses, and other such urgent financial matters.
- The vast majority of calls are reactive in nature, addressing the consequences of poor financial decision making, and calls about emergency situations are on the rise:
 - Calls on bankruptcies and foreclosures have steadily increased, from 6% of total calls in the 1st quarter, up to 10% of calls now.
 - Calls regarding loans and hardship withdrawals from 401(k) plans are up to 18% of total calls from 9% in the 1st quarter of this year.



How We Can Solve the Financial Literacy Problem

As a society, we need to make financial education a priority and integrate it into our school curriculum, our workplace benefits, our financial transactions and our overall culture. We need to attack the problem from all fronts:

- **First, we need to mandate education where necessary** so that anyone who takes out a subprime mortgage, payday advance, or high-interest-rate credit card receives education so that they are aware of the risks and dangers associated with these transactions and can make informed decisions about how to use different financial products and services.

- **Second, we need to make financial education part of the standard, required curriculum** that students must take to graduate elementary, middle and high school so that our children grow up understanding how to effectively manage their money.
- **Third, we need to incentivize companies to offer education to employees** so they understand how to best utilize their financial and retirement benefits to achieve their financial goals. This is particularly important with more employers retiring their pensions as well as their matches within 401(k) plans and switching to consumer directed health care plans. Today, we live in a world where the onus of retirement planning and investing is on the employee—not the employer, as it was generations ago. This has been a sudden and startling transition for many employees, who entered the workforce expecting they would receive a generous pension, retiree medical benefits, and full social security payments. Employees need help navigating this change so that they are fully equipped to make smart financial decisions. In the absence of proper education, their retirement will be at risk.
- **Lastly, we need to ensure that financial advice and financial education are separated** so that there is no conflict of interest in the education that Americans receive. Currently, most Americans who receive financial planning guidance are using commission based financial planners who have a vested interest in selling high fee financial products or services that may not necessarily be in their client's best interest. Imagine a similar scenario in medicine: What if we went to drug company representatives for medical care instead of doctors? Imagine the implications for health care in America if this conflict of interest existed in medicine. We would never tolerate a medical system where patients' health care was undermined by sales quotas, but we allow this to happen in the financial services industry every single day, in many cases with disastrous consequences.

This is not to say that there isn't a place for financial advisors who sell financial products and services. Ultimately, we need to buy securities, mutual funds, and insurance in order to achieve our financial goals and we need to buy these from financial advisors.

The distinction here is that we need to create a separate profession of financial educators who are independent and have no conflict of interest—professionals that we can turn to for financial guidance that is unbiased and designed to help us achieve our personal financial goals—without a sales pitch. Think of them as financial doctors who direct you to the financial advisor when you are ready to conduct a financial transaction. With this system in place, our finances would be a whole lot healthier.