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Before House Financial Services Panel:

Social Security Debate Shows Growing Need for Financial Literacy, EBRI's Salisbury Testifies

WASHINGTON, DC—The current debate over Social Security—whether or not individual accounts are added to the program—demonstrates the acute need for improving financial literacy in the United States, Dallas Salisbury, president of the Employee Benefit Research Institute (EBRI), testified today.

“Unfortunately, no matter how you look at the statistics, the bottom lines are the same: Financial literacy in the nation is not good, and most Americans are not planning for their financial future and saving for retirement and other life events,” Salisbury said, speaking at a hearing by the House Committee on Financial Services. “To change that, we need to sustain and expand the national effort to increase the delivery of financial education.”

Salisbury cited statistics showing that Social Security is the *only* source of income for 25% of retirees, and the *primary* source of income for 66% of retirees. With the vast majority of this nation’s retirees depending on a program that is facing a financial shortfall, Salisbury said it is crucial that more Americans learn the basics of how to handle money and control their finances.

“Whatever results from Social Security reform, Americans will need to understand how the program works and how it affects their overall financial future,” Salisbury said. He added that “this won’t be easy to do,” since EBRI research shows only 18% of workers know at what age they will be eligible for full Social Security benefits, even though Americans have been getting annual benefit statements for years. “Clearly, most people do not read or understand their Social Security benefit statements,” he said.

Salisbury defined financial literacy as “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).”

He noted that “it has been consistently documented that Americans are not financially prepared,” but that all Americans need understand the many aspects of financial risk and how to deal effectively with each aspect of financial risk. Among the major financial risks he listed were not saving, having excessive debt and bearing excessive interest expense, not diversifying investments, and the risk of outliving the money individuals have saved.

To get the public to the point of being prepared, he said, both public and private efforts are needed to begin 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. Salisbury noted this effort has already begun, and there are extensive and growing coalitions aimed at improving financial literacy; nevertheless, he added, “as a matter of public education, it is quite a challenge.”

Salisbury’s full testimony before the committee is on the Internet at www.ebri.org

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