Financial Literacy (May 20, 2019)

Back in 1955, the Austrian-American scholar Rudolf Flesch wrote a best-selling book called *Why Can't Johnny Read*? Flesch's study was one of the early books in the debate over the literacy level of American youth, which he considered low. His solution was better training for elementary school students in phonics, a method of correlating the sounds of words to their spelling and meaning.

But if Flesch were writing today, the question he might ask is, Why can't Johnny count?

Counting and financial literacy in general have become the hot new topics in American education. Colleges are developing classes for the subject, and the government is getting involved. The Federal Literacy and Financial Education Commission—only the government would contrive such a name--maintains mymoney.gov, a website offering items on financial planning and teaching materials for instructors. Nineteen states now require high school students to attend classes on the topic. Companies are getting into the act, presenting courses to help employees plan more effectively. Public libraries are acquiring books on the subject and scheduling speakers to discuss them. The goal of the campaign is to improve the public's knowledge of money management, and much of the emphasis falls on teaching young people.

The newest offering in this vein is *Millennial Money Makeover,* by Conor Richardson, a CPA in Austin, Texas. The book has some flaws that rather quickly stand out. Citing the research of Annamaria Lusardi, an instructor at George Washington University, Richardson says that 76 percent of millennials are financially illiterate, though it is not clear what constitutes financial literacy. In my twenties, I didn't know the difference between a stock and a bond, and only later did I learn about futures and options, when I wrote about both as a business reporter. Sixty-four percent of millennials lack a retirement plan, but who does not at the age of 25? About half of the millennials polled say they are "unhappy about their financial situation," but that is undoubtedly true of large numbers of people at every age. (I would classify myself as moderately satisfied.)

Still, Richardson's book should prove useful to young people who want to expand their knowledge of money. His goal is to teach readers "the language of money" and to build their confidence. Anxiety over money can be useful, he says, if it spurs you to understand the subject better and think about the implications of spending. "In everyday life," he writes, "people make huge financial decisions without giving them much thought." He is certainly right about that. I remember the book Edmund Andrews wrote about the housing and mortgage crisis that erupted a decade ago. *Busted: Life Inside the Great Mortgage Meltdown* includes a description of how Andrews himself, a former business reporter for *The New York Times,* got caught up in the mania for home ownership. He nearly bankrupted himself in the process. When Richardson writes that the ease of available credit is "intoxicating," Edmund Andrews (and many others) would nod their heads in agreement. Richardson also has useful advice on choosing loans carefully and working out a repayment scheme in detail. Experienced planners know this, but that doesn't make it less valuable. Ditto for his description of the importance of budgeting and the way compound interest can be an enormous boon for young savers.

A recent column in the *Wall Street Journal* indicates the plight of the millennials. Joseph Sternberg, born in 1982 and one of the older members of that generation, considers the impact of his cohort on the forthcoming presidential election; his comments appeared in the May 16 edition of the *Wall Street Journal*. He remarks that "The first political challenge is the most frustrating: proving to our elders that we are in economic trouble." Boomers like myself imagine millennials enjoying the advantages of

youth and easily acquired computer proficiency. A grave illusion, according to Sternberg. "The recession accelerated a trend that saw employers replacing younger, less-experienced employees with machines operated by older, more-experiences ones." Between 2008 and 2018, total student debt nearly tripled to a current $1.5 trillion. And college education—even assuming those who entered college finished with a degree—has not brought the professional benefits that many expected.

At least some millennials are doing quite well. The U.S. Census Bureau reported last September that in 2017, median adjusted income in a household headed by a millennial was a very acceptable $69,000. But many are still living with their parents, in a dormitory or in some other shared living situation. In addition, the Bureau reports, "millennial-run households represent the largest group in some key categories, such as the number of households living in poverty." (The Pew Research Center, by the way, defines millennials as those born between 1981 and 1996.)

Data from Northwestern Mutual, an insurance and money management firm based in Milwaukee, suggests that Conor Richardson's book may find a receptive audience. In the company's 2018 "Planning and Progress" study, 40 percent of the millennials polled accepted the need for careful planning. Fifty-seven percent identified themselves as "disciplined" or "highly disciplined" in the category of planning. The estimated average debt load of millennials is $36,000, and the greatest single source of the debt is student loans, followed by credit card bills. I take these numbers to mean that a fair number of millennials are eager to learn about investing and managing their money effectively.

I can offer a few other suggestions for those intent on self-study. As I wrote a few weeks ago, Jeremy Siegel's *Stocks for the Long Run* is a basic text intended for readers with no training in finance. *The Four Pillars of Investing* by William Bernstein, a former neurologist, has become a classic for learners. His *Investor's Manifesto* is another useful book. Jason Zweig is a critic of Siegel, but his *Little Book of Safe Money* is another valuable contribution.

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