EDITORIAL POSTLUDE

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Financial Aliteracy

When I worked at another university some decades ago, a man I had not previously met stopped me as I walked out of my office, introducing himself as a faculty member in the college of liberal arts. As he explained it, his wife had recently inherited a small sum of money and, uncertain how to best invest it, he thought to ask "someone in the college of business" for recommendations. As he talked, I was amazed at his naive view of the academic disciplines represented in my part of the campus. Even though his own college housed an eclectic variety of unrelated disciplines including economics, he operated under a belief that everyone in the college of business building would be equally capable of providing the specialized expertise he sought. Though our department office areas were clearly marked, his search seemed random, coming into the marketing department suite since it was on the same side as the building doors he entered after walking from his own office. Since he did not distinguish between teachers of advertising, finance, personnel management, or business law, he failed to realize that his inquiry to me was akin to not caring if he received advice on a vision problem from an ophthalmologist, podiatrist, or psychiatrist.

Though I immediately told him that I could not and would not have any suggestions, he continued talking about his situation. As it turned out, the minimal amount of dollars involved in what he felt was his windfall would have been inadequate for the purchase of an economy sedan. He was a senior faculty member of the university, himself possessing the usual advanced degrees, so as a scholar in his own realm and with the simpler financial options of that time period, intuitively it could have been a simple matter for him to conduct a small amount of research and make his own decisions. But he preferred to use his time asking someone else for advice. I never saw him again, but I expected that he would blindly invest the money in any offhand comment made to him by the next person he encountered.

I think of this former colleague every time I hear an underwriting credit on National Public Radio for the faculty-focused retirement annuity company

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that says it works for "people who have other things to think about." Even today, it would not be difficult to find business faculty possessing an understanding of investments who would nonetheless prefer to just have the money placed in their supplemental retirement account and otherwise forgotten.

Years ago, the common tale was of a widow not even knowing if her recently deceased husband had an insurance policy, much less how to manage the various financial problems she needed to face. Sometimes they would be unable to even balance a checkbook. Since these women did not work outside the home for the many years they were married, their husbands took care of those things. Today, though few households are so sexist and paternalistic, many couples still split responsibilities such that only one person takes care of the finances. The other person is probably quite capable of doing it but is financially aliterate. In these instances, at least they have a spouse who is willing to study, learn, and make decisions on more than advice from strangers.

During the past few years, numerous news stories report people losing their homes or savings from financial mistakes. And some would have been helped if they possessed greater skills of financial literacy. But as with any area of consumer abuse, there exist intrinsic limitations to how much consumers can or will protect themselves. And the limitation is not just consumer intellect, specialized knowledge, or education; personal credit counseling, for example, does help some consumers make better choices (Elliehausen, Lundquist, and Staten 2007). Counseling, however, forces people to face a situation, which means they got in trouble because they wanted to avoid thinking about it.

This is not just about financial decisions, as people generally would rather not have to be their own expert pharmacist, accountant, mechanic, doctor, or lawyer. Sometimes it is that the information is too complicated or confusing, but even when they could be fully able to comprehend the materials, people would rather just find someone they think they can trust who will handle it (e.g., Rotfeld 2002, 2006). Sometimes consumers are abused by the unequal power situations. Federal Trade Commission rules on funeral industry practices aim to assist consumers who are forced to make expensive decisions in times when they would not be thinking clearly (Kopp and Kemp 2007). And yet even when people possess knowledge and information, they ignore it, do not use it, or respond to the wrong cues of what might be the correct decision (e.g., Belsky and Gilovich 1999; Lwin and Williams 2006; Norberg, Horne, and Horne 2007).

Television and radio news programs always try to put a face and name on each news story, so they interview "typical" consumers who will lose home or savings due to the current meltdown in financial markets.

Sometimes these people are clearly vulnerable targets of limited education or time who were not in a position to understand a detailed loan agreement that stated the risks. Victims of predatory lending are often people who could be deficient in other consumer skills and end up trusting the wrong people (Hill and Kozup 2007). But aside from the vulnerable or foolish, financial aliteracy could also generate a collection of people who were guilty of misplaced trust. They trusted that the trends in market values were destined to remain unaltered, they trusted the person who made the deal to have fully assessed their financial risks and assets, or, in their misplaced optimism, they trusted that nothing in their lives or jobs could go wrong.

To a scholar, aliteracy of any kind does not make sense. And maybe those in financial education have difficulty understanding why people who can understand their own potentially costly risks would not want to use those skills to lessen the risks. Sometimes it is a conflict between what seems obvious to an individual in the near term and what might be best overall from a perspective of research (for a broader perspective, see Lyons and Neelakantan 2008). For a variety of reasons, consumers might not want to be that involved in making decisions about money.

The simple answer from consumer psychology is that with seldom-made decisions, regardless of the potential costs if they make a mistake, people turn to heuristics or decision-making aides. For example, brand names are important heuristic tools for very simple to complex purchase decisions. A hotel chain with erratic service delivery under the same name will lose customers at all outlets. A person might spend hours studying *Consumer Reports* before going to the store for a new high-definition television, but at the time of purchase ignores a lot of detailed information, selecting the brand recalled as having had the higher rating. New car buyers might ask friends about the cars bought years in the past to develop a perspective on new makes or models considered.

Consumers will always be financial amateurs, with important financial decisions made about as often as they might buy a new computer or cell phone. Unfortunately, appealing and popular heuristics can be misleading, giving rise to many financial self-help books (e.g., Belsky and Gilovich 1999). And no amount of literacy education would overcome the mental blocks of those who would rather not think of such things.

When I mentioned financial aliteracy to one of our graduate assistants, she could not understand how such a thing is possible. With her undergraduate degree in Accounting and taking MBA classes, it was a foreign concept. So I asked whether she handled the household finances or whether her husband was involved, knowing that she told me earlier that he never wrote checks, did not pay any bills, and he barely responded when she tried to talk of investments for some of their savings. Some of my colleagues will readily admit that their spouses manage the mortgage and make all other financial decisions, with one recently telling me that his wife's involvement increased after she took early retirement from her own job. When they refinanced their home or visit their broker, she points and says "sign here," and he obeys. If she dies first, he thinks he knows where she keeps the financial papers and he will try to remember how to balance the checkbook. For now, he says, he has other things to think about.

I would not be surprised if other faculty around the country today encounter a naive colleague who wandered around the offices looking for fast and easy investment advice.

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