



General Financial Literacy Speech

Knowing What You Need To Know To Achieve Your Financial Goals

[Thank Introducer]

One thing about being a CPA – almost everyone is going to have a question for you. It used to be that most of the questions were about taxes. “Can the government really make me pay that?” Now, the questions are more and more likely to be about a wide range of financial matters.

With a growing number of Americans in the stock market, running their own business, and managing 401(K) plans, the premium on financial knowledge is greater than ever – and so is the cost of not knowing how to manage personal and business finances, what we call financial illiteracy.

The cost of financial illiteracy is certainly high. It is a cost that many Americans are bearing.

Let me share some startling realities.

Forty-three per cent of Americans live above their means, spending \$1.22 for every dollar they earn. The average household credit card debt is more than \$8,000. In 2003, 1.6 million Americans filed for bankruptcy – the highest amount in history and twice the number since 1993.

According to a recent Roper Poll commissioned by the American Institute for Certified Public Accountants (AICPA), many Americans lack a basic understanding of how to prepare for their short- and long-term financial needs. For example:

- Nearly two-thirds of Americans 65 and older do not feel fully confident they have the knowledge they need for adequate retirement planning;
- Nearly half of all Americans are unfamiliar with the impact a 401K plan can have;
- Income replacement (retirement funds or other money needed to replace a current salary) is an unknown concept for 61 percent of Americans;
- A quarter of Americans said they would file for bankruptcy if faced with an unmanageable financial emergency.

Too often, financial illiteracy is something we pass on to the next generation. In a national survey this year measuring financial knowledge, high school seniors scored an average of 52 per cent – a failing grade.

Financial illiteracy is reflected in the inability of many to develop a comprehensive financial plan. That is one of the reasons that two out of every three American households will probably fail to realize one or more of their life goals.

In the era of the new investor class, financial illiteracy leaves people open to questionable investments. It leaves them more exposed to identity theft. It means that millions of Americans will not be financially prepared for their retirement years.

Financial illiteracy has costs for individuals and families but it also has the potential for dire consequences on the national economy. An example is the tremendous consumer-spending rate Americans maintained even during the recent slow economy. Although economic indicators suggested lower spending, Americans continued to borrow more as

interest rates on car loans and home mortgages remained historically low—below 6% for 30-year loans. Many consumers failed to consider the financial implications of higher debt balances.

Of course, many are concerned about the impact on the economy of government debt. Without getting sidetracked away from the issue of individual and family financial planning, this is another area in which the need for public awareness is high. As federal Comptroller General David Walker, who is also a CPA, pointed out in May during a press conference with the American Institute of Certified Public Accountants, “a clear understanding of our nation’s overall financial condition and fiscal outlook is an indispensable part of true financial literacy.”

Americans need to take a good look at how their level of financial awareness affects their own financial future. You know the old Chinese proverb? “If you give a man a fish you feed him for a day, if you teach him how to fish he can feed himself for a lifetime.” Educating people in financial management helps them to plan and save for a lifetime.

The truth is, managing your money is a lifelong journey, not a destination. It’s a journey that includes many important financial decisions and life choices – such as home ownership, education and retirement.

Maybe the best place to start is by asking: what exactly is financial literacy?

It’s the ability to effectively evaluate and manage one’s finances in order to make prudent decisions toward reaching life’s goals. It includes understanding money, cash flow, basic economic and financial concepts, debt management and risk management. It includes practicing sound financial management and understanding ways to build financial security. More and more, it is also a matter of understanding how the capital markets function. The

best-protected investor is a well-informed investor.

That covers an awful lot of territory. Not surprisingly, it is not something that can be learned overnight. It is an area of knowledge that has to be continually built upon over a lifetime. And it is a hands-on exercise; a skill you improve by putting it into practice—developing and implementing sound financial strategies.

The goal of financial literacy is to help you meet your everyday needs and successfully plan for the milestones of life.

When it comes to personal finances, you need to know what you have today and plan for what you want and need in the future.

Let's take a look at how financial literacy affects your daily life. There are five basic areas of personal finance that people need to understand to become financial literate, starting with money and income.

Perhaps the most important thing to understand about money and income is that it involves a series of trade-offs. Trade-offs among career choices. Trade-offs based on the education you obtain and skills you acquire.

One of the most important trade-offs is between time and effort. The old saying sums it up: time is money.

It's important to get into the habit of thinking of money in terms of time. It's easy to lose track of what the dollar amounts mean. They're abstract. But if a teenager starts thinking that the \$20 CD she is thinking of buying represents an evening of baby sitting, that is the point when she can start making informed trade-offs.

How about you? How many hours of work does your monthly mortgage or rent payment

represent? What about the car payment? At what point in the month have you finished earning enough money to make the next payment?

Not only should we think of money in terms of time, we should think of it in the smallest unit of time possible. It's important to get a sense of how much you earn not only on an annual basis, but also on an hourly basis. When you focus on how much you earn in an hour or so – how much you earn, say, between the time you get to work and the time you take a morning coffee break – then you are able to get a clearer sense of your actual ability to generate income.

For example, according to the U.S. Department of Labor, in 2000, the median annual earnings of executive secretaries and administrative assistants was \$31,090. It would take a person earning this salary almost an hour and a half to earn the money to buy a \$20 sweater.

You have to take into account all sources of income—earned and unearned. What are you generating on the savings bond your great-aunt gave you for your birthday?

It's also important to focus on your net income, not the part that goes to Uncle Sam. And when you're planning ahead, remember money isn't static. Inflation reduces the purchasing power of income.

The second basic is managing money. Perhaps the toughest part of that is constantly keeping in mind the big gap between what we want and what we can afford. Let's face it; few people ever get the money to purchase everything they want. That's why we need to think about our priorities before we spend. Remember, financial literacy can be defined as the ability to effectively evaluate and manage one's finances in order to make prudent decisions towards reaching life's goals.

The truth is, money likes a bit of control. That's why we make a budget – a spending plan to help forecast and control expenses. If you fail to plan, you plan to fail. Two out of three Americans will fail to realize one or more of their major goals in life, such as home ownership, college savings or early retirement, because they've failed to develop a comprehensive financial plan. By watching what we spend and carefully allocating our money, we can monitor our cash flow and save for bigger items we'd like to purchase.

The third basic of financial literacy is the relationship between spending and debt. In this area, the world is divided between those who recognize credit as a basic financial tool, and those who can't seem to distinguish credit from free money.

Whenever you purchase an item, you take from your income to pay for it. It doesn't matter whether the actual bill is paid all at once or in stages.

The next element of financial literacy is saving and investing. Here, we are dependent upon a discipline that is crucial to growing up – the ability to delay gratification. That is the key to financial maturity. Simply put, saving means not spending money. Saving doesn't take brainpower, it takes willpower. That's why it's so hard to do.

Investing, on the other hand, means that you earn a return on the money you put into it. Essentially, savings accounts are investments, though they earn a low rate of return.

Saving is the first step. Save for a while and then invest when you feel ready. To help delay gratification, it's important to look to the future. Identify long-term goals. Compare every expenditure to your long-term goals, and ask: is it worth spending this money now if it endangers my future goals? It's important to think of investments in concrete terms. They aren't just lifeless numbers. They are life goals, and the numbers represent how

close we are coming to achieving them.

Increasingly, financial literacy is also a matter of understanding the financial markets. Keep in mind; half of Americans own stocks today either directly or through retirement plans. That's a huge increase over the past 20 years. When it comes to investing, millions of Americans are getting their hands wrapped around the steering wheel. They're entitled to some driver's Ed.

Investors have to understand the difference between a fair risk, based on information that is available to everyone, and an unfair risk, exposed to fraud, manipulation, or illegal insider information.

And that leads me to the fifth basic of financial literacy: risk management.

There are obvious risks to spending money. It threatens your lifetime goals, and leaves you exposed. But sometimes there are risks to not spending if it's something you really need. When it comes to investments, there are risks either way.

There are ways to mitigate these risks. There are methods of risk avoidance and risk control. It is possible to transfer risk, through insurance. Insurance protects against major losses incurred through disaster or unexpected life crises such as death or medical emergency.

It is increasingly necessary to protect yourself from the risk of identity theft. Without being too specific, perhaps the best advice can be summarized in another old saying: you can never be too careful. Never share your personal or financial information over the phone or through the Internet with those you don't know.

Once you understand these basics, you can map out what you want your financial future

to look like.

Financial literacy isn't just a matter of knowing what you have and knowing your options. It is also a matter of planning for life's milestones.

Milestones like creating your first comprehensive long-term financial plan.

That's a matter of determining what is important to you, and defining your goals. It's a matter of assessing your current financial situation, and evaluating the various alternatives available to meet your goals.

But life doesn't always go according to plan. That's why it's important to monitor your plan.

Is your financial situation where you expected it to be at this point? Are you falling behind?

Where have the shortfalls occurred –on the spending side or the income side?

And of course, it's important to keep updating your plan, to keep it line with changing reality.

We have to plan for milestones like buying our first home.

That should start long before you actually buy. It starts even before you begin to save for the down payment.

It starts with establishing good credit.

It's also important to know exactly what you're getting into, and what the real costs are.

That includes the cost of repaying the mortgage, but it also includes the ongoing costs of household expenses.

There's some homework involved, like comparing the financing and refinancing alternatives – and understanding what's right for you.

There are risks to home ownership. It's important to assess the various insurance policies available to manage and mitigate them.

Another important milestone to look at – getting married. Preparing a financial plan may not be the most romantic subject. But look at it this way: it's a lot easier for love to bloom when it's protected from financial woes.

The truth is, marriage may be a partnership based on love, but it is still a partnership. Among other things, it's a “financial partnership.”

There are a number of financial and legal issues to consider, including establishing separate and joint credit, creating wills and trusts, naming beneficiaries and owners of title on assets.

Once you've prepared a financial plan for getting married, the next obvious step is a financial plan for starting a family. I don't know if two can live as cheaply as one – but as a **mother/father**, I certainly know that three can't.

Those of you who are already parents know exactly what I mean. From the moment the children are born, parenting seems to be a matter of budgeting. That includes long-term budgeting, like saving for the children's education. It includes immediate costs, like paying for health care and childcare.

Parenting is also a matter of managing risk, including financial risk. That includes assessing life insurance needs, and creating wills and trusts to establish guardianships and financial support. It includes assessing your cash flows and debt management decisions.

And there's one other parental responsibility that some forget: instilling financial literacy in your children from the start.

The next big milestone we should look at is starting a business. With any luck, this is one milestone that will end up helping you pay for some of the others. But until it does, it takes very careful planning.

It also takes understanding of financing and start-up considerations. It's necessary to identify cash flow needs and manage income and expenses.

Of course, it's important to know where to find assistance when you need it.

It's a day-to-day matter of building and maintaining the value of your business, and keeping track of that process.

You should always be thinking about retirement. The first step in planning for your retirement is to determine how much money you will need. A ballpark figure is that in order to retire with financial security, you typically need 70% to 100% of your preretirement income. Of course, this is a broad rule of thumb. You will have to estimate your needs based on your individual goals and desires.

You should also determine where your retirement income would come from. Some possible sources include Social Security, employer pension plans, personal retirement savings accounts, personal investments, part-time work or consulting. It's important to know that Social Security will most likely not be able to provide all of your retirement income. Keep that in mind as you look for to other sources.

Planning for retirement requires setting concrete goals. Think about what you really want

to do and how you want to live during your golden years. Then take a close look at your personal financial profile. Review your investments, insurance, credit rating, housing situation, and income to determine what you'll need for your future. Devise a budget and investment strategy to help you meet those goals.

There is another milestone we all have to plan for. And the way to plan for it is by preparing a will. Hopefully, you're going to build up significant assets over the course of your life. No doubt, you will want to protect them for your heirs.

You will want to properly designate beneficiaries, determine the distribution of assets upon your death and identify insurance needs to cover funeral costs and family needs.

A will is not restricted to matters of dollars and cents. There are issues like naming a guardian for your minor children and creating medical and other powers of attorney in the event of your incapacity. It is important to prepare letters of instruction to identify wishes upon your death.

It would be nice if we can predict all of the milestones in our life. Getting married, buying a home, having children. Those are some expected milestones. But financial planning must also include preparing for the unexpected.

It must include dealing with loss. It could be something as life altering as a natural disaster, or something less catastrophic, like the loss of a job. Either way, the best way to deal with the problem is adopting the Boy Scout credo – “be prepared.”

One way to make sure you are prepared is by making a habit of paying yourself first each month. Financial experts often recommend that households maintain a liquid emergency fund equivalent to three to six months of income.

Financial plans must include the recognition that we may be faced with an unexpected challenge – being sandwiched between caring for our young children, and for our elderly parents. For members of the new “sandwich generation”, this can be not only emotionally stressing, but stressful on the finances.

Nearly two-thirds of marriages end in divorce. It isn't something you want to plan for, but if it happens to you, it will affect your finances.

What are some of the ways you can learn financial literacy?

You might want to start in your own backyard. Does your local community college or university offer lifelong learning courses? It would be worth checking out the school calendar.

Information can be as close as your newspaper. Do you read the financial section? Do you check out financial periodicals? If you don't subscribe, they're probably available at the local library. But be aware. Information from sources like these can provide only part of the picture rather than your full range of financial options.

Nowadays, television is a bigger source of financial information than ever. There are specialty cable channels like CNBC, Bloomberg and CNNfn, not to mention the fact that the network news programs devote more time to financial news than ever before. When it comes up during sweep weeks, that's when you know that more people are into investing and financial planning.

Of course, one of the biggest sources of information today is the web. That's true of financial information as well. The cable business networks all have websites, as does CBS Marketwatch. There are plenty of other sites as well. But be careful. The web is also

one of the biggest sources of sales pitches – some of them less trustworthy than others. Be careful before you sign up for anything.

Where else can you turn for help in developing financial literacy? Visit Web sites of government, not for profit and financial organizations, such as the U.S. Department of Treasury's Office of Financial Education, the IRS, American Savings Education Council (ASEC), Jump\$tart Coalition for Personal Financial Literacy, Consumer Federation of America, or the American Association of Retired Persons (AARP).

If you own or are starting a small business, you'd be well advised to check out the website of the Small Business Administration website (www.sba.gov).

Achieving financial literacy begins in grades K-12, but it doesn't stop there. It is a lifelong process that evolves as your life evolves.

At the state level, the SPEAKER'S STATE SOCIETY creates a number of programs and tools that you can use to build your financial literacy. That includes **[describe state programs and/or tools here.]**

Here in **[name of city, town or county]** the CPA Profession is **[describe local initiatives]**.

The CPA Profession has created a new Web site with information to help you make financial decisions at every stage of your life. Visit the 360 Degrees of Financial Literacy Web site at www.360financialliteracy.org.

As you can see, sound financial planning offers enormous benefits. Upgrading your financial skills can make a big difference in your life, and the lives of your loved ones.

Money can't buy happiness, but it can provide you with a sense of security and an avenue of opportunity for your children.

But the truth is, we have to work as hard at managing our money as we do at earning it.

Thank you.