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Written Statement

for the

House Committee on Financial Services

"Generations Working Together: Financial Literacy and Social Security Reform"

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By

Dallas Salisbury

President & CEO
Employee Benefit Research Institute

and

American Savings Education Council
(an EBRI Education and Research Fund Program)

Washington, DC

www.ebri.org

www.choosetosave.org

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Summary and Oral Statement of Dallas Salisbury

Chairman Oxley, Ranking Member Frank, and members of the committee: My name is Dallas Salisbury. I am president and chief executive officer of the nonpartisan Employee Benefit Research Institute (EBRI). I am pleased to appear before you today to testify on financial education and financial literacy. EBRI has worked on these issues since its founding in 1978, and expanded its work in 1995 with creation of the American Savings Education Council and in 1997 with the Choose to Save program of public service announcements.

Research has consistently documented that Americans are not financially fit—as most recently documented by the 2005 Retirement Confidence Survey released by EBRI earlier this month (details at www.ebri.org/rcs/2005/index.htm).

To address this problem, we must begin in the schools and in homes by teaching money basics. We must then teach Americans the many aspects of financial risk and how to deal effectively with each. The major risks are not saving, excessive debt, excessive interest expense, poor health, not diversifying investments, or outliving the money you have saved.

For the nearly 60% of workers who are saving at work—through programs like the Federal Thrift Savings Plan and 401(k)s—research has now documented a number of approaches that would improve outcomes:

- Automatic enrollment in work place savings plans, with an opt-out.
- An automatic contribution increase provision.
- Pre-diversified investment options, to simplify the decision-making process.
- Matching the contribution the individual is asked to make.
- Someone to talk to about what to do, and when.

Surveys also underline why education and action are needed:

- The public does not know when they will be eligible for Social Security, how long they are likely to live, how much they need to save for retirement, and much more.
- IRA and plan data show that over half of retirement plan participants have less than $10,000 in their accounts.
- By comparison, look at someone who turns 65 and has no other source of income than the average $9,000-a-year Social Security benefit: The lump-sum value of that annual benefit is about $250,000. That gives you an idea of how small most savings are in America, even among those who have savings.

Most workers have always had to save for themselves in order to have income on top of Social Security in retirement. In the so-called "good old days," about 1/3 of workers spent their entire career with just one employer. Today, that's declined to about 1/4 of all workers. At the height of defined benefit pension coverage, about 1/3 of retirees had pension income in retirement. Among recent retirees, it is now about 31% and declining--and it will be a decline that continues over decades.

So individual savings are essential. Today, both the public and private sectors are doing more to encourage savings than at any other time in history. But, with mixed results.

To take the savings message to every doorstep, EBRI joined other organizations to form the American Savings Education Council in 1995. EBRI then joined with others to create the Jump$tart Coalition for Youth Financial Literacy. Congress passed the SAVER Act in 1997

as we launched the Choose to Save national public service announcement initiative. In 1998 and 2002, the first of three National Summits on Retirement Savings called for by the SAVER Act were held, and the last summit is called for by statute in 2005. Over these years, the SEC held investor education forums around the nation that included many other government agencies and private organizations, as well as similar forums developed by the Office of Personnel Management and the Department of Defense. Now, the statutorily created Financial Literacy Education Commission (or FLEC) is completing its analysis of comments from over 170 organizations as it formulates a national strategy for financial literacy. EBRI and hundreds of other organizations stand at the ready to assist in the 2005 SAVER Summit and in the FLEC strategy implementation.

Unfortunately, no matter how you look at the statistics, the bottom lines are the same: Financial literacy in the nation is not good. Most Americans are not planning for their future by taking control of their current financial situation and saving for retirement and other life events. To change that, we need to sustain and expand the national effort to increase the delivery of financial education in order to increase financial literacy.

Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to meet with you today. There is much to be done, but—one person at a time—we must proceed.

I would be pleased to take questions, and to respond to written questions following the hearing.

Written Testimony of Dallas Salisbury

Chairman Oxley, Ranking Member Frank, and members of the committee: My name is Dallas Salisbury. I am president and CEO of the nonpartisan Employee Benefit Research Institute (EBRI). I am pleased to appear before you today to testify on financial literacy as it relates to decisions Americans face about Social Security and their financial security in retirement.

Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. We do not lobby or advocate specific policy recommendations; our mission is to provide objective and reliable research and information. All of our research is available on the Internet at www.ebri.org

Working with others, EBRI established the American Savings Education Council program in 1995, and the Choose to Save® education program in 1997, to educate the nation on the need to save. Our Choose to Save media public service announcements run across the nation through our partnership with the National Association of Broadcasters and around the world through our partnership with the Department of Defense.

Financial education and financial literacy in America are worthy of constant attention. It has been consistently documented that Americans are not financially prepared. We will only be where we *need* to be as a nation when all Americans understand the many aspects of financial risk, how to deal effectively with each aspect of financial risk, and have begun to do so. What are these risks? The risk of not saving. The risk of excessive debt. The risk of excessive interest expense. The risk of poor health. The risk of not diversifying investments. The risk of outliving the money you have saved. To get the public to the point of being prepared, we must begin by teaching individuals how to track expenses, how to budget, the meaning of compound interest, the nature of a stock and a bond, the danger of inertia, and much more. As a matter of public education, it is quite a challenge.

The need to do better as a nation is made clear by the financial status of today's retiree population. One-quarter of current retirees rely *totally* on Social Security for their income, and have no outside resources. Two-thirds rely *primarily* on Social Security for their income. One-third have annuity income from a pension plan. While today's workers are saving more than those who went before them, but they are not saving enough—and many are not saving at all.

Among the nearly 60% of workers who are saving at work through programs like the Federal Thrift Savings Plan and 401(k)s ,research has now documented a number of things:

- More than a quarter of those who *could* participate in a savings plan do not—but automatic enrollment with an opt-out could dramatically increase participation.
- Less than 8% contribute as much as they could legally contribute, but an automatic contribution increase provision tied to the date of salary increases would be accepted by many workers and would increase savings.
- Many participants in plans do not diversify their investments, and more than three-quarters make no changes in their allocations and do not rebalance—but large numbers would welcome pre-diversified investment options like those now being implemented in the Federal Thrift Savings Plan.
- Surveys indicate that even among investors, large numbers do not know the difference between a stock and a bond.

- Surveys find that the public does not know when they will be eligible for Social Security, how long they are likely to live, how much they need to save for retirement, and much more.
- 401(k) plan data show that more than half of participants have less than $10,000 in their accounts.
- By comparison, look at someone who turns 65 and has no other source of income than the average $9,000-a-year Social Security benefit: The lump-sum value of that annual benefit is about $250,000. That gives you an idea of how small most savings are in America, even among those who have savings.

With changing demographics, projected financing shortfalls in public programs such as Social Security and Medicare, and a transfer in responsibility for retirement savings and distribution decisions from employers to individuals, there is a greater need than ever before for all individuals to actively plan and save for their long-term personal financial security. Without action on the part of individuals, we could at least experience greater income difficulties for Americans as they age, and at worse a dramatic decline in the standard of living of retirees and an increase in elderly poverty. Therefore, financial education—and the financial literacy to which it leads—are of great national importance.

As president of EBRI over the past 27 years, I have had the unique privilege and opportunity to witness firsthand the growth and evolution of financial education in America. I can say that an increasing number of public- and private-sector organizations are committed to the mission of helping Americans to better plan, spend and save for their financial future. Although progress been very slow, this effort is not a matter of choice: It is a matter of necessity. Coalitions of organizations have formed that are committed to the mission of teaching Americans to successfully manage their financial lives.

Americans' consumer debt has climbed to frightening levels, more than doubling over the past 10 years. According to the most recent figures from the Federal Reserve Board, consumer debt has reached more than $2 trillion. This figure, representing credit card and car loan debt, but excluding mortgages, translates into approximately $18,700 per U.S. household. Americans are neither financially literate nor financially fit.

In today's society and economy, it is crucial for an individual to be financially literate. That is, to have the ability to recognize, analyze, and appropriately act upon financial matters affecting one's life demands and goals, both during working years (when people are making decisions about spending, saving and planning for the future) and during retirement (when people must assess how long they are likely to live, manage their assets, and determine how much they can spend each year and not run out of money). Research tells us that there is much to be accomplished.

For example, the 2005 Retirement Confidence Survey released just this month highlights some of the contradictions that education must overcome:

- More than two-thirds of workers are not confident that Social Security and Medicare benefit promises will be kept at current levels.
- Less than %20% of workers believe Social Security *will be* a primary source of income in their retirement—despite the fact that it *currently is* the primary source of income for more than two-thirds of retirees.

- Most workers report having accumulated less than $50,000 in total savings, and only 11% have saved more than $250,000—the lump-sum value of that average $9,000-a-year Social Security benefit.
- More than 85% of workers say they will work after "retirement," yet more than 40% of retirees report having retired earlier than planned due to medical problems or the loss of a job.
- More than two-thirds of workers are concerned that they are behind schedule in their saving, and many of those state that high expenses and debt keep them from saving.

Earlier surveys by EBRI found that less than 40% of adults have ever had a budget—yet only with a clear knowledge of expenses against income, and a budget for savings, are the overall statistics likely to change.

Have the Nation and Work Radically Changed?

The nation and the work force have not changed as much over recent decades, as the headlines would often have us believe. In the so-called "good old days," about one-third of workers spent an entire career with just one employer; today, that is down to about one-quarter of the work force. At the height of defined benefit pension coverage, about one-third of retirees had pension income in retirement; today, among recent retirees, it is now about 31% and declining—and this decline will continue over decades. In other words, most workers have *always* had to save for themselves in order to have income on top of Social Security in retirement. Today, we do more to make that possible than at any other time in history, and we know more than ever about how to get workers to undertake voluntary savings. Mandated savings, like that which occurs in a defined benefit retirement program such as Federal Employee Retirement System (FERS), avoids leaving the results to chance; but as these programs have shown, we now know that the right combination of education, payroll deduction, automatic features in savings programs, and pre-diversified investment options can increase participation and savings.

Are Public and Private Organizations Making Progress?

To take the savings message to every doorstep, EBRI, the Department of Labor, the Department of Treasury, and many private-sector organizations formed the American Savings Education Council in 1995, and the "Savings Matters" program was launched. EBRI and ASEC then joined with others to create the Jump$tart Coalition for Youth Financial Literacy. Congress passed the SAVER Act in 1997 as EBRI launched the Choose to Save national public service announcement initiative. In 1998, the first National Summit on Retirement Savings called for by the SAVER Act was held and brought together 300 delegates from across the nation to develop a strategy for financial education. The second summit, held in 2002, which focused educational initiatives aimed at one's generation, and a third is called for by statute in 2005. Over these years, the SEC has held investor education forums around the nation that included many other government agencies and private organizations, as well as similar forums developed by the Office of Personnel Management and the Department of Defense. Currently, the statutorily created Financial Literacy Education Commission is completing its analysis of comments from more than 170 organizations as it formulates a national strategy for financial literacy. EBRI and hundreds

of other organizations stand at the ready to assist in the 2005 SAVER Summit and in the FLEC strategy implementation.

What Can Data and Surveys Tell Us About Social Security Reform?

First, as I already noted, Social Security is either the *only* or the *primary* income source for most American retirees.

Second, for a growing number of workers, Social Security will be the only annuity income protection they have against the risk of outliving their money. At 91, my father has had a much longer life than he anticipated, and with each passing year Social Security becomes increasingly important to Dad and Mom. Few plan their spending in anticipation of living to that 10% probability. During retirement, budgeting may well be more important than at any other life stage, as going back to work for income becomes less of an option with each passing year.

Third, Social Security annuities save the marriages of retirees' children. This pay-as-you go system automatically transfers funds from working kids to their parents without guilt. More important, it does it without having to negotiate with your spouse on a monthly basis how much money to send to your respective "in-laws." Just think for a moment about how that monthly session would go for you or your children.

Fourth, Social Security does not allow access to funds for reasons other than death, disability, or retirement. We know from IRAs and defined contribution plans (like the Federal Thrift Savings Plan, or TSP) that, given a chance to borrow or take hardship withdrawals, millions will do it—thereby eating into retirement savings and the base for future compound interest.

What Do Data and Research Tell Us About Individual Account Design?

First, that either mandatory participation or a default into a savings account gains the highest levels of participation.

Second, that an employer matching contribution increases the amount that workers will contribute, and an automatic increase provision (as income increases) is the most effective way to achieve contribution growth.

Third, that individuals will place a high percentage of assets in "safe" investments, many will not diversify, and most will never change the mix of investments once set in place—but individuals have a high rate of acceptance of investment options that automatically diversify and rebalance the account.

Fourth, that individuals will generally take a lump-sum distribution at retirement, rather than an annuity, if given a choice, due to what economists describe as the "wealth illusion." Surveys indicate there is an absence of understanding of life expectancy and the primary pooling virtue of an annuity, and the fact that a lump-sum will only last you until average life expectancy, whereas an annuity (pooled with other retirees) can provide a monthly payment as long as you live.

These factors also repeat some of the financial literacy gaps and education needs that I mentioned at the beginning of my testimony.

Social Security Reform Alternatives: Comparing Benefits

A major issue Americans need to understand while making decisions about savings and work place retirement programs relates to what and when Social Security will pay. Social

Security is the most widely recognized and utilized retirement income program in the United States. As I noted, it is the only source of income for 25% of retirees, and the primary source of income for 66% of retirees. Whatever results from Social Security reform, Americans will need to understand how the program works and how it affects their overall financial future. This won't be easy to do: Even though Americans have been getting annual benefit statements for years, only 18% of respondents in our 2005 Retirement Confidence Survey knew the age at which they would be eligible for full benefits. Clearly, most people do not read or understand their Social Security benefit statements.

There are a number of Social Security reform scenarios under consideration. Given the projected funding shortfall currently facing Social Security, the promised benefit is not projected to materialize (with intermediate assumptions), unless changes are made by either reducing benefits or raising revenues.

EBRI research shows how people in different stages of the life cycle will fare under various courses of reform. If the nation settles on including some sort of individual accounts in Social Security, EBRI research shows the only way to achieve greater returns, other than taking a reduction of benefits, is to ensure the accounts are invested in diversified portfolios and not simply more "save" bond funds, assuming past returns are an indication of future returns. Government regulation tells us that we should not assume that the past is an indicator of the future, however, so there is still a risk related to future outcomes. Our research compares "Model 2" from the President's 2001 Commission to Strengthen Social Security (which appears to have the principles for an individual account plan favored by the Bush administration)[1] with three basic options:

- Current-law benefits with taxes raised to cover the shortfall over the 75-year actuarial period, by removing the existing $90,000 wage cap and including all workers.
- Maintain current benefits until the revenue shortfall occurs, and then impose a "cliff" benefit cut.
- A gradual reduction in current-law benefits.

Under current law, a 30-year-old person (born in 1975) and currently making around $16,500 a year would receive an initial annual Social Security retirement benefit of $11,200 in today's dollars.[2] Here is how that individual would fare under the three basic options compared with the projected $11,200 initial annual current-law Social Security benefit:

- Under the cliff benefit cut, where the cut begins in 2042, this individual's benefit would still be $11,200, since he or she would reach the normal retirement age before the steep cut goes in effect.
- If, instead, benefits were cut gradually, so that one generation doesn't face the full impact of the funding deficit, this individual's benefit would fall to $9,600.
- Under Model 2, if approximately half of the individual account was invested in the equity market and historical rates of return were achieved, the annual benefit would be $12,500. Instead, if the entire account were invested in Treasury bonds to avoid the risk of investing in the equity market, the annual benefit would be $10,400.

As you can see, even if a person invested a portion of their payroll tax in an individual account, certain investment allocations would actually result in a *reduced* benefit over other options.

However, for a 20-year-old born 10 years later (in 1985) and currently earning the same amount, the initial Social Security benefit under current law would be $12,500 a year. What then?

- Because this individual will reach the normal retirement age *after* the date when Social Security's revenues will fall below its costs, the steep reduction caused by the cliff benefit cut option would reduce his or her initial benefit to $7,700.
- If the benefit reductions were gradual, the benefit would be $9,800.
- Under Model 2 individual accounts, the benefit would range from $10,800 to $15,700, depending upon the investment of the account assets.

Again, any benefit an individual account provides would fluctuate widely according to early decisions this individual makes.

What about a higher-income, older individual? For example, a 50-year-old individual (born in 1955) and currently earning about $72,500 would have a current-law benefit of $23,200—the same benefit as waiting until the revenue shortfall. Under the gradual reduction in benefits, her or his benefit would be $22,900. Under Model 2 individual accounts, this person's annual benefit would range from $21,000–$21,300, depending on the investments. So, this individual would be better off not contributing to an individual account.

What about someone who is born in 2015? Assuming this individual has average annual earnings of $55,000 in 2005 dollars, his or her current-law benefit would be $36,500. Under the cliff benefit cut option, the benefit would fall to $22,700, and under the gradual reduction in benefits to $24,500. The individual account plan would provide benefits ranging from $19,500–$31,700, depending on the investments. Again, early decisions about investing will greatly impact this person's standard of living long after they are made.

The bottom line: There are some significant differences in outcomes, which depend on when someone is born, how much he or she earns, and how any funds in an individual account are invested. Nevertheless, a few basic conclusions can be drawn from this analysis:

- Lower-income people are more likely to do better under an individual account plan structured like Model 2 than are higher-income individuals, relative to the other options.
- Twenty-something-year-olds and younger individuals (born in 1985 and after) will benefit the most from reform action now, as opposed to waiting.
- Model 2 benefits with historic equity rates of return, are the *average* level of many possible scenarios; because there can be wide variations around an average, the resulting benefit could vary significantly from this average benefit.
- Everyone, regardless of age, income, and personal retirement goals, should be educated on issues of savings, life expectancy, investment allocation, and the basics of Social Security.

The benefits and replacement rates presented above are for very specific individuals who have steady earnings. They are not the benefits individuals should expect if they have a very

different earnings pattern. Full results of this research will be published in the May 2005 *EBRI Issue Brief.*

Conclusion

Unfortunately, no matter how you look at the statistics, the bottom lines are the same:

1. Financial literacy in the nation is not good.
2. Most Americans are not planning for their future by taking control of their current financial situation and saving for retirement and other life events.
3. To change that, we need to sustain and expand the national effort to increase the delivery of financial education

America is a land of great opportunity. However, many of its citizens are passing on their often one-time chance to build wealth and to have financial security by spending beyond their means, not properly planning for life's unexpected events, failing to invest in their own retirement savings, making bad decisions about debt, and not participating in their employers' retirement plans. We feel the greatest shame is that these actions are often done out of simple ignorance.

Organizations in both the private and public sectors must continue to collaborate on all levels to help educate Americans about the importance of taking control of their financial future. By continuing to combine and leverage our comprehensive networks and resources, we have a better chance of reaching people that none of us can reach alone. We need to move financial education into the classrooms as the *No Child Left Behind* program, hopefully, will do), more fully, into the work place, and into senior centers. Whether the issue is compound interest, or how long you are likely to live, there are numerous areas in which research shows that knowledge must be enhanced if lifelong financial security is to be achieved.

The financial security of the nation, including the financial well-being of my parents, their four children, their six grandchildren, and their six great-grandchildren, depend on it.

Mr. Chairman and members of the committee, I commend you for exploring these topics, and thank you for the opportunity to meet with you today. There is much to be done, but—one person at a time—we must proceed. I would be pleased to take questions, and to respond to written questions following the hearing.

Appendix

401(k) Accounts: What the EBRI/ICI Database Shows

To understand Americans' retirement plan investment activity and decisions, EBRI maintains the EBRI/ICI 401(k) database. This is the world's largest repository of information about individual 401(k) plan participant accounts. As of Dec. 31, 2003, the EBRI/ICI database includes statistical information on 15.0 million 401(k) plan participants, in 45,152 employer-sponsored 401(k) plans, holding $776.0 billion in assets. The 2003 EBRI/ICI database covers approximately 35% of the universe of 401(k) plan participants, 10% of plans, and 41% of 401(k) plan assets. The EBRI/ICI data are unique because they cover a wide variety of plan record keepers and, therefore, a wide range of plan sizes offering a variety of investment alternatives. In addition, the database covers a broad range of 401(k) plans, from very large corporations to small businesses.

The most recent findings from this database indicate the portion of 401(k) balances invested in equities increased in 2003, reflecting the strength of equity prices. Beyond the market-driven changes, 401(k) plan participants do not appear to have made significant asset reallocations or to have made changes in their loan activity. Buoyed by strong equity market returns and ongoing contributions, 401(k) account balances increased in 2003. Among participants with accounts since year-end 1999, the average account balance increased 29.1% by 2003. The principal findings as of year-end 2003 are as follows:

Asset Allocation

- On average, at year-end 2003, 45% of 401(k) plan participants' assets were invested in equity funds,[3] 16% in company stock, 9% in balanced funds, 10% in bond funds, 13% in guaranteed investment contracts (GICs) and other stable value funds, and 5% in money funds.
- Equity securities—equity funds, the equity portion of balanced funds, and company stock—represented 67% of 401(k) plan assets at year-end 2003, up from 62% in 2002, generally reflecting the strong performance of the equity markets relative to fixed-income securities.
- Other asset allocation patterns do not seem to have been affected by the strong stock market performance:
  - Younger participants still tended to hold a higher portion of their accounts in equity assets and older participants tended to invest more in fixed-income assets.
  - The mix of investment options offered by a plan, particularly the inclusion of company stock or GICs and other stable value products, significantly affects the asset allocation of participants in a plan.
  - About 13% of the participants in these plans held more than 80% of their account balances in company stock.

Changes in Asset Allocation Over Time

Knowing how people currently participate and allocate their employment-based retirement savings, we need to know what workers do over time. Research shows that few participants make changes in their asset allocations over time. Allocations in equity funds from 1999 to

2002 were generally constant. Reports from individual 401(k) administration firms suggest that nearly 90% of participants make no changes over time.

Annual EBRI *Retirement Confidence Survey*

For the 15th year in 2005, EBRI and Matthew Greenwald & Associates have conducted the country's most established and comprehensive study of the attitudes and behavior of American workers and retirees towards all aspects of saving, retirement planning, and long-term financial security, the *Retirement Confidence Survey (RCS)*. This annual survey is a random, nationally representative survey of 1,000 individuals age 25 and over. The survey contains a core set of questions that is asked annually, allowing key attitudes and self-reported behavior patterns to be tracked over time. We also add special questions each year.

This year's findings shed light on a number of issues relevant to financial literacy related to retirement planning and savings. We found that:

- Employers with a retirement plan can help their workers achieve investment diversification through the investment options they offer. Employers looking to help employees make more informed investment allocations may be able to do so more efficiently by offering lifestyle or lifecycle funds. Among participants not currently offered these types of funds, 23% say they would be *very* likely to participate in a lifecycle fund, 21% would be *very* likely to participate in a lifestyle fund, and 15% would be *very* likely to participate in a managed account.
- Half or more think they would be *much more* or *somewhat more* likely to participate if there was a provision that automatically raises workers' contributions by a fixed amount or percentage when they receive a pay raise (55%).
- A third said a managed account would persuade them to participate (35%).
- Automatic enrollment in 401(k) plans, as opposed to waiting for the worker to sign up, could also increase plan participation and savings. Non-participants appear to accept automatic enrollment—40% say they would be *very* likely to stay in the plan if their employer automatically enrolled them in one, and 26% would be *somewhat* likely to do so.
- Workers are more likely to save through the work place than on their own. More than 8 in 10 eligible workers say they participate in a work-place retirement savings plan (82%); 38% of workers have an individual retirement account (IRA). Promoting plans that allow automatic withdrawals from individual bank accounts may not significantly increase nonwork-place savings. In this case, ignorance is not the issue: Nearly 7 in 10 of those who do not currently use automatic withdrawals for retirement savings are already aware that they have this option (68%).

Americans' Greatest Financial Education Needs

What We Already Know

In determining what needs are unmet in financial literacy, EBRI has reviewed past recommendations from a number of forums, hearings, and summits on the topic. A few issues consistently came to the fore. Those are:

- The federal government needs to 1) work more cooperatively and efficiently, 2) make financial literacy an issue of national importance, 3) make use of current

government and nonprofit programs, and 4) set standards for evaluation tools, serve as clearinghouse for them, and disseminate best practices.

- Federal government policy should encourage and facilitate easy savings through the work place, including more small businesses and individual savings.
- Nonprofit organizations should 1) participate in creating a national plan, and 2) cooperate and coordinate with other organizations.
- Employers should institute voluntary efforts in employee retirement plan participation.
- Education programs should target 1) employees, 2) youth, and 3) minorities under-represented in current retirement savings. In addition, these programs should teach through segmented affinity groups such as sports teams, social clubs, religious organizations, community service organizations, etc.
- Topics to teach should include both basic skills (such as budgeting) and "higher-level" skills (such as retirement planning, investing, and managing debt).

Some of these items have seen action. The Financial Literacy and Education Commission was established under Title V, the Financial Literacy and Education Improvement Act, which was part of the Fair and Accurate Credit Transactions Act of 2003, to improve financial literacy and education of persons in the United States. The Commission is now working on a national strategy, under legislative mandate, that will address many of these issues. The administration and Congress are called upon by the SAVER Act of 1997 to hold the third National Summit on Retirement Savings before the end of 2005, to further identify initiatives that should be undertaken by the public and private sectors. Also, the Office of Personnel Management, under a recent congressional mandate, is working on an education strategy for the federal work force. Finally, under the *No Child Left Behind* law, financial literacy topics will be added to national examinations in the years ahead.

All of these actions represent recognition that concerted action is needed to move Americans to the knowledge levels needed if future retirees are going to have greater financial security in retirement than today's retirees.

What EBRI Is Doing to Improve Financial Literacy

Choose to Save®

EBRI is undertaking its own efforts to improve financial literacy among Americans. Our Emmy-award winning *Choose to Save®* (CTS) public education program began in 1995 as we worked with the U.S. Department of Labor on ways to implement a public education campaign on the importance of savings and financial security.

CTS includes educational brochures, radio and TV public service announcements (PSAs) in primetime, newspaper ads, and outdoor displays. Although the program stresses the seriousness of the savings message, it uses humor and positive examples to help people overcome their reluctance to address financial issues. Through local and national partnerships, the PSAs now run on radio and television stations in hundreds of cities in all 50 states. In addition, CTS PSAs are shown on military bases and ships worldwide.

ASEC

The American Savings Education Council (ASEC), an EBRI program, is a nonprofit national coalition of public- and private-sector institutions undertaking initiatives to raise public awareness about what is needed to ensure long-term personal financial independence. ASEC works through its partners to educate Americans on all aspects of personal finance and wealth development, including credit management, college savings, home purchase, and retirement planning. ASEC's goal is to make saving and planning a vital concern of all Americans.

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[1] See the President's Commission to Strengthen Social Security report for a further discussion of this model, as well as the other models that were offered by the commission at www.csss.gov/reports/Final_report.pdf.

[2] The $10,000 annual salary is 27 percent of the average wage, $16,500 is 45 percent of the average wage, $36,500 is 100 percent, $55,000 is 150 percent, $72,500 is 200 percent, and $95,000 is 260 percent. Each worker maintains this percentage of the average wage throughout his or her career.

[3] "Funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated (see page 6 for definitions of the investment categories used in this paper). Unless otherwise indicated, all asset allocation averages are expressed as a dollar-weighted average.