

Improving Financial Literacy: Recommendations From CNA's Roundtable on Developing a DOD Financial Education Strategy

The National Defense Authorization Act (NDAA) for Fiscal Year 2016 contains the Military Compensation and Retirement Modernization Commission's recommended changes to the current defined-benefit retirement system available to servicemembers with 20 or more years of service. The new retirement system, which will be effective for all new servicemembers in 2018, will offer a mix of defined-contribution and defined-benefit aspects and vests benefits for those with as few as two years of service through their Thrift Savings Plan (TSP) accounts. Unlike the defined-benefit retirement system, TSP investment growth is subject to fluctuations in the stock market and the economy. Selecting riskier investment options could leave some servicemembers with far less or far more savings than their peers when they retire.¹ Furthermore, those who entered service between 2006 and 2018 will have to choose between staying in their current defined-benefit plan and opting for the new blended plan. For these reasons, Section 661 of the NDAA for FY 2016 requires the Department of Defense (DOD) and the services to provide servicemembers with additional financial education on these changes. DOD's first step is to develop an education strategy to ensure that servicemembers and their families are

¹ TSP funds will initially be placed in the most conservative fund in an attempt to avoid significant losses.

aware of changes to the military retirement system and are prepared to make the timely decisions necessary to ensure their financial readiness.

To assist DOD in this endeavor, CNA recently convened a group of stakeholders from government, academia, and private financial institutions to discuss best practices for reaching and educating servicemembers on these types of choices. This document summarizes the overarching issues discussed and presented at the gathering.



1) Accept that initial financial literacy levels may be low and financial fragility may be high

Findings from the 2012 National Financial Capability Study show that most Americans have relatively low levels of financial literacy. Levels are particularly low among the young (only 13 percent of those age 18 to 24 answered three financial literacy questions correctly versus 52 percent of those age 60 to 69). Furthermore, Millennials have the highest levels of financial fragility (39 percent said they certainly or probably would be unable to come up with \$2,000 in an emergency). As a result, 39 percent of employed Millennials

have used alternative financial services, such as payday loans, followed by 29 percent of those in mid-career (age 36 to 50). Fifty-five percent of Millennials with a high school diploma or less education have used these services, suggesting that enlisted servicemembers may be particularly at risk of financial distress.

Although not representative of the military population overall, a 2009 military subsample of 700 servicemembers and 100 military spouses found that over one-third reported facing difficulties in covering monthly expenses and paying bills, only half had “rainy day” funds set aside for unanticipated financial emergencies, and over one-quarter of those with credit cards reported owing more than \$10,000 in associated debt.

2) Determine the line between education and advice

Experts agree that, to provide financial advice, one needs a complete understanding of a servicemember’s assets and liabilities, as well as a good sense of his or her personal financial goals. Servicemembers likely are unwilling to provide such extensive (and personal) information to their employers, and DOD and the services are unlikely to have the capacity to offer such advice. Thus, DOD and the services must limit their efforts to providing servicemembers with the information and tools they will need to make educated decisions based on their own situations. Some private financial organizations have tools and indicators that allow member servicemembers to incorporate information from their individual asset and insurance accounts to provide them with a more complete financial picture.



Dr. Annamaria Lusardi, GWU (left) and Dr. Linda Cavalluzzo, CNA

3) Present information in simple terms and in multiple ways

Both research and case studies suggest that financial education should be presented in layman’s terms, avoiding jargon. Written communications should be short and to the point, and should not rely on complicated figures or high numeracy levels. Educators should try to develop examples that are relevant to the group being addressed and should explain key concepts in multiple ways that are likely to resonate with their intended audience.



4) Provide information at multiple touch points and recognize that one size doesn't fit all

In addition to requiring the provision of financial literacy training, the FY 2016 NDAA specifies many points at which this training must be provided, such as during initial training, on arrival at each duty station, and during leadership training. It also requires this financial literacy training at servicemembers' major life events, including marriage, divorce, birth of a child, or a disabling condition. Although the research indicates that providing information at multiple touch points is important, DOD and the services should customize this training to the greatest extent possible so that it goes beyond just "checking a box." One way to customize this training is to incorporate examples and questions that have arisen at briefings to audiences and

servicemembers at the same career point or facing the same major life event.

5) Acknowledge the role of a servicemember's peers and superiors

On the one hand, DOD and the services want only those who have been appropriately trained and accredited to provide financial literacy information. On the other hand, DOD and the services must recognize that servicemembers (particularly junior enlisted) often rely on the advice and counsel of their peers and supervisors. One way to alleviate the potential for the dissemination of "bad" information is to ensure that servicemembers at all levels are made aware of ways to access the financial literacy information and resources that DOD and the services will provide.



6) Disseminate information broadly through a variety of methods

In today's technological environment, people want fast, easy, and convenient access to information. As a result, DOD and the services should provide financial literacy information and tools through a variety of methods (of

both the “push” and “pull” variety). To the extent practicable, information should be available through calculators, videos, games, online chats, or call centers, as well as through classes and briefings.



Mr. Robert Daigle, Executive Director, Military Compensation and Retirement Modernization Commission

7) Recognize that retirement is a household decision

Although servicemembers will be asked to make retirement choices, DOD and the services must recognize that retirement elections are really household decisions. As such, they should allow spouses to be part of financial literacy training and education efforts.

8) Pilot-test the training

Once training has been developed, it is important to pilot-test it—not just with financial experts and educators, but with those to whom the training will be directed. This will allow DOD and the services to identify parts

that are unclear prior to rollout, gather information about servicemembers’ financial thought processes, and collect feedback that can be incorporated into future training administrations.

9) Develop measures of effectiveness

A key part of determining the efficacy of any training program is to develop associated measures of effectiveness. In the context of financial literacy training, both input and output metrics will be required. This may require the introduction of new fields in data systems or new surveys for the collection of data. Financial literacy educators have developed some tools that DOD and the services could use to measure knowledge gains achieved through training.

Conclusion

The recently approved changes to the military retirement system have the potential to benefit all servicemembers, but the potential for financial missteps or poor decision-making could be high, absent adequate financial education and literacy. CNA welcomes the opportunity to help shape DOD and the services’ financial literacy efforts and looks forward to providing supporting trend and effectiveness analysis as these programs progress.

CNA is a nonprofit research organization that operates the Center for Naval Analyses and the Institute for Public Research.