

The Financial Advisor's Role in Promoting Financial Literacy

Text by Kimberly Branch, CFP®, Vice President of Marketing Strategy, American Portfolios Financial Services, Inc.—an Independent Broker/Dealer

Lawyers generally dedicate a portion of their time and energy toward doing pro bono work—providing their legal services at no charge to individuals of limited means and non-profit organizations that serve the less fortunate.

These no-fee services are rendered under the belief that society has conferred on lawyers the privilege of practicing law; with that comes a responsibility to promote justice by making justice equally accessible to all people.

A truly just and equitable society cannot exist with unequal access to financial services and education. Research and experience tell us that financial literacy is a strong predictor of how well an individual can meet an unexpected expense or how likely someone is to save enough for retirement.

Financial illiteracy is a root cause of individual disparity in financial satisfaction and a leading contributor to economic inequities.

In this white paper, *The Financial Advisor's Role in Promoting Financial Literacy*, we explore the landscape of financial illiteracy, discuss ways to improve Americans' financial knowledge, and outline the unique and positive role an advisor can play in advancing financial education and social justice for all Americans.

Financial Illiteracy: The Other America

Lyndon Johnson's "War on Poverty" was inspired by the 1962 publication of "The Other America," a book that claimed that up to 25% of Americans were living in poverty, invisible to the other 75% of Americans and to state and national policymakers. It was a wake-up call for the richest nation on earth.

Today, financial illiteracy defines a contemporary version of another America that few see or appreciate, and about which too little is being done. Consider the following portrait of today's "Other America."



One major reason for Americans' financial illiteracy rates declining is that financial topics go largely untaught in the nation's public schools.

Over 65% of Americans are financially illiterate and unable to manage their finances.¹

Financial literacy rates are declining.

In FINRA's annual National Financial Capability Quiz, only 40% of respondents were able to answer all six questions correctly, down from 44% in 2015.²

In a recent survey of states, only 21 states required high school students to take a course in personal finance, resulting in just 17% of high school students receiving a minimum exposure to personal finance.⁶

Sadly, this gap is even wider when comparing financial education between high-income schools and low-income schools.

Financial literacy among black Americans lags white Americans.

One survey showed that just 28% of black Americans could answer correctly more than half the financial questions asked, while 62% of white Americans answered more than half correctly.³

Women are less likely than men to be offered financial education.

The biggest gap is with Millennials: 43% versus 33%.⁴

Students at high-income schools were nearly three times as likely to be required to take a personal finance course than were students of low-income high schools.⁷

Only 24% of Millennials understand basic financial concepts.⁵



Why Financial Literacy Matters

The benefits of greater financial literacy confer a number of individual benefits. Individuals with a greater understanding of financial matters are more likely to better weather financial crises, are less susceptible to financial scams and taking undue investment risks, and are more likely to exhibit financially responsible behavior.

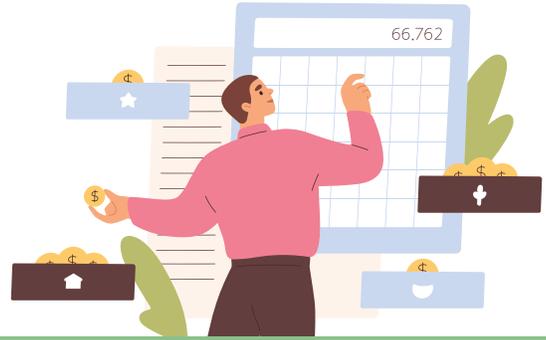
A financial life under control is also a life that is considerably less stressed, resulting in greater personal happiness and satisfaction.

Financial literacy also has societal benefits. It is the most effective way to close the economic gaps that currently exist among racial and ethnic minorities, women and the poor.

Society also benefits when all Americans are financially prepared for their retirement by reducing the taxpayer burden of supporting financially underprepared Americans in their senior years.

Overcoming Financial Illiteracy

There is a wide array of public, non-profit and private initiatives whose singular mission is to improve Americans' financial literacy. It might surprise many financial advisors, but the federal government recently articulated a national strategy for financial literacy in 2020.



Coordinating the efforts and expertise of 23 separate federal government entities, the Financial Literacy and Education Commission (FLEC) seeks to promote financial literacy in two basic ways:

- 1 By identifying methods to improve and increase the financial literacy and education of Americans
- 2 By articulating the federal government's roles, priorities and structures for promoting financial education

The federal government is focused on three key areas:

- 1 Identifying and communicating best practices
- 2 Creating a "building blocks" model to develop knowledge and skills among young people
- 3 Pursuing future steps for improvement, such as raising standards for financial educators, promoting availability of one-on-one education and measuring outcomes

Local and state governments can also play an important role, though such efforts have fallen far short of their potential to make a meaningful impact.

Alexis de Tocqueville observed in his seminal book, "Democracy in America," the predilection of like-minded Americans to form associations to support a shared interest or objective as means to accomplish larger goals, viewing such associations as strengthening the nation's democracy. Nearly 200 years after de Tocqueville's observation, the best efforts to increase financial literacy in America are those by private associations. Individuals have banded together in the pursuit of widening financial education and helping Americans make smarter financial decisions. **There is a wide array of these organizations, including:**

The National Endowment for Financial Education (NEFE)

NEFE has provided financial education for nearly 40 years, dedicating its efforts to offering free, high-quality education content and tools, including a fully developed High School Financial Planning Program.

The Council for Economic Education (CEE)

CEE has provided resources and training to K-12 educators for over 70 years, with efforts focused on reaching educators in low- and moderate-income schools.

Hip-Hop Summit Action Network (HSAN)

Since 2001, HSAN has sought to harness the cultural relevance of hip-hop music to serve as a catalyst for education advocacy and other social concerns fundamental to empowering youth.

The JumpStart Coalition for Personal Financial Literacy

JumpStart is a coalition of more than 100 national groups and over 50 independent affiliated state coalitions designed to foster cooperation and collaboration among disparate organizations that share the goal of promoting financial literacy.

How Financial Advisors Can Play a Role

40% of all financial advisors **are already involved in promoting greater financial literacy.**

42% of all financial advisors **are interested in getting involved in the future.**⁸

It makes perfect sense that financial advisors should be the frontline in the battle for financial literacy. After all, an advisor's core competencies include deep subject knowledge and the ability to communicate complex topics in a simple and understandable way. This is the very definition of a great teacher.

In the end, financial literacy is achieved through direct, local action, and it is the financial advisor that represents the best hope for a financially smarter America.

For advisors looking to get involved or become more involved, here are some ideas to get you started:

1 Have conversations with your clients on how to teach their children about responsible financial behaviors.



2 Work with a local organization to develop a financial literacy program (e.g. YMCA or YWCA).



3 Connect with a local high school to volunteer your services to teach financial classes or train a teacher to teach financial subjects.



4 Reach out to minority and economically disadvantaged organizations and offer to hold educational classes on basic financial topics.



5 Offer to teach personal financial planning concepts through your local adult education program.



6 Contact professional organizations to ask about their financial literacy efforts you can volunteer for (e.g. Financial Planning Association).



American Portfolios Promotes Financial Literacy

At American Portfolios, we believe that one of the goals of any business is to make a positive impact on the communities it serves and on the wider world in which we live.



Among our community involvement initiatives is our collaboration with Life Arts, Inc., a North County, St. Louis-based organization that incorporates the arts in the workforce, educational settings, and therapeutic programs and projects for the cultural, communal and commercial benefit of the local community.

Our goal with Life Arts is to assist young entrepreneurs to foster talent within their communities and serve as role models for generations to come. In support of their efforts, The American Portfolios Foundation, Inc. is proud of its recent two-year funding commitment to establish the AP for LIFE Creative Residency program, which seeks to train and develop young creatives and influencers. Through this program, five fellowships have been created for exceptional individuals, pairing these individuals with an AP investment professional; AP provides each a yearly stipend and small investment account toward establishing their financial legacies.

The AP for LIFE program also aims to collaborate with members of other outreach groups to generate meaningful creative experiences for middle and high school students in Ferguson, Missouri, and throughout Long Island, New York.

Sources:

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3. <https://www.tiaainstitute.org/about/news/financial-literacy-wellness-and-resilience-among-african-americans-executive-summary>
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American Portfolios Financial Services, Inc. has just the resources in place to help its advisors on many fronts. Advisors interested in learning more about how to mentor future leaders about financial literacy should contact *Vice President of Marketing Strategy Kimberly A. Branch, CFP®* at **631.439.4630**, or via email at kbranch@americanportfolios.com, to strike up a conversation today.

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company supports independent investment professionals—including of registered assistants and non-registered associates—throughout the nation.

American Portfolios has numerous recognitions by a number of industry publications and organizations. Such acknowledgment includes: multiple Broker-Dealer of the Year* (Division III) wins by Investment Advisor magazine; multiple finalist and award wins by WealthManagement.com Industry Award in multiple categories**; Corporate Citizen of the Year by Long Island Business News; multiple top placements as one of the Best Companies to Work for in the state of New York by the New York State Society for Human Resources Management (NYS-SHRM) and the Best Companies Group (BCG); and one of the Top Long Island Workplaces by Newsday.

* Based on a poll of registered representatives conducted by Investment Advisor magazine. Broker/dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year."

** Wealthmanagement.com Industry Award finalists are selected by a panel of independent judges made up of subject matter experts in the industry. Award is based on support provided to AP's affiliated people and does not reflect public customers nor their account performance.