

Making Dollars and Sense: The Critical Role of Financial Literacy

Disruptive Forces in Investing

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Anu Rajakumar: Financial literacy is the foundation for making well informed financial decisions. In a world where economic complexities grow by the day, understanding the basics of finance has never been more critical. According to the S&P Global Financial Literacy Survey, risk diversification is the least understood concept across a global consumer base.

Additionally, while battling crisis in housing, student debt and childcare, not to forget stubborn inflation, a shocking 78% of Americans admit they live paycheck-to-paycheck. So, how can financial literacy empower individuals to navigate the economic challenges and opportunities ahead? What role does technology play to boost outcomes and what are asset managers doing to help fill this gap? My name is Anu Rajakumar, and joining me today is Dr. Renée Baker, a seasoned financial industry vet and founder of the RBI group. Renée has made a significant impact on financial literacy efforts, developing strategies that enable financial services organizations to educate their clients on money management topics. Renée, welcome to *Disruptive Forces*.

Dr. Renée Baker: Thanks for having me, Anu. I'm excited to be here.

Anu: Excellent. Well, let's kick things off by having you give us a quick overview of the current state of financial literacy, and share with us some of the core issues that you've identified with this apparent lack of financial literacy today.

Renée: Well, thank you. I really like this question. It's a great question to get us started, but as you outline you know, understanding financial literacy, just to build on that, this is a foundation for understanding money management. It's bigger than knowing how to budget, save, and invest. It's really about navigating financial risk, which are really effective to helping to achieve financial stability and achieving our financial goals.

But imagine, like I think about the first time I went to New York City and navigating a bustling city without a map, or when I'm traveling abroad, and I don't have a sense of the local language. That's what managing money without financial literacy is like. Essentially, it's, everyone is at a point where we really need to understand the financial language to help us navigate the complexities of our economy, of the financial world, and help us to better align with our financial goals and outcomes.

I've spent an extensive career several decades in financial services, and I've been privileged to witness firsthand the transformative power of financial education, financial literacy, and equally the challenges and pearls that arise from this absence. And through my years of experience, I've identified a couple of core issues that persist due to lack of financial literacy, financial education.

And these challenges not only affect individuals, but ripple across economies, entire economies, influencing both the macro and microeconomic landscapes. So, I think the first one is just understanding the impacts of being unprepared for financial emergencies. Throughout my career, I've seen individuals get caught off guard by unexpected job setbacks and medical emergencies.

And the prevalent lack of emergency funding is alarming and that even happens in our industry. And as we think about our current state, and you mentioned 78% of Americans are living paycheck-to-paycheck, how powerful is that impact that also shows that a recent report that I that I read highlighted the fact that on top of the 78% of Americans that are living paycheck-to-paycheck, a staggering 40% of Americans couldn't cover an unexpected \$400 expense.

So, what that leads to is high-interest debt and financial instability. And then that leads me to my second point, chronic debt. We have seen credit card debt continue to soar in the US and individuals not being able to pay even the minimum, in some cases, or when they pay the minimum, not understanding how interest compounds. That's also related to student loans.

So that spiral of debt is one of the most pressing issues that I've encountered, and it stems largely from the fundamental understanding of credit terms and the allure of what we see in social media and in the world about, living beyond our means.

And the last point that I'll make for this, and I know that we'll build on it, is that there are so many economic and social consequences.

The implications of financial literacy gaps extend way beyond financial health. It actually impacts societal well-being and economic stability. So what we've seen here, especially in the US and in other countries, financially uneducated populations are less likely to participate in the economy, which impacts our industry too, by the way, and that leads to broader economic stagnation and social, inequity. So that really sums it up.

Anu: That's a great start, Renée. You know, just to, recap, you know, number one, being unprepared for financial emergencies. Number two, chronic debt and not understanding key concepts like credit and loans, and three, the implications of massive inequality, are really critical issues. One challenge that many are concerned about that I think ties all of those together, is around retirement planning. It's a topic that I discussed just a couple of episodes ago with Robin Diamonte, the Chief Investment Officer of RTX. She talked about retiring with dignity and financial education access.

It's also a topic that Larry Fink, discussed in his recent investment letter where he focused on the retirement crisis, asking, "How can we afford longer lives given that almost 60 million Americans don't have any savings or retirement planning?" As you kind of said. How do you respond to those big issues about retirement planning and what are your thoughts there?

Renée: Yes, that is so, so important, in my interactions, I'm often struck by how woefully unprepared for retirement most people are. It's like this vision of the golden years remains just that, a vision. It's not a plan's reality and with so many-- I think where about 36 to 40% of Americans have no retirement savings, that underscores a critical gap and not just long-term financial planning, but understanding the conversation around financial education and why it's important.

So reflecting on, you know, the conversation, with Robin Diamonte, looking at the annual letter that came out from Larry Fink, I think we need to delve into the pivotal role that retirement and financial education has in shaping financial futures and looking at that connection point between access and education and financial literacy, which is a good point that Robin made in her discussion.

And it becomes clear that both elements are crucial, yet distinct components of the financial empowerment ecosystem overall. And as I'm reflecting on my experience, particularly, the years I've spent in institutional and in wealth management, I firmly believe that while access serves as a gateway, education is the pathway that enables, meaningful engagement with financial tools and resources that helps us to address the challenges of retirement. And I recently also read a study, tying it to retirement, that there's a high level of retirement anxiety among Americans which has been greatly exacerbated by current inflation.

Anu: Yeah, absolutely, recently there was a *Wall Street Journal* article it was about how Gen Z is becoming America's most, disillusioned demographic, particularly when it comes to voting, there's a demographic-- whether it's Gen Z or millennials, who have endured the COVID pandemic and kind of come to age during the COVID pandemic and they're anxious that they'll never make enough money to survive, let alone retire comfortably. What are your thoughts there and how does financial literacy impact those different demographics to different extents and what are the broader economic implications there?

Renée: Yes. So, you know, I spend part of my time-- I'll talk about Gen Z first, because understanding and addressing the unique financial challenges that are faced by Gen Z is crucial. And as a professor, I observe some of these trends and the significant impact that the current economic conditions are having on this generation, especially when it comes to financial education instability.

And I think, there are a couple of things that we're facing. One, the crucial role of education in general, you know, FINRA had a study that showed that only about 34% of Americans can answer four out of five basic financial literacy questions. So that might not seem significant, but what it does do is it highlights the gap of critical need for enhanced educational efforts.

I think in the realm of wealth management, education transcends well beyond basic financial literacy. It really does involve equipping, clients at all stages, at all demographics with the knowledge to make informed decisions about, complex investment vehicles and truly understanding the implications of financial strategies over time, but before we get there, [laughs] we really need to look at some of the challenges and the barriers to access, because people-- we're human, we deal with the things that we're faced with on a daily basis and whether I'm talking to, Gen Z, even some of the millennials as they're starting to age and I'm in Gen X, the one thing that I've seeing is, there's a synergy between the conversations that take place around financial literacy and I liken it to providing a key and a map. So, access is the key, right?

That opens the doors to these tools and these resources and education is a map, and that helps to ensure that individuals know how to navigate effectively. But what I'm seeing is people don't know what to do. They don't have access to get the key. They don't know how to interpret the map, so what that leads to is, an increased underutilization, or misuse or lack of understanding of financial services and financial tools which potentially exacerbates these financial vulnerabilities.

So when we go back to the conversation around Gen Z and the current landscape, there's a couple of key issues. You have the rising cost of education and-- we spoke about debt, earlier. So, debt is increasing-- there is this unprecedented amount of student debt. The cost of education continues to skyrocket and that forces some of the students to take on these additional loans because not everyone has the means or the access to have their education paid for, and what happens because of that, is there's a financial burden that delays other financial milestones. So buying my first house in my early twenties, and saving for retirement early, helped prepare me in a way that this generation is not equipped with.

The other thing that I wanted to bring up is the job market is so massively competitive. Not everyone is an entrepreneur. So, despite the high levels of education, the access to technology, and there's a great deal of digital literacy and adaptability, Gen Z also faces the instability and rapid changes of having the challenges of entering the job market, which also impacts retirement, access to 401k programs, understanding how to save.

And I don't need to keep restating this, but I think what's really important for us to note is that all of these things ultimately have an implication on preparation for retirement and other financial goals instability, including purchasing a home. Also, how to pay down these debts, which have a domino effect or a ripple effect to the ultimate outcomes impacting our ability to have security, financial freedom and the fulfillment that comes with being financially literate and having a life well planned.

Anu: Yeah, absolutely. You know, it just made me think that the world has really changed over the course of just a few generations that are all alive today, but, defined benefit plans where, workers were guaranteed retirement, that's generally on the way out. and that has been replaced generally by defined contribution plans, but, of course, not everyone, think freelancers, gig workers, et cetera, not everyone has access to defined contribution plans. And so the message that so many folks are getting is you're on your own. So- with that in mind, what are some of the tools, innovations that you're seeing that maybe can help close some of the gaps in financial literacy, particularly considering the impact that digital innovation can have, whether that's ChatGPT or AI FinTech or maybe just more traditional ways to close the literacy rate?

Renée: Yes, it's certainly one of those, times in our lives-- and actually, I don't know, I feel like I've been hearing this for quite, some time now, and as I'm getting closer to retirement than when I entered the industry, I think we face very complex challenges that obviously differ significantly from others, whether we're talking about economic fluctuations, changing dog market, societal norms that have shifted. So, what I would say is just understanding that the challenges that impact us today have always been there, but we have so many more opportunities when it comes to access. So that's where I'll say the best is yet to come.

That's what gets me optimistic. And thinking about the fact that we're also facing a generational shift and a generational wealth transfer, and I'll talk about that, in the context that, this gives us an opportunity to think about how we can ensure that wealth is at least preserved against generations. So, like for my kids, they might say, listen, I might not be able to make the money myself. We're not at the same place at the same age, but sounds a little sad, but when you're not here anymore, what are some of the things we need to do?

So, I don't know if that sounds a little depressing, but it's certainly something that I plan for. And I think that digital innovation can be a game changer. And that is really what excites me. We can help reshape the access to information. We can help also deliver financial education to younger generations that are digitally native, that consume more information online. And what we can do also is leverage this by utilizing the platforms that people use every day. So, social media, there's pros and cons, opportunities and challenges there. There are so many apps.

We have apps for everything. We have, Robo-advisors, AI-driven tools and technology providing personalized advice at scale, and financial education is becoming more accessible and relevant. So, to me, it's about meeting generations where they are with technology at the forefront. So, yes, we talk about the challenges that we face, when it comes to retirement. And yes, we recognize that the economic landscape is very different than the one that we entered when we came into, the industry and that it continues to evolve.

But digital innovation, especially through FinTech, is something that's critical for helping to scale the conversations around financial education way before we get to the discussion around retirement and we have an opportunity in the industry to harness those technologies, have, you know, those conversations, it's not for everyone, but for blockchain, for transparency.

Talking about how we can leverage more of these educational tools and disseminate information and bite size or, what I like to say, snackable or actionable financial information so that we can reach a wider audience, but really leaning into how can we tailor these experiences based on individual's knowledge and understanding and personalize more so that the consumer can better understand where they need to have improvement.

Anu: Yep. No, that's great. Well, you know, you spoke about, Gen Z and how they're getting information, sometimes on a daily basis, through social media. What about, older generations? You know, you spoke about the great wealth transfer and of course, there's, sort of, a different conversation happening, at the other end of the spectrum. Tell us about what those conversations are like and how does financial education, work when we're talking about a wealth transfer?

Renée: Yes. So I, you know, have conversations across various generations. And I had the pleasure of working so closely with so many financial advisors and industry professionals around what are the challenges that they're facing. And we start with baby boomers. The challenge really becomes around being underfunded for retirement.

The conversations that we're having around financial literacy today were not conversations that were had for baby boomers. So, they're finding themselves nearing the retirement age without sufficient savings in some cases. They're shifting, as you mentioned earlier, from defined benefit to defined contribution plans. And that's left some without the guarantee of a pension. When you're older, you're also faced with some rising healthcare costs.

So that poses some additional challenge. So, oftentimes the need for financial for healthcare is underestimated. So, how do you cover those healthcare expenses and start to plan for them? And also, we're running into late retirement. So, the economic necessity and having insufficient savings means that baby boomers have to delay retirement or they're working part-time.

Had we had some of those conversations around financial education, maybe we would've prepared for that a little bit differently, but they're not going to go to social media to get the information. They're not the ones that are leveraging technology to the same extent that some of the younger generations are. So, meeting baby boomers where they're at when it comes to financial education and helping them plan for retirement really means that one-on-one, the way I guess-- I would call it old school of being more personalized, more human.

They're not the ones that want to fill out all the electronic forms. Although we love it, they're not the ones that want to do that. So, we want to have that more personalized human connection. When it comes to my world, the Gen X, the sandwich generation, I always say we are the forgotten ones, the missing link. We have the dual burden of, we're planning for retirement some of us are taking care of our children, we have aging parents, and that impacts our ability to save and prepare for retirement.

Some of the conversations that we've had, have certainly, when it comes to financial education, some of us have had more conversations than not, but most of us haven't been brought up with the discussions around financial education. But we've also been the generation that has been most hit by different economic downturns. So, we have lived through, Gen X, I hear you, I see you. We have had the .com, we had the great recession. We've seen bull markets, and we know what bear markets are like.

We've seen the fluctuation of our mortgage levels, we've seen how we've had to allocate our funds differently for retirement savings. But one thing I like about the Gen X, is that we are in the middle. We have had access to digital, we understand the technology. We are leveraging that technology. And maybe I'm biased here, and I'll say to compliance, I am biased in this statement, but I feel like we are the best equipped for it because we have access to the future and that technology, and we also understand and can navigate the fundamentals because we are the ones that had to learn without the internet. And then we got access to it.

And then the last thing I'll say is we have the millennials, and for so long, I know millennials are so happy that Gen Z is here because for so long we picked on them, but they have had to delay a little bit of their retirement because of student loans. But I love millennials mostly because, despite wage stagnation and job instability, those are highly educated humans. Millennials are the ones that entered the workforce around the time of the Great Recession. They faced lower starting salaries, but they also got the impact of a market that continued to grow.

And if they had access to financial education and knew how to enter the market, they were able to take advantage of it. But what I've also seen with millennials is the millennials that I've had the pleasure of working with and talking to are really thinking

and centering and focused on long-term savings. They are very astute when it comes to financial education and finances. But they're also very pessimistic about social security.

Anu: Yeah.

Renée: And they are planning their retirement and leveraging financial education because their assumption is we won't have social security, no one is coming to save us. So, unlike previous generations, we have to save. So, millennials, we need you to have this conversation with Gen Z and we start preparing them for financial education. I don't know, I don't want to put any pressure on millennials, but this is the generation that I'm mostly, optimistic and excited about, even though I'm biased towards Gen Z because we have access, but they have a bit of a longer runway to be able to make those adjustments. So that's my very long thought on it but it makes me very excited to think about the differences of the different generations.

Anu: Yeah, sure. No, thank you very much. You know, here at Neuberger Berman, we are entrusted with the capital of our clients, whether they are individuals or public pension plans, endowments, foundations, we are really committed to serving them by helping them reach their unique financial goals. So, Renée, my question for you is, how can an asset manager like Neuberger Berman and others in our industry continue to support financial literacy going forward?

Renée: Well, I think it sounds simple, but it's really a challenge. Financial institutions can help to foster a deeper understanding and more effective management of finances by having those targeted initiatives. Sometimes it's just as simple as building awareness. And one of the opportunities I see particularly in the high net worth, private wealth sector is, are we missing out on certain demographics? Can we be focusing on empowering women through education, especially understanding that this is a demographic and women traditionally trail men when it comes to financial literacy but are also the ones that are going to benefit the most from this wealth transfer?

So can we, as an industry, focus more on making sure that we're equipping the right people with the right tools to succeed in a sustainable and savvy way, but also understanding that with this transfer of wealth, we are missing out on a demographic that requires a different way and a different approach of understanding financial literacy.

And I believe the best is yet to come when, and if, we see that process through and look at effective, targeted initiatives, empowering different groups and segments through education and support the importance of overall financial health and stability and meeting people where they're at in a way that they can receive the information and feel part of the solution rather than just benefiting or seeing the problems and challenges.

Anu: Renée, you said a few things that I know we would agree with here as well at Neuberger, we're certainly focused on engaging all parties involved, particularly when it comes to Private Wealth, so that everyone is being communicated in a way that is understandable and education is happening, not just to one individual because I think one of the hardest things is when there's a surviving member of a family who's left, kind of, unaware or, you know, unfortunately, vulnerable and in a space where they don't understand what their financial situation is for their family. So, yeah, totally agree on making sure that everyone is being communicated to in a cohesive way.

Anu: That's a great place to end on. And it's giving me a to do, which is to make sure that I talk about financial literacy to my, to my young kids as soon as possible, because it's never too late to learn. It's never too early to learn, right? [laughs]

Renée: It's never too late. And yes, truly, it's never too early. And one of the things that, you know, I did with my children is I brought them into the conversations. We had finance Fridays, maybe somebody has money Mondays, but, we made it in a way that was relevant to them and had that conversation to meet them where they're at. And they're adults now, but the fact is they are so good with money, it doesn't intimidate them. They manage their money and their finances very effectively, and, you know, they have role models. But that was something that I had to learn, it was not something that I grew up with.

Anu: Absolutely. Well, Renée, before I let you go, I do have one final bonus question for you, which is actually to ask you if you could share a little bit about your background. Tell us about your journey that brought you to a career focused on making financial knowledge and economic empowerment accessible to all.

Renée: Well, my journey started very early. I grew up in a very small town, and financial education was not something that we spoke about. But when I went to college, I majored in finance, after switching my major from biology, and I began to learn so much. It really changed the trajectory of my life.

And what I would do is every time I would learn something different about finances, whether it was about, you know, banking or credit card or credit scores or debt, I would go back and I would tell other people about it. And it was something that I just watched so many individuals be so uncomfortable when it came about the conversations around money. And I still see it, so just trying to break that down.

And I also realized when people heard it from someone that they know, like and trust, that had a similar background and experience, we begin to break down some of those walls but the wonderful thing about my experience and having worked at some great firms on Wall Street and coming down to a place of entrepreneurship is how empowered being financially literate and having an understanding around financial education made me.

So that's what brought me here. I'm really truly driven by breaking down these barriers to entry and helping to bridge that gap to help people see what's possible which is very much in alignment with my journey and for those that I've had the pleasure of working with and haven't even met yet. I'm excited.

Anu: Terrific. Well, we're glad that you're here today with us to discuss, so many great topics from different demographics and how they approach, financial literacy, technology, political landscape and so much more. Renée, it's clear that financial literacy is not just about understanding money, it's about empowering ourselves to make informed decisions that shape our financial futures, so let me thank you for sharing your invaluable insights today and I hope we can reconnect again soon.

Renée: Yes. Thank you, Anu, and thank you to you and to Neuberger Berman for addressing and having this conversation, it's greatly appreciated.

Anu: Absolutely. And to our listeners, if you've enjoyed what you've heard today on *Disruptive Forces*, you can subscribe to the show from wherever you listen to your podcasts or you can visit our website, www.nb.com/disruptiveforces where you can find previous episodes as well as more information about our firm and offerings.

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