

PERSPECTIVES
personal financial planning

Financial Literacy: CPAs Can Make a Difference

By Susan B. Anders and Timothy M. Crawford

Financial literacy, the ability to effectively evaluate and manage one's finances in order to make prudent decisions toward reaching life goals—basically, knowing what is necessary to achieve financial goals—is much in the news. This is not surprising, considering the impact of financial illiteracy:

- 20% of families with annual incomes below \$50,000 spend close to half of their net income on debt payments (source: Credit Union National Association).

- The average household credit card debt is \$8,562 (source: The Motley Fool Credit Center).

- 40% of families each year spend more than they earn (source: Federal Reserve Board).

- 20% of workers whose employers sponsor retirement plans don't participate, while only 60% of workers are saving for retirement at all (source: Employee Benefit Research Institute).

A Jump Start Coalition for Personal Financial Literacy study revealed that more than half of high school students failed its financial literacy survey. Unfortunately, the problem is not confined to young people. A study published by Rutgers Cooperative Extension (RCE) in 2003 reported average "financial fitness" quiz scores of 65 out of 100. The authors' own pilot study using the RCE quiz in 2005 reflects an average score of 63. The overall financial quiz score on Yahoo Finance ("Website of the Month," page 70) is around 30%.

Addressing the Problem

The U.S. Department of the Treasury established the Office of Financial Education in May 2002. The Financial Literacy and Education Commission, with members from 20

federal departments, agencies, and commissions, was created in 2003 under the Fair and Accurate Credit Transactions Act. As part of its mission, the Commission launched a website (www.mymoney.gov) and a toll-free hotline (888-mymoney).

The U.S. General Accountability Office (GAO) held a forum in July 2004 on the role of government in improving financial literacy and issued a report in November 2004 (www.gao.gov/cgi-bin/getrpt?GAO-05-93SP). Although participants concluded that the federal government should make financial literacy a national priority, they also encouraged public-private partnerships.

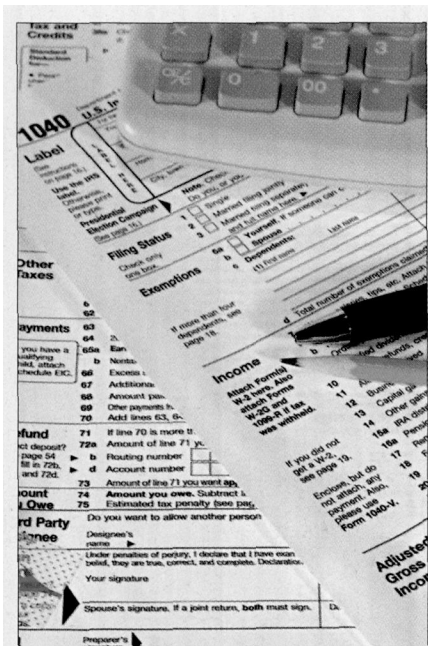
The private sector has also become involved. The AICPA announced its "360 Degrees of Financial Literacy" program (www.aicpa.org) in May 2004. The program's consumer website (www.360financialliteracy.org) debuted in October 2004, and a program aimed at women's financial literacy (www.360financialliteracy.org/women) launched in May 2005.

As of June 2005, eight states require financial-literacy education for high school graduation: Alabama, Georgia, Idaho, Illinois, Kentucky, New York, Texas, and Utah. Many state CPA societies have joined this effort and have either created their own financial-literacy educational materials or linked to the AICPA's online resources.

Calling All CPAs

Government commissions, federal and state laws, and CPA organization initiatives are all well and good, but the average CPA has firsthand knowl-

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edge of the extent of the country's financial literacy problem. Every CPA who has helped a widow reconcile a bank statement, or tried to explain the taxation of mutual fund withdrawals to a client, or prepared an estate tax return while watching heirs fight over an inheritance, knows exactly the depth of our country's need for financial education. No one is better qualified than CPAs to provide financial-literacy training.

Many CPAs are probably unaware that they already know most of the concepts behind basic financial-literacy education. Many topics are common sense to CPAs, and this common sense does not necessarily take years of experience to develop. Accounting students can also help spread financial literacy, and acquire outstanding experience in the process of sharing that common sense within their communities.

A good place that CPAs can begin gathering information to evaluate their potential contribution to financial-literacy education is online at www.aicpa.org/financialliteracy, where the volunteer

resources include background notes on the issues; a script and PowerPoint presentation for a general speech; a downloadable logo; and a mobilization kit with sample brochures, invitations, and evaluation forms. The 360 Degrees consumer website is another good source of information on financial literacy topics. Financial literacy volunteers can register with the AICPA, and after five presentations can become certified financial-literacy volunteers, an excellent resume-builder for accounting students.

Although the AICPA provides a good foundation from which to begin a financial-literacy program, its materials appear to be directed at middle- and upper-income individuals that understand the value of saving and the prudent use of credit. Additionally, much of the AICPA's resources seem to assume that a financial planner or other financial professional will be making the speeches. The most urgent need for basic financial education in many parts of the country lies with the low-to-moderate-income groups. Even

CPAs that are not financial specialists are more than capable and qualified to discuss a variety of topics in plain English with low- and middle-income audiences.

The AICPA materials are organized by life stages that include childhood, college, career, marriage, parenthood, homeownership, and retirement and estate planning. This approach may work well in large cities, where presenters might draw homogeneous middle- and upper-income audiences, but in small towns and rural areas, the potential audiences are more likely to be diverse in age, education, employment, and income. Much of the demand will come from lower-income individuals struggling to make ends meet, and from community groups that serve this population.

An Alternative Approach

St. Bonaventure University is located in rural Cattaraugus County in western New York, an economically depressed and declining area and one of the poorest counties in the state. Two ingredients for a successful financial-literacy program exist there: a large potential audience for which the training could really make a difference, and accounting students interested in service. [See *The CPA Journal*, February 2005, for an article on St. Bonaventure's Volunteer Income Tax Assistance (VITA) program and its efforts to assist the working poor.] Missing was a comprehensive financial-literacy program basic enough to be understood by low-to-moderate-income audiences, one that could be taught by students without lengthy experience in the practice of accounting.

While the AICPA resources provide a start for thinking about what a financial literacy program should entail, many other resources offer materials at a more basic level and from different perspectives. The resources used in developing the St. Bonaventure program materials are detailed in the *Exhibit*. For the St. Bonaventure University 360 Degrees of Financial Literacy Program, an instructor's manual, a participant's manual, a PowerPoint presentation, and a variety of handouts and worksheets were developed from diverse sources.

After discussions with community members, the material was organized by topic rather than by life stage. The seminar is designed to be delivered in two sessions, with

EXHIBIT

Useful Resources for Financial Literacy Volunteers

AICPA Financial Literacy Resource Center	www.aicpa.org/financialliteracy/index.asp
AICPA's 360 Degrees of Financial Literacy	www.360financialliteracy.org
CalCPA's 360 Degrees of Financial Literacy	www.calcpa.org/public/FLC/dollars.htm
TSCPA's Value Your Money	www.valueyourmoney.org
American Savings Education Council	www.asec.org
Choose to Save	www.choosetosave.org
College Assistance Plus	www.collegeassistanceplus.com
Consumer Counseling Credit Service	onlinecounsel.cccsatl.org/index.asp
Crown Financial Ministries	www.crown.org
Employee Benefit Research Institute	www.ebri.org
Hands On Banking	www.handsonbanking.org
IRS's Understanding Taxes	www.irs.gov/app/understandingTaxes/jsp/teacher_home.jsp
<i>Journal of Accountancy</i>	www.aicpa.org/pubs/jofa
MyMoney.gov	www.mymoney.gov
National Endowment for Financial Education	www.nefe.org
Rutgers Cooperative Extension	www.rce.rutgers.edu

the participants completing homework between the sessions. Given the topical organization, the program can be adapted to cover certain segments and not others, based upon the group's needs. The topics discussed here are for the complete program.

The first topic, "Getting Started," discusses eight steps toward financial literacy. The first four are discussed in detail at the beginning: preparing a net worth statement, opening a bank account, paying bills on time, and obtaining a credit report and credit scores. The last four topics—getting a credit card, establishing an emergency fund, creating a budget, and getting good financial advice—are briefly mentioned at the beginning, and discussed in more detail as the seminar progresses. The homework for Getting Started is the preparation of a simple balance sheet, with a paper-and-pencil form provided.

After the Getting Started segment, the seminar progresses through topics that are of vital importance to low-to-moderate-income groups in particular: establishing credit, balancing a checkbook, getting out of debt, building up an emergency fund, how to start saving, and budgeting. Homework assignments include balancing a checkbook and preparing a one-month budget, again with simple forms provided. It became apparent from the first presentation of the seminar that checkbook reconciliation was an important area to address.

Following the "life skills" topics, the program covers insurance, tax basics, investment basics, saving for retirement, estate planning, and wills. Handouts include an insurance summary worksheet, information on IRS publications, an investment risk-return diagram, a retirement planning worksheet, and a living will. Additional information addresses financial record-keeping, teaching children about money management, finding a professional advisor, and Internet resources.

Two topics that could be covered in a financial literacy program, but are not addressed in this seminar, are preparing for college and buying a home. Separate manuals are available on these topics for interested participants. Buying a home is not included in the main seminar because, after consulting local real state agents and other sources, it was emphasized that potential homebuyers need to be on a budget and to have a clean credit record—goals which were already a focus of the general program. Preparing for college is not included due to local demographics, but may be used separately as an outreach to area schools.

More important, community members requested specific resources and referrals on areas such as debt-counseling services. The general program participant manual, as well as the preparing-for-college and buying-a-home manuals, offer specific resources and contact information, including local contacts where applicable. Participants' seminar packets contain sheets for them to note questions that arise as topics are presented, as well as an evaluation form. Certificates of completion are awarded at the end of the seminar, and participants are contacted several weeks later to check on their progress.

Participants are asked to prepare for the program by completing the Rutgers Financial Fitness Quiz, and to bring it to the first session. The St. Bonaventure program has made only one presentation so far, and as noted that pilot group's average score was 63 out of 100, compared to the Rutgers study's 65. While many women were equal to men in financial knowledge, 40% of the

women had very low scores, resulting in an average score for women of 59 and for men of 73. This is comparable to the Rutgers averages (62 and 70, respectively). As many practicing CPAs know from their own experiences, there is great concern about the financial literacy of women as a group. The AICPA's financial literacy campaign for women could not have come soon enough.

Although St. Bonaventure's program has made only one presentation, and the program has not been publicized, community groups have made inquiries about future seminars. The program will also be presented to the general population of seniors at St. Bonaventure, and VITA clients are another obvious target group. The potential audiences that can be reached—and served—by the average CPA and accounting student are almost limitless. □

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TAX REVIEWER

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