IT'S TIME TO ACCEPT FINANCIAL RESPONSIBILITY

Failure to Take Control of Finances Creates
Burden for Individuals, Families, Society

ENGLEWOOD, COLORADO—The news of financial distress is all around us; we see and hear about it daily in reports of increasing poverty, personal bankruptcies and business failures across the nation. But in the midst of this disturbing information, there is a paradox: spending is at an all-time high. In early 2004, the Federal Reserve announced consumer debt had topped $2 trillion for the first time.[1] Later in the same year, the Administrative Office of the U.S. Courts, which handles federal bankruptcy filings, announced nearly 1.6 million non-business bankruptcy cases for fiscal 2004.[2]

The president of a national financial foundation contends that the problem could be significantly diminished if Americans took greater responsibility for their finances. "Too many people have been challenged to manage their money effectively. Achieving financial stability for themselves and their families should be a top priority. Otherwise, they may find themselves deeply in debt and without the resources they need for the long-term," said William L. Anthes, Ph.D., of the National Endowment for Financial Education® (NEFE®).

Anthes emphasized that unless Americans confront to the need to take control of their finances, they run the risk of becoming a burden to their families and on society at large. "People are under tremendous pressure to spend rather than save," he said. "Advertisers, peers, even their own family members urge them to buy things, from expensive SUVs to designer clothes, regardless of price or need. As a result, the current financial behavior of many Americans casts an alarming shadow across the future of this nation," he said.

To address the issue, NEFE recently sponsored and hosted a think tank titled "Motivating Americans to Develop Constructive Financial Behaviors." A group of financial educators, researchers, behaviorists, practitioners, nonprofit leaders and financial service providers from throughout the U.S. met in Denver for two days in an effort to identify ways to inspire and maintain positive change in the way Americans manage their finances. In addition, the participants submitted relevant research papers or articles in advance of the meeting, and these publications provided the groundwork for much of the think tank's discussion.

Kathleen Gurney, Ph.D., founder and CEO of Financial Psychology Corporation, facilitated the meeting, during which participants considered the factors behind negative financial behaviors, as well as ways to reverse them. The think tank resulted in the development of a series of simple, actionable tips to help individuals in their efforts to become financially responsible. They are:

- **Start with a single step.** It may be intimidating to think about making a major change in financial behavior, but starting slowly can be manageable and rewarding. Remember that you do not have to do everything at once. For example, you may start by tracking your spending. Begin by writing down all of your expenditures for a month, factoring in the things you pay for a few times a year, such as car insurance. The exercise will help you identify items or habits that you can omit or change easily, which should move you along in the financial planning process.

- **Distinguish between wants and needs.** When deciding to make a purchase, ask yourself whether the item in question is something you truly need, or merely something you desire. It is important to recognize that there is a big difference between the two. Needs are basic to survival; wants make survival more comfortable. For example, while people genuinely need food and shelter, they only *think* they need a new car every few years. Indulge in some wants you can afford, but always consider less expensive options.

- **Resist or avoid "buy" messages.** Carefully crafted images of wealth, shown in various types of media advertisements, are designed to motivate you to buy products and services regardless of what they cost. Stay focused on the long term, and analyze purchases in order to avoid, or at least minimize, spending on big-ticket extravagances, such as luxury cars, expensive vacations or high-priced home products.

- **Keep debt under control.** While it may be impossible to avoid debt entirely, make every effort to minimize the amount you owe. Borrow money only when you have considered the implications of a loan. With credit cards, always pay more than the minimum monthly requirement; if possible, pay the entire balance every month to avoid interest charges. Forego a short-term purchase if it requires borrowing, and hold out for sales.

- **Start saving early.** The earlier you begin saving, the better. Through compound interest, modest savings accumulated early in life can develop into a significant fund for retirement. For instance, if a young person puts $2,000 a year into a Roth Investment Retirement Account (Roth IRA) for 10 years beginning at age 20, and earns an average of eight percent per year on the investment, he or she will have roughly $1 million tax free at age 65—without investing anything in the intervening years.

- **Manage your risk.** In order to protect your assets, maintain an emergency savings fund to cover manageable problems, such as home maintenance and car repairs. For emergencies that you cannot afford out of pocket, you need insurance. Most states require automobile insurance, and lenders generally require homeowners' insurance. Other types of coverage, such as disability and long-term care insurance, are a matter of personal judgment and income level, but they, too, are important. Be sure to take full advantage of workplace benefits, such as health insurance and retirement plans.

- **Stay focused on your life goals.** Once you set goals to help you achieve the lifestyle you want for the long term, begin to save whatever it takes to meet those goals. Many financial planners suggest setting aside 15 to 20 percent of your income over the course of your career. Always pay yourself first; have a specific amount of money automatically deducted from your paycheck for savings and investments. Save as much as possible from salary raises or bonuses. With each purchase, consider the impact on your financial goals.

- **Avoid so-called "fringe banking services."** Check-cashing stores and payday lenders may provide quick cash, but they often charge triple-digit interest rates. Rent-to-own stores are another potential money drain; what you pay for renting furniture or appliances quickly climbs above the value of the products. Try to limit your financial transactions to banks and credit unions.

- **Find a financial balance.** Long-term goals, such as buying a home and saving for retirement, should guide your spending decisions, but everyone needs a balanced life that includes leisure activities and recreation. Keep your goals in mind while you do the things that make you happy in the short term. For example, buy discount tickets to concerts and events, take vacations when prices are down and limit your shopping by declaring a "mall-free" or "spending-free" weekend.

- **Share financial information with your family.** Parents should present a united financial front to their children and begin educating them about money early. By giving your youngsters an allowance or letting them earn one, you will help them learn to manage their own funds and save for things they want. Take them to the bank, and help them open their own accounts when they are old enough to understand the implications. Remember, your children will model your behavior.

Also, remember that your spending and saving choices affect not only the well-being of you and your family, but also that of your community and your nation. If you fail to save adequately for retirement, for instance, you create a financial burden for society. By over-consuming, you add to the backlog of goods that clog your lifestyle and our environment.

Anthes summarized the overriding message of the think tank and the consumer tips it produced by saying, "We live within an increasingly complex economic system that demands financial responsibility on the part of all individuals. Being financially independent is not a choice; today, it's a requirement."

For additional details on the think tank read the white paper titled "Motivating Americans to Develop Constructive Financial Behaviors," accessible on the NEFE Web site at http://www.nefe.org/. From the homepage, select Innovative Thinking, then Research & Strategy.

1 William Branigin, "Consumer Debt Grows at Alarming Pace," from "Highlights," washingtonpost.com on MSNBC.com, January 12, 2004, accessible at http://www.msnbc.msn.com/Default.aspx?id=3939463&p1=0.

2 Administrative Office of the U.S. Courts, Press Release August 27, 2004. Fiscal 2004 bankruptcy statistics from the Administrative Office of the U.S. Courts, press release dated August 27, accessible at http://www.uscourts.gov/Press_Releases/.