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Pound Foolish, Financial Education, and Success

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"The Learners will inherit the future.
The learned will be prepared for a world
that no longer exists."

Eric Hoffer

About Independent Means Inc.

Since 1992, Independent Means, Inc. (IMI) has been the preeminent provider of financial education for families. A fusion of experiential learning, fun and engaging activities, and purposeful skill building is the hallmark of programs and services offered by IMI. From the highly customized Great Families Program to specialized events like Inside Baseball, Fashion and Finance, and Camp Start-Up, IMI works with families who believe that learning is a life-long process, not an event. Equipping family members with the tools and knowledge to sustain assets, "audit the auditor," exercise sound financial judgment, and make sense of expert—and sometimes conflicting—advice is an imperative of great families and the mission of IMI.

About the Author

Joline Godfrey is the CEO of Independent Means Inc. and an innovator in financial education for children and families. She is the author of *Raising Financially Fit Kids, No More Frogs To Kiss: 99 Ways to Give Economic Power to Girls*, and other books. She holds a Masters of Social Work from Boston University and was a Kellogg Leadership Fellow.

I think a lot about what success means in the context of financial education.

How do we know if the methods and content we offer families have any impact? How can families know if the work they are doing is worth the time and money invested? What exactly does success look like?

In the early days of Independent Means (actually back when we were still a fledgling non-profit in the early 1990s) I plowed forward with our programs mostly as a leap of faith. I was scared silly most of the time because I really didn't know if anything we were doing would make a real difference or not. It was an experiment—and at the time I felt it was better to try something than do nothing. Still, I worried all the time about whether I had anything of value to offer.

Now, in the light of two decades in the field, I am confident. I've acquired some wisdom, made some verifiable observations, seen impact, made mistakes large enough to affect my learning curve, and I no longer suffer from secret fears of offering snake oil. Even so, we're constantly searching for reliable ways to measure and report success, whatever that is—and it is no surprise that different families think of success in different ways.

For some families it's a demonstration of expertise: *Does my son/daughter know how to calculate the time/value of money? Can they manage a budget?*

For others it's a matter of trust: *Can I send them away to school and feel secure they will make good judgments on their own? If I increase their allowance and pay it out monthly, will they manage wisely through the end of the month? Three months? Can I reduce the amount of subsidy we're providing to that 25 year old?*

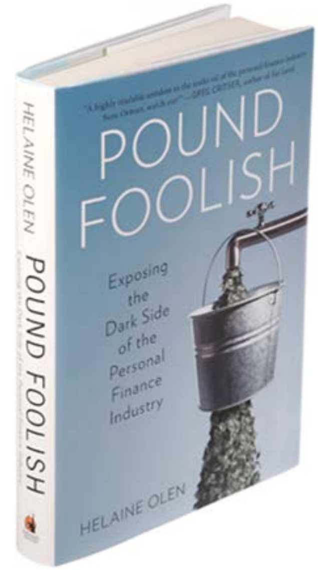
And for others, it's the embodiment of values, demonstrated in a recent conversation with a college freshman. The family meeting had gone well that morning, and over lunch, conversation turned to a consideration of how the family's financial education program was proceeding after the first two years.

At one point I turned to C, the eldest grandchild and a freshman at a top NYC college. "How has this process been for you?" I asked. "What impact do you think it has had on you?"

C. thought for a moment and said, *"Last year at Christmas I went shopping with some of my friends. And I was aware they were buying gifts for their parents with the parents' own credit cards. That struck me as very weird. I'd saved money from a summer job to buy presents for my parents and my sister, and I took a lot of care with what I chose. They bought things randomly, without much thought to what their parents might actually like. I think the process has made me think pretty carefully about how I make decisions about money."*

C. doesn't yet manage her budget to the penny as well as some of the other kids we work with, but she is a thoughtful young woman who is mindful of her financial habits. I think her family and I agree that her attitude is a "success" and she is on a path of life long learning—her knowledge will build over time as an outcome of the values and mindfulness of her financial behavior. And in the meantime, we meet regularly to deepen her skills and awareness. Success in this case is an emergent, unfolding process.

This notion of success is preoccupying me more than usual these days, in part because of the publication of a new book I've been enthusiastically encouraging everyone I know to read: *Pound Foolish* by Helaine Olen. Olen's book is a long overdue critique of the ways the so-called personal finance industry is entwined with financial institutions, celebrity experts, and money made on the financial naïveté of otherwise smart people who mistakenly assume that fiduciary responsibility is a standard that still exists in this country.



Sadly, as Olen makes clear, the fiduciary standard (your advisor's first responsibility is to your financial well being, not his or her company's) is rapidly and casually being replaced by a new standard of "reasonableness." And this means that the advice now offered—often in the guise of education—is as often a cover to make money on the consumer's lack of knowledge. It's a juicy read, illuminating the ways financial institutions and celebrities make money warning against the very scams they have a hand in.

But her cynicism is hard edged and unforgiving. It's well earned. She has been reporting on these issues for a long time and has come face to face with the dark side of the financial industry. In Olen's world, there is no room for any effective financial education; no possibility of any advances in effective strategies to build financial fluency. She has a fully mapped out explanation that all is untrustworthy and unsavory. And she buttresses her POV with some important but narrow research authored by Lew Mandell, a professor of finance emeritus and former dean of the School of Management at SUNY Buffalo.

Olen excels as the pontificator of what is not working; however, she has not put forth much about what should be done. There is a section on her website that lays out a few general ideas that address both issues of consumer financial fluency (we need to talk about our money) and the potential for corruption (ban all commission sales). Everything Olen points out is good and worth pursuing but perhaps it is my own cynicism that leads me to believe that the financial industry will not change without a change in the mood—and literacy—of its market: the people. Financial literacy and education is as important to financial consumers speaking to their advisors as some degree of automotive literacy is to people speaking with mechanics. One of the reasons the financial industry may have lost some of its way is because it realized just how clueless the rest of us are.

It is clear we must do something, but if the financial industry cannot be trusted to provide sound financial education, then why can we not include instruction in schools? This is a reasonable question that many intelligent people, including myself, have wondered often. This is also an area that Olen criticizes, though her criticism is mostly parroting the work of Lew Mandell, a professor of finance emeritus and former dean of the School of Management at SUNY Buffalo.

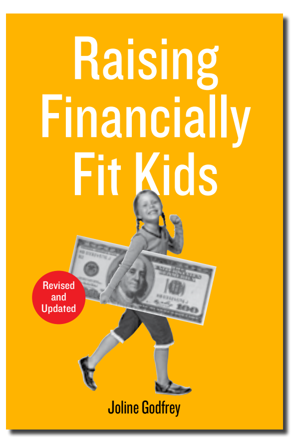
Lew was one of the first to jump on the financial education bandwagon years ago when the topic first emerged as one strategy in the welfare to work policies established in the Clinton administration. Mandell was a serious advocate of financial education and on the board of a number of the early advocacy groups. including Jump Start (which I always thought of as more of a lobbying group for big financial institutions than an advocacy organization that actually cared about the well-being of young people). Though it has been a few years since the two of us have talked, I'm convinced that Lew was genuinely optimistic about the potential of financial education. Until he started to evaluate impact.

What Mandell and Jump Start found in a 2008 survey, as I knew they would, was that school-based, short, intermittent programs had limited impact. Having tried tenaciously to make impact through the school systems myself—both public and private—I came painfully to understand that in spite of the best intentions of people like him and I, schools were not an effective delivery system. They didn't have the bandwidth, the value base, or the expertise to deliver serious, impactful financial education programs. So it wasn't that financial education didn't work—it was that the methods, the delivery systems, and the instructors at that time were not effective.

This is not to say that educators and administration are inept, or that schools fail our children. The thing that cannot be replicated in school, and the thing that is so important with successful financial education, is that the concepts and language must be tied to experience—both practical experience and the family experience. Schools must present a one-size-fits-all strategy because they do not have the time or resources to put each child on their own learning plan. Learning about compound interest in a classroom can be miserable. However, putting that in the context of a personal savings goal creates relevancy and application. Making it a family experience creates the learning culture that communicates financial principles as shared experiences and connected values.

And even with all of those things—relevant instruction and a family of learners—financial fluency still requires what the mastery of a sport, a musical instrument, or another language requires: practice, practice, practice. One can no more master the skill and art of managing a budget, stewarding significant assets, or being an effective philanthropist in a few afternoon sessions, or even in an hour a week for a few months, than you can deliver a decent piano recital or hold your own in a serious tennis match without a well conceived learning plan that is practiced over time.

Perhaps because Junior Achievement has been around for over a hundred years and its model seemed so effective (give a volunteer a few kids to help make a bird house and sell it, and you'll raise a generation of entrepreneurs), we wanted to believe that financial education was a cinch to master. And to be fair, in the years before anyone could go online to buy stock, take out a loan, make a big purchase, give away large sums of money, or commit fraud under an assumed identity, financial education seemed more basic. Mid-century Junior Achievement was a simpler time—when banks were regulated, compound interest actually accumulated something, and the level of sophistication the average person required was considerably less than is needed now by every member of the family.



So as much as I appreciate Ms. Olen's work, I'm genuinely concerned her cynicism will be contagious. And now with the new release for the 10th Anniversary Edition of Raising Financially Fit Kids (Ten Speed/

Random House), I worry that families already reluctant to commit to the hard work of helping family members acquire fluency will throw up their hands in despair. For the most part, the families we work with are true thought-leader families—well aware that mastery of anything of value takes time, effort, practice, commitment, good techniques, and committed teachers.

This has never been more important. We need more thought-leader families. As boomers age and trusts are transferred from one generation to the next, the Age of Disruption is in full gear. It has never been easier to give money away so fast; to invest in more mind-boggling change; to risk so much on such big dreams. Helping next-gen family members use family assets—financial and human—to benefit from the disruptions underway in transportation, energy, space, medicine, and agriculture, rather than be undone by those disruptions, is serious business. And turning away from opportunities to build financial fluency because we are too cynical to trust anything or anyone or because we are afraid to try anything because we do not wish for it to become "another failure" is a dangerous path to follow.

The quest for ways to measure and report success has been continuous. In the first decade, when financial education was mostly a tactic to help enforce new welfare-to-work policies implemented in the Clinton administration, any promise of "success" was mostly a leap of faith. **This is because financial education is a lot like growing asparagus. It takes two years of dedicated work, care, and maintenance to get edible asparagus grown from seed.** Likewise, we can teach some concepts in a day, some in a week or a month. We can create a basic level of fluency over the course of a year. But we won't see progress for years to come. Longitudinal studies—designed to track people as they learned over time—were too expensive to run, and nobody can still agree on the metrics for what constitutes "success" (knowing definitions for words like beneficiary and Class A stock? being able to calculate compound interest? make 20% more earnings over your lifetime than your non-educated colleagues?). Indeed, people like Olen may claim there are no successes simply because we haven't learned how to measure them yet.

Olen's work is the easiest in many ways—the financial industry and the notion of financial education is rife with a myriad of issues that need to be addressed. The work that I and other passionate educators do is much harder. I have found success in the bespoke curriculum, offering customized education plans for families. A consequence of that approach is that the population I first served on my journey—at –risk youth—could not afford the work I offer now because it is so labor intensive. I don't yet have an answer for how to make really effective, excellent financial education available to everyone. But I do at least know what effective financial education looks like, and I am ever hopeful that we will find a way to not only measure, but create success for all.