

The Need for Financial Literacy

Government officials, educators and broadly diverse civic organizations agree on the need to increase the financial literacy of the American public. Ranging from school children to those who have recently retired, Americans need to learn the basics of personal financial planning and management, especially in the areas of budgeting, investing, and managing debt.¹ The current financial and economic environments are only exacerbating the inability of our citizens to manage their personal finances.

Current Environment for Life Insurance Agents and Their Clients

As a result of the financial crisis, many life insurance agents have become the first line of defense for clients with inquiries about the current state of their finances. Agents field questions of varying degrees and what has emerged is the schism between what was sold and what the client understands. Furthermore, the DOW's loss of over 5,000 points in recent months, which included a drop in several carriers' stock prices, proved that many Americans do not understand the differences between a stock holder and a policy holder.

Clients and agents alike want to know about the financial health of the industry. The answer is simple: the life insurance industry has weathered the financial storm better than the rest. The industry remains well-positioned to withstand the crisis and continue its proud tradition of honoring its obligations to policyholders. Fitch ratings noted that at the end of 2007, life insurers had four-times the minimum capital they are required to maintain to absorb losses, and at the end of 2008, insurers are likely to have about three

¹ (1) Within the last 12 months, 20% of American workers have stopped funding their pre-tax retirement account, e.g., a 401(k), a 403(b), or an IRA (source: AARP). 59% of working Americans believe they are doing an "average" to "below average" job of preparing themselves financially for retirement (source: PlanAdvisor.com). 48% of American workers anticipate that they will continue to work beyond age 67 (source: Sun Life Financial).

times the minimum capital.²

The strength of the industry, the fight to quality and security, and the growing aging population create a unique environment for the life insurance industry to emerge as a pillar of strength during the recession. Helping consumers with financial education and financial independence will add to its strength by increasing the confidence in products and agents.

Currently, life insurers protect over 75 million families, offer guaranteed streams of income with annuities, invest nearly \$6 trillion in the economy, and help families and business owners effectively manage risk. No other financial service professional can offer the same guarantees, and educating consumers remains all of our responsibilities.

Deficit, Debt, and Legislative Environment

In January 2009, the Congressional Budget Office (CBO) projected the FY2009 deficit at \$1.2 trillion. This number represents 8.4% of GDP, yet this number does not include the economic stimulus or the remaining \$350 billion of TARP funds.

Additionally, the Obama administration has indicated that a number of other programs will be proposed, generating likelihood that spending will continue to rise. Several economists predict that, over the course of the year, the FY2009 deficit could rise to as much as 10-12% of GDP.

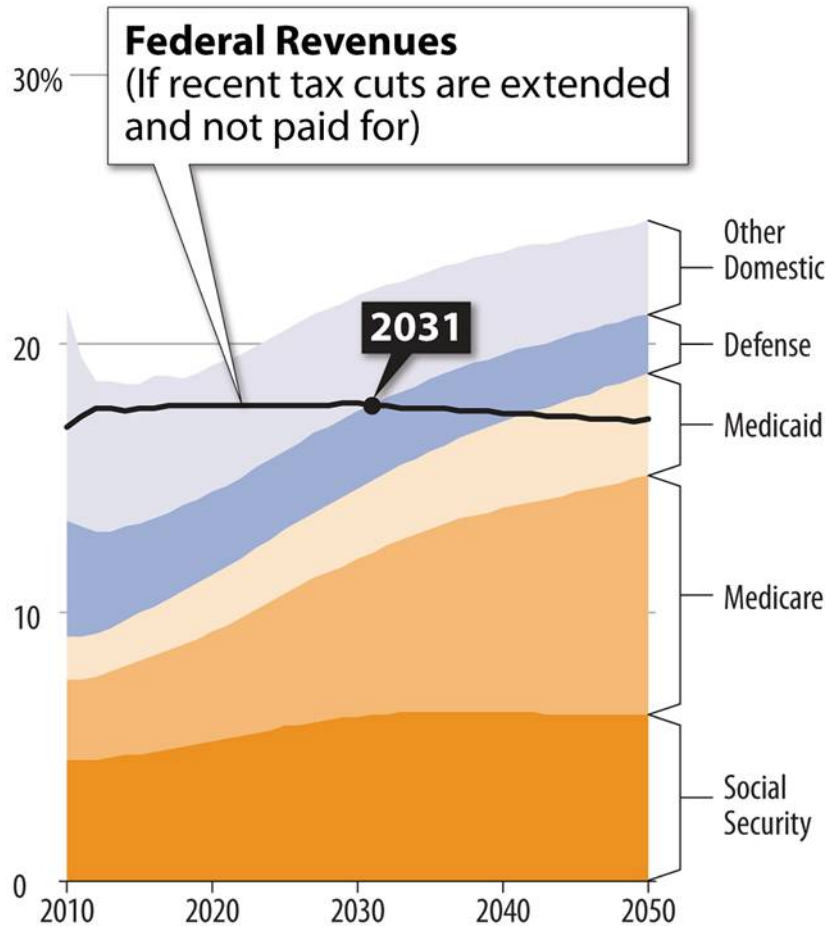
The nation's budget policies are unsustainable as evidenced by a number of reports.³ The Center on Budget and Policy Priorities (CBPP), a reputable Washington,

² 1 Washington Post, Insurers Seek to Buy Thrifts to Get a Piece of the Bailout, By David S. Hilzenrath, Nov. 21, 2008, page D3.

³ See "The Long-Term Fiscal Outlook is Bleak," Center on Budget and Policy Priorities, January 2009; "The Long-Term Budget Outlook," Congressional Budget Office, December 2007; Alan J. Auerbach, William G. Gale, and Peter R. Orszag, "New Estimates of the Budget Outlook: Plus Ça Change, Plus C'est la Même Chose," February 15, 2006; Government Accountability Office, "The Nation's Long-Term Fiscal

D.C. think tank, recently reported on the long term imbalances brought on by our entitlement programs, namely Medicare, Medicaid, and Social Security.

Program Spending as a Share of GDP



It is alarming that by 2031, assuming tax cuts are extended without offsets and spending is sustained at current levels, government would run out of revenue; this does not include paying the interest on our debt. Additionally, by 2050, the federal debt would skyrocket to nearly 300% of GDP. To provide context, our current debt, without the economic stimulus, is 46% of GDP and there was 110% debt to GDP ratio during World War II.

Outlook,” September 2006; Jagadeesh Gokhale and Kent Smetters, “Fiscal and Generational Imbalance: An Update,” August 2005

Life insurance agents would be directly impacted by these budget shortfalls in so far as the government must find both new sources of revenue and decrease spending. Life insurance agents face a number of legislative and regulatory hurdles in the coming years. Tax reform, the estate tax, changes to the pension marketplace, executive compensation and overhaul of the financial services regulatory structure, and it is time to proactively increase the goodwill and confidence in our industry.

The Government and Financial Literacy Efforts

In January 2009, the Government Accountability Office (GAO) issued a report focused on modernizing the outdated U.S. financial system.⁴ The report contains the GAO's views on what remains to be done to bring about lasting solutions for each high-risk area, and perhaps the most relevant item in this report is a consistent mention of the imperative of financial literacy to alleviate some of the responsibility placed on regulators in regards to consumer and investor protection.

In 2003, the Government created the Financial Literacy and Exchange Commission, which is a public and private partnership meant to increase financial literacy among Americans.⁵ The government's program can be found at www.mymoney.gov and www.controlyourcredit.gov. However, the GAO report indicates that attempts by the Financial Literacy and Education Commission to coordinate federal financial literacy efforts have sometimes proven difficult due, in part, to the need to reach consensus among its 20 participating federal agencies, which have different missions and perspectives. Nevertheless, the report provides that increasing

⁴ "Financial Framework: A Framework for Crafting and Assessing Proposals to Modernize the Outdated Financial Regulatory System," Government Accountability Office, January 2009.

⁵ "Taking Ownership of the Future," Financial Literacy and Education Commission, 2006.

evidence exists that many Americans are lacking in financial literacy, and the expansion of new and more complex products will continue to create challenges in this area.

Facing the Facts

There is undoubtedly a schism between what consumers need to know and what they actually understand in our complex financial and credit-based economic environment. This is because, at least in part, we teach remarkably little about money and credit in our schools, and unfortunately, what is taught is often not understood.

Everyone speaks of "financial literacy." This term has been irrefutably overused. The current state of financial literacy merely transfers "information" rather than helps the consumer in "understanding." The government's conclusion is that consumers can ill afford to continue with a limited knowledge in financial decision-making. Hence, the government has undertaken financial literacy efforts and will work to restructure the financial regulatory system over the next twelve months. Disclosure, penalties, and regulation of insurance agents could greatly impact the industry's business practices. With headlines like Madoff, AIG, and others dominating the emotional conscious of Americans, there is no telling what Congress will do to ensure transparency and consumer protection.

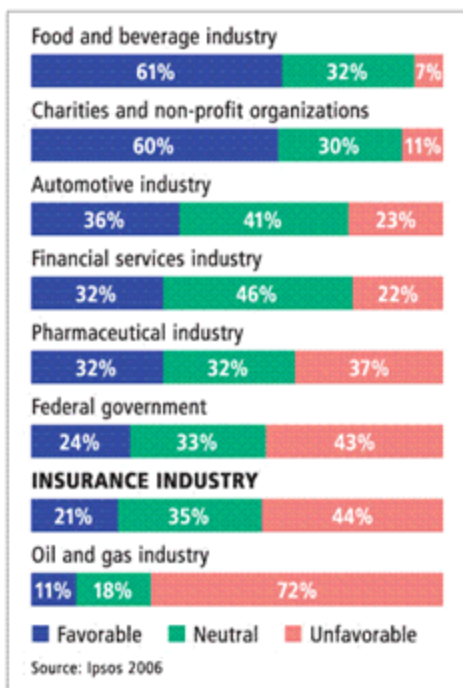
Why the Insurance Industry?

Life insurance agents help Americans of all socioeconomic statuses to better understand the basic principles of risk management, insurance and investments every day. As a result, agents are usually the first and only financial advisor that many people know and trust personally. Life insurance agents are keenly aware of this fact and

recognize that they are uniquely positioned to educate Americans about money management.

Consultants at Cohn & Wolfe Inc., Atlanta, a public relations firm, published figures supporting the conclusion that our industry should proactively change the public's perceptions. In a recent survey of 650 U.S. consumers, when asked to choose words that describe financial institutions, 32% chose "greedy" and "impersonal," and "26% chose "opportunistic," the consultants report. Only 8% said they expect the financial services industry to help them to regain wealth lost during the recent market slump. This conclusion supports the notion that a majority of Americans may be skeptical about the motives of insurers and other financial services companies.

Studies have shown that while most people admit to liking their own life insurance agent, many are somewhat leery about the insurance industry as a whole.



This fact opens opportunities on several levels. First, insurance agents themselves, who take pride in being helpful to their clients, can play a valuable role in partnering with the industry to strengthen financial literacy in their local communities; and second, a commitment from the industry to help Americans navigate the current financial crisis through personal financial management would position the industry as a resource that is part of the solution.

This Year Resolve To Make Financial Literacy A Priority

There is need for a new and innovative financial literacy delivery system to deliver financial literacy education as is evidenced by the subprime mortgage crisis, the growing number of personal bankruptcies, the dangerously high level of credit card debt, the low savings rate, and the lack of retirement planning, etc.

We are living in a very complex financial environment, and many consumers are beginning to react to the financial crisis by increasing their knowledge of financial products. Open Course Ware financial literacy courses, an initiative by Massachusetts Institute of Technology (MIT), has experienced a 27% increase in enrollment in their Fundamentals of Financial Planning since September 2008. The Consumer Credit Counseling Service saw a 43% increase in webinar attendance since September 2008. The 360 Degrees of Financial Literacy, an initiative of American Institute of Certified Public Accountants (AICPA), saw 43% increase in their financial literacy programs since 2008.

AALU, MDRT and Other Programs

There are hundreds of program initiatives on financial literacy; some of which have ties to the insurance industry. A recent roundtable discussion on Insurance Literacy

at the United States Treasury Department proved that there was no comprehensive list of programs or a way for the programs to interrelate and coordinate. In addition, only three states currently require money and finance courses for high schoolers to graduate.

AALU and MDRT have embarked on a financial literacy effort and created a comprehensive website with a list of available programs for insurance agents to get involved as well as an opportunity for insurance agents to roll out a financial literacy course in their communities and to stand out as a steward of this important initiative.

How Can We Get Involved?

AALU and MDRT have constructed a comprehensive website, www.aalu.org/financialliteracy, which allows life insurance agents to roll out a financial literacy class in their communities, provides clients with helpful information to share with their families and friends, fosters insurance literacy and political advocacy between our members and their lawmakers, and forges a relationship with industry allies. Life insurance agents can choose to use the AALU resource center or any of the other financial literacy endeavors available, depending on the demographic of the constituency. Working with your Congressman's office to teach financial literacy sends a strong message to our lawmakers that we need to take responsibility and be fiscally responsible on a personal level and on a national level.

Here is a quick synopsis of what you will find on the website:

(1) *Resources For Your Clients*: Get the facts on the valuable products life insurers provide and information for your client's families and businesses to help increase their financial independence.

(2) *Resources For Your Community*: Access, government sponsored, FDIC, financial education programs designed to help you promote, educate and make a difference in financial literacy in your community.

(3) *Resources For Your Lawmakers*: Get the facts on the valuable role life insurance plays in our society and the importance of educating lawmakers on the need for increased financial literacy.

(4) *Programs*: Links to other government and industry websites dedicated to financial literacy.

Evolution of the Program

The idea for an industry wide financial literacy program germinated in May 2008 at a meeting between Congressman Xavier Becerra (D-CA) and life insurance agents. They discussed a plan whereby life insurance agents would play a significant role in educating the public about financial literacy, while answering the government's call to provide community service. Life insurance agents followed through by developing a presentation and working with the Congressman's office and other nonprofit organizations to provide the class. Meanwhile, AALU and MDRT spokespersons embarked on a research study to learn more about the opportunities for financial services professionals to provide meaningful service to citizens in need of financial education.

What was learned through the course is that more than one class is needed and the curriculum varied based on the demographic targeted. AALU and MDRT spokespersons worked with the Treasury Department to ascertain the most effective courses with the flexibility to teach a variety of consumers. The Federal Deposit of Insurance Corporation

(FDIC) created a comprehensive multi-lingual program for adults and a separate one for teenagers that teaches the basics of debt, credit, banking, and increasing money skills.

AALU and MDRT worked with the FDIC to gain permission to post these courses on the financial literacy website so that agents could use the government-sponsored program when rolling out the program in their communities. Also recommended is working with your federal Congressman or Senator to increase their knowledge of the need for this important public service initiative and encourage them to increase their knowledge of financial independence and fiscal responsibility when making macro-economic decisions that impact the country. One thing learned from the course taught in Congressman Becerra's district is that a close personal relationship can develop between the life insurance agents and the elected officials and taking a leadership role as an industry improves our perception on Capitol Hill and the public at large.

Rolling out a class is easy. The trainer's guide is uploaded on the website and after an agent fills out information and acknowledges a waiver that this is purely a public service initiative, he or she can read the materials, the power points, the scripts, and the handouts. Many of the courses have games that can be used during each class, and each class lasts approximately one hour. The agent can pick and choose which courses would be most beneficial for the level of sophistication. Also, the agent can work with his or her federal official as well as nonprofit organizations to procure a site for the class and encourage the lawmaker to make an appearance during the class to support the overarching financial literacy effort.

What are the benefits of financial literacy programs?

Undoubtedly an industry wide effort would assist Americans of all socio-economic backgrounds in understanding the principals of building wealth, effectively managing risk, and proactively becoming financially independent. Rolling out a class enhances a life insurance agent's visibility in the community he or she serves and contributes to a larger customer base. Furthermore, it increases the exposure of the American public to the financial products and services provided by the life insurance industry. At the end of the day, a more educated consumer is a better and more profitable consumer.

More importantly, this endeavor provides agents with the opportunity to emerge as a steward of financial literacy within their community. As stated earlier, a financial advisor is often the first line of defense, yet many consumers are leery of the insurance industry as a whole. Teaching a class and humanizing the effort, becoming a face and allowing people to see you and ask you questions in a town hall environment increases the trust that the public has for the industry.

For more information, please contact Sarah Spear at spear@aalu.org