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DEVELOPING AND DISSEMINATING FINANCIAL GUIDELINES FOR AMERICAN HOUSEHOLDS

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Abstract

Household financial planning can be challenging and household members often lack basic financial literacy skills. This paper discusses the potential and pitfalls of one approach to solving these problems—the development and dissemination of financial guidelines simple enough to be explained in graphic form. The discussion is motivated by the history of nutritional guidelines, namely the Food Pyramid and *MyPlate*. Financial and nutritional choices share several salient features, including the trade-off between current and future choices, the underlying complexity of the problem, and the auspicious effect that simple rules-of-thumb can provide. We conclude that financial guidelines can be most effective if they meet the following criteria. First, the guidelines should be simple, accurate, and comprehensive. Second, alternative versions of the guidelines should be developed to reflect the divergent economic circumstances of people at different points in the life-cycle, or who for other reasons face different economic situations. Third, the guidelines should be designed to be a focal point for the development of new, appropriate financial products and services. Fourth, the financial guidelines should be widely disseminated from an unbiased source of financial information and planning.

I. Introduction

Household financial planning can be challenging. Households need to consider retirement and precautionary saving, asset allocation, and levels of debt. They need to factor in family size and composition and related financial needs, such as housing and college costs, as well as life, property, and disability insurance. They should consider uncertainties related to employment, asset returns, health status, expected longevity, inflation, and other factors. These decisions have become more important and more difficult over time with the shift toward defined-contribution pension plans and longer retirement periods, the threat of future cuts in Social Security and Medicare, rising health care costs and college costs, and recent declines in housing and stock markets.

Households' financial planning efforts are often hampered by two additional challenges. First, many individuals lack basic financial literacy skills and knowledge. Second, although the number of available financial products and services has exploded in recent years, many such items have proven confusing or misleading, encumbering individuals' ability to identify high-quality financial products and unbiased, professional advice. In light of these considerations, it is perhaps not surprising that there is substantial evidence that households often lack financial literacy and often make poor financial choices, which can result in real economic hardship.[1]

There are many ways to address these problems. This paper focuses on the potential virtues and pitfalls of one approach—the development of financial guidelines simple enough to be explained in graphic form—and the dissemination of the guidelines to non-expert households to help bolster financial acumen and security.

[1] Several papers provide surveys and alternative perspectives on these issues, including Bucks and Pence (2006), Gale, Harris, and Levine (2011), Moore (2003), and Olsen and Whittman (2007).

To motivate this discussion, we explore the nutritional guidelines disseminated by the U.S. Department of Agriculture (USDA). Financial and nutritional choices share several salient features. Both have direct effects on people's daily actions and well-being. Both are complicated by the increasing volume of misleading information. Both present problems that involve difficult trade-offs between short-run and long-run considerations. Both present problems that are complex and difficult to solve exactly; an yet simple rules-of-thumb appear to provide information of significant value to both. That is, it appears, at first glance at least (and is a maintained hypothesis of this paper), that a person can make fairly good choices simply by following basic rules-of-thumb or other simple decision rules. Constructive rules-of-thumb can help people achieve outcomes closer to the optimal solution and avoid systematic errors by correcting for poor advice and protecting against insufficient knowledge.

The USDA guidelines have traditionally been recognized in the form of a graphic depicting a food pyramid; in June 2011, the food pyramid was replaced with the graphic of a plate, called "*MyPlate*." Several features of the USDA's "comprehensive graphic" approach—both positive and cautionary—apply to financial literacy.

The positive features of the USDA's ongoing nutrition campaign help demonstrate the potential of a similar approach in financial literacy. First and foremost, the USDA's comprehensive graphic approach is intended to be simple, accurate and comprehensive; it condenses an immense amount of complex and technical information into a few rules that non-specialists can understand and follow. Second, the approach addresses heterogeneity; because circumstances vary over an individual's lifetime, different sets of rules are developed and applied for different groups (USDA's

MyPyramid has 12 different variations). Third, the USDA's comprehensive graphic approach serves as a focal point for associated programs. For example, the invention of the food pyramid influenced the production choices of the agricultural sector and provided a way to monitor, evaluate, and categorize those products. Fourth, the approach can be easily disseminated to a wide audience, and the value of disseminating the information is enhanced to the extent that the graphic is derived from an unbiased and trusted source.

Financial guidelines could aim to meet the same four criteria listed above. First, the guidelines should be simple, accurate, and comprehensive. They should include rules-of-thumb or other comprehensible decision rules regarding saving (including retirement saving, precautionary saving, and saving for other goals), asset allocation, housing purchase and mortgages, credit card and other debt management, insurance (including property, life, and disability insurance) and other items. The guidelines should not be interpreted as a precise recommendation for individual financial planning any more than the food pyramid should be interpreted as a complete, specific diet for any individual. In addition, the benefits provided by public insurance programs, like the retirement, disability, and survivorship benefits provided by Social Security and the health insurance benefits provided by Medicare, should be incorporated into the financial guidelines.

Second, alternative versions of the guidelines could be developed to reflect the divergent economic circumstances of people at different points in the life-cycle, or who for other reasons face different economic situations. Examples of the different types of households, with some of the key financial issues they face listed in parentheses, include:

- New workers (understanding saving principles, initiating retirement saving, paying-off student loans, controlling credit card debt, and saving for a house);

- Mid-career workers (protecting accumulated retirement assets against early withdrawal and high account fees);

- Near-retirees (making catch-up contributions and considering payout options from 401(k) plans);

- Retirees (managing financial assets, confronting higher health costs and estate planning);

- Low- and moderate-income households (understanding transactions accounts, government programs, debt management, the importance of precautionary saving, and higher replacement rates for Social Security);

- Students (managing bank accounts, credit card debt, and student loans and developing budgeting skills);

- New families (obtaining life insurance and saving for college);

- Women (managing interrupted careers; avoiding conservative investment strategies and addressing longer life-spans)[2];

- Hispanics and African-Americans (navigating transactions accounts, obtaining financial counseling, and raising retirement saving participation).[3]

Third, the guidelines could be designed to be a focal point for the development of new, appropriate financial products and services (for example, by focusing on key product features that meet a particular need, such as a low-cost, diversified fund for investment purposes). The guidelines themselves would help create demand for such products. Suppliers whose products were in accordance with the guidelines could market their products as meeting government standards for financial soundness and security. This could help make it easier for households to identify sound financial advice and

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[2] See Papke, Walker, and Dworsky (2008).
[3] See Orszag and Rodriguez (2005).

products. (The food equivalents are nutritional labels and statements such as "this product counts as 1 serving of carbohydrates" in a particular diet system.)

Fourth, the financial guidelines could be widely disseminated from an unbiased source of financial information and planning. One candidate for dissemination is the Consumer Financial Protection Bureau (CFPB), a newly created agency whose mission includes, among other responsibilities, the promotion of financial literacy. In the past, the Social Security Administration mailed annual Social Security statements to all workers older than 25, a statement like this would provide a natural opportunity to disseminate information. Currently, however, only non-beneficiaries aged 60 and older still receive statements.

While a comprehensive-graphic approach could be useful in improving financial outcomes, experience with food graphics and with other public campaigns foreshadows several thorny problems that would need to be addressed. First, the development of the food pyramid was wrought with political wrangling and special interest considerations that have at least partially undermined the credibility of the graphic, as well as the content and design. Second, mounting an effective public information campaigns presents some daunting obstacles, as previous campaigns have had limited success (Abroms and Maibach 2008, Gale, Harris, and Levine 2011, Siegel 1998, and Snyder 2007). In fact, there is meager evidence that the food pyramid or *MyPlate* has influenced public behavior.

This paper explores both the potential successes and pitfalls of applying a comprehensive graphic approach to financial planning. Section II describes the history of USDA nutritional guidelines, including how the guidelines were developed and applied, how they have evolved, and some of the difficulties and constraints involved. Section III highlights existing public financial literacy efforts and identifies several potential prototypes for a comprehensive graphic for financial guidelines. With those sections as background, section IV focuses on an example household –working-age adults with children— outlining the applicable key financial issues that would have to be addressed in any comprehensive graphic approach. Section V discusses how a set of guidelines could be used as a focal point for financial product certification (with examples from other fields). Section VI discusses how the information from a graphic might be distributed to the public, and identifies some of the problems that public information campaigns have faced in the past. Section VII concludes by discussing the next steps to be developed in constructing a set of comprehensive financial guidelines and corresponding graphics.

II. The Food Pyramid and *MyPlate*

A. Historical Development[4]

The federal government has advised citizens about proper dietary habits for more than a century. The USDA issued nutritional advice as early as 1894, when officials compiled tables of dietary standards for American males (Johnston 2005). In 1916, the USDA issued its first “food guide” on the proper nutritional habits of young children; in 1917 a subsequent food guide was published for adults. During the Great Depression, the USDA again issued food guidelines for adults, this time offering four separate sets of guidelines based on cost. One of the low-cost plans—the Thrifty Food Plan—is still used today to determine guidelines for the food stamp program. In the 1950s, USDA

[4] This section draws heavily on Sims (1998).

nutritionists developed the “Basic Four” food guide, which not only recommended types of food that consumers should eat to ensure optimal nutrition but also the number and size of servings.

By 1980, it became clear to nutritionists at the USDA that the Basic Four guidelines needed to be replaced with recommendations based on the consumption of nutrients rather than the consumption of certain types of food. In the early 1980s USDA nutritionists began researching and developing the basis for a new food guide. At about the same time, the USDA and Red Cross had developed a “food wheel” as a tool for volunteer nutrition teachers. The purpose of the food wheel was to communicate the recommended size and number of servings of food by category. Some believed the food wheel to be too confusing, and the USDA began searching for a new graphic that would convey information about recommended daily food intake.

In 1988, the USDA contracted a social marketing firm to develop a new graphic. The firm was charged with developing a graphic that could be understood by the segment of the American public that had a high school diploma, possessed adequate literacy skills, and was ineligible for food stamps. The marketing firm tested several designs over the next two years, and eventually settled on the shape of a pyramid. The graphic was termed the “Eating Right Pyramid,” and was developed and vetted over the next several years. USDA subjected the graphic to a fairly rigorous internal review and solicited feedback from several dozen nutrition experts. By 1991, officials at the USDA deemed the graphic ready to be released, and arranged to have it printed and distributed.

Prior to the Pyramid’s release, trade associations such as the National Cattlemen’s Association and the National Milk Producers Federation protested the relative placement of their products on the graphic and lobbied the Secretary of Agriculture to reject it. The production of the graphic was temporarily halted due to this pressure from outside interests. The Secretary of Agriculture announced that the graphic would be subject to additional testing; he charged the USDA to further study how the graphic would be interpreted by "vulnerable" groups such as schoolchildren and low-income adults.

The USDA would again contract with a private firm to test the efficacy of the graphic, a process that delayed the release of the food pyramid by one year. In 1991, the graphic was eventually released, in nearly the identical format to the one that had been originally designed. The new pyramid was renamed the "Food Guide Pyramid," as opposed to the "Eating Right Pyramid," and would become "the nutritional icon of the 1990s" (Sims 1998).

In 2005, the pyramid graphic was again revised and newly dubbed "*MyPyramid*." The graphic emphasized exercise in addition to nutrition and also presented altered recommendations about daily intake of various food groups. Perhaps the biggest change between the food pyramid and *MyPyramid* was the purpose of the graphic. While the food pyramid was designed to be a stand-alone education tool (augmented by the USDA's dietary guidelines and other publications), the purpose of *MyPyramid* was to remind individuals about nutrition and refer them to a website that provided more tailored nutritional information.

In June 2011, the USDA released a revised comprehensive graphic showing recommended nutritional intake in the form of a plate instead of a pyramid. The new graphic, called *MyPlate*, incorporated the USDA's updated dietary guidelines released in early 2011. The revised graphic is presented on the website *choosemyplate.gov*, which allows users to personalize their recommended dietary intake.

The new graphic is a combination of prior USDA approaches. Relative to *MyPyramid*, *MyPlate* is more educational as a stand-alone educational tool, showing recommended relative portions of fruit, grains, dairy, protein, and vegetables. However, *MyPlate*—like *MyPyramid*—also serves as a platform for more sophisticated recommendations, directing consumers to the website *choosemyplate.gov*.

B. Criticism of the USDA Approach

Criticism of the USDA food guidelines has been widespread, but generally focuses on one of three issues: the independence of the process used to develop the guidelines, the content of the guidelines, and the design of the graphic.

The USDA's independence has been criticized due to its dual mandate that it promote both the agricultural industry and consumer health simultaneously (Harvard School of Public Health 2005). This conflict has led some to suggest that the development of the food pyramid ought to rest in the hands of an agency with a less divided role, like the Department of Health and Human Services. In the same vein of criticism, some assert that that private industry has been overly influential in the pyramid's development. For example, a 2002 *Wall Street Journal* article noted that the sugar industry successfully lobbied against a change in wording that would recommend consumers consider "eating less sugar," replacing it with the weaker recommendation that individuals should "moderate your intake of sugars" (Carroll 2002). The Harvard School of Public Health (2005) has been a particularly vocal critic of the lack of independence by the USDA, noting:

> We can't look at a pyramid these days without thinking of food and healthy

> eating. There was the U.S. government's Food Guide Pyramid, followed by its replacement, *MyPyramid*, which was basically the same thing, just pitched on its side. The problem was that these efforts, while generally good intentioned, have been quite flawed at actually showing people what makes up a healthy diet. Why? Their recommendations have often been based on out-of-date science and influenced by people with business interests in their messages.

Similar complaints are not uncommon among nutritionists and public health organizations.

The most prominent complaint has been over the content of the dietary guidelines and associated recommendations contained in the graphic. Various nutrition, medical, public health, and advocacy groups have taken aim at the USDA's nutritional recommendations. For example, one article in the *Scientific American* criticized the food pyramid as failing to distinguish between saturated and unsaturated fats, promoting potatoes as a form of vegetable, treating red meat the same as other sources of protein, and recommending too much consumption of dairy products (Willett and Stampfer 2002).

As a means of critiquing or augmenting the content of the USDA's food pyramid, several groups produced alternative nutritional guides. For example, various organizations have promoted food guide pyramids for vegans, vegetarians, older Americans, and younger Americans; the Harvard School of Public Health has also produced a food guide that it deems superior to the one produced by the USDA. The Mayo Clinic developed five pyramids—the Asian Diet, Mediterranean Diet, Latin American Diet, Vegetarian, and Mayo Clinic Health Weight Pyramids—which it displays alongside the USDA-endorsed pyramid.

Other critiques focused on the design of the food pyramid, rather than the graphic's content. For example, Scanlon (2005) objects to *MyPyramid's* non-intuitive assignment of colors to represent food groups and unclear recommendations on portion consumption among various groups.[5] Others have criticized the pyramid's shape on the grounds that it fails to adequately convey recommended relative portion sizes; the *MyPlate* graphic appears to be more effective at conveying this point.

While criticisms of the USDA's approach has generated discussion and debate over proper dietary guidelines among experts,[6] the pyramid's impact on the eating habits of the American consumer is less clear. While substantial evidence exists on the increased prevalence of diet-related diseases such as obesity and diabetes, we are unaware of any study specifically linking the impact of the USDA's efforts to nutritional outcomes. The history of food guidelines suggests both the potential gains and problems with providing a finance-oriented comprehensive graphic.

III. Existing Public Efforts and Prototypes

A wide array of federal programs aims to improve financial literacy, with over 20 federal agencies operating in excess of 50 separate financial literacy initiatives. These initiatives vary in their target populations and delivery mechanisms (GAO 2011a). For example, federal agencies often target populations such as children, parents, members of the military, and retirees.

To help coordinate the federal financial literacy effort (referred to as "fragmented" by the GAO), Congress established the Financial Education and Literacy Commission (FLEC) in 2003, with the mandate that the Commission devise a coordinated national strategy for financial literacy. Federal audits of the Commission in

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[5] This critique did not acknowledge that the goal of *MyPyramid* was to promote nutritional awareness and direct consumers to the *MyPyramid.gov* website.

[6] The release of *MyPyramid.gov* attracted 48 million users on the USDA website in the first day, crashing the USDA website (Johnston 2005).

2006 and 2009 called FLEC's progress "descriptive" rather than "strategic," noting that the Commission lacked concrete goals and benchmarks (GAO 2006, GAO 2009). By 2010 federal auditors found that the Commission had made progress in coordinating a national strategy for financial literacy by identifying action areas—policy, education, practice, research, and coordination—with associated goals and objectives (GAO 2011a).

In 2010, FLEC continued its progress by developing a strategy for identifying "Financial Education Core Competencies."[7] The primary purpose of the core competencies is to provide individuals with financial information that promotes informed decision making. The Commission identified three key goals in its development of the core competencies (Financial Literacy and Education Commission 2011):

- Develop a key set of core financial competencies, and build on them as appropriate.
- Promote the use of transparent, plain-language, and user-friendly forms and information to express core competency topics.
- Encourage financial education providers to align materials with core competencies.

The Commission identified five broad areas of financial knowledge critical for consumers to make informed financial decisions. The set of core competencies topics (referred to as "core concepts") include: earning, spending, saving, borrowing and protecting. For each core competency, the Commission identified associated knowledge and behavior necessary for consumers to make informed decisions. A table containing examples of the relationship between core concepts, knowledge, and behavior is

[7] This particular initiative is part of a larger framework—the National Strategy for Financial Literacy 2011—that aims to increase awareness of and financial access to effective financial education, improve financial education infrastructure, and identify, share, and enhance effective practices (Financial Literacy and Education Commission 2011).

presented below. The ultimate goal of the Commission is to develop an “easily remembered” format for conveying these core competencies (Department of the Treasury 2010).

Department of the Treasury Financial Education Core Compentencies

Core Concept	Knowledge	Action/Behavior
Earning………………	Gross versus net pay…………………………………………	Understand your paycheck.
	Benefits and taxes……………………………………………	Learn about potential benefits and taxes.
	Education is important………………………………………	Invest in your future.
Spending……………..	The difference between needs and wants…………………	Develop a spending plan.
		Track spending habits.
		Live within your means.
		Understand the social and environmental impacts of your spending decisions
Saving…………………	Saved money grows………………………………………..	Start saving early.
		Pay yourself first.
	Know about transactional accounts (checking)…………	Understand and establish relationships with the financial system.
	Know about financial assets (savings accounts, bonds, stocks, mutual funds).	Comparison shop.
		Balance risk and return.
	How to meet long-term goals and grow your wealth…….	Save for retirement, child's education, and other needs.
		Plan for long-term goals.
		Track savings and monitor what you own.
Borrowing……………	If you borrow now, you pay back more later. The cost of borrowing is based on how risky the lender thinks you are (credit score).	Avoid high cost borrowing, plan, understand, and shop around.
		Understand how information in your credit score affects borrowing.
		Plan and meet your payment obligations.
		Track borrowing habits.
		Analyze renting versus owning a home.
Protect………………	Act now to protect yourself from potential catastrophe later.	Choose appropriate insurance.
		Build up an emergency fund.
		Shop around.
	Identity theft/fraud/scams……………………………………	Protect your identity.
		Avoid fraud and scams.
		Review your credit report.

Source: Department of the Treasury (2010).

The core competency concept is still in the development stage; in August 2010, the Treasury solicited comments. The Commission received nearly 70 responses to its call for comments from a variety of sources, including trade associations, non-profit organizations, state and foreign governments, businesses, and individuals. Most commentators agreed with the Commission’s mission.

Many other federal agencies have produced outlets for delivering financial education. One notable example is the *mymoney.gov* website, which is administered by

FLEC and sponsored by 22 federal entities. The website aims to serve as an unbiased resource for consumers seeking financial information. Delivery of financial advice is organized around "life events"—such as the birth of a child, marriage, starting/losing a job, and death of a family member. For each life event, information is provided by one of the sponsoring agencies. For example, for the birth of a child, *mymoney.gov* users can access various information provided by the Department of Health and Human Services, the Social Security Administration, the Department of Labor, and the Federal Deposit Insurance Corporation (FDIC).

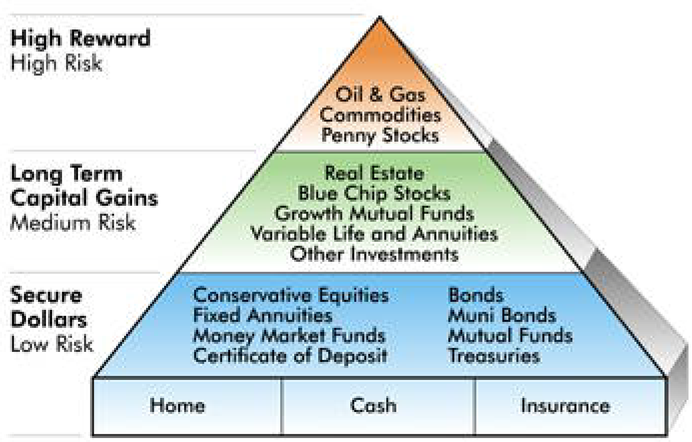
Another notable format for delivering financial information is the *Money Smart* program administered by the FDIC. The *Money Smart* program was established in 2001, and is aimed at providing financial education to low- and middle-income households. Targeted towards both young adults and older Americans alike, the *Money Smart* curriculum encompasses a series of modules on various topics, ranging from the significance of credit history to consumer protection to bank services. The FDIC provides instructor-training manuals to enable individuals and organizations to teach the curriculum to interested parties.

Prototypes

We are unaware of any single graphic that effectively and comprehensively conveys all of the financial information people need, but prototypes—especially among financial wealth managers—are common and often cover significant amounts of information. In particular, wealth managers often use the pyramid concept to explain how the optimal asset diversification should include assets of varying risk in varying proportions. These graphics, discussed below, emphasize investment issues. A comprehensive graphic would likely have a broader focus.

The Financial Counselor Network (FCN), for example, has developed "six areas of financial planning"—income allocation, risk management, investing for wealth accumulation, tax planning, retirement planning, and estate planning—and an associated financial pyramid for "building a secure financial future." The pyramid, which is used to highlight the benefits of asset diversification, is shown below.

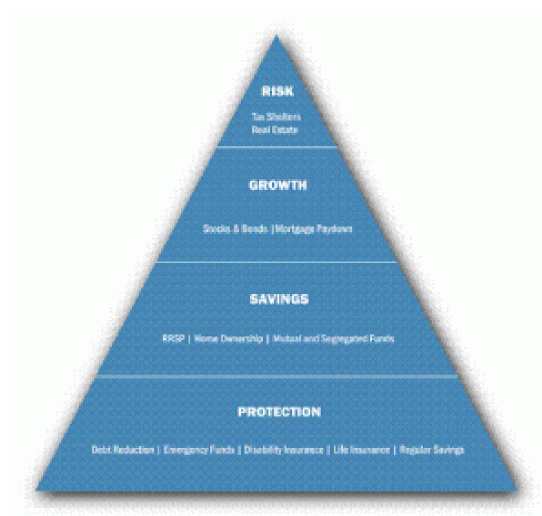
FCN Financial Pyramid



Source: Financial Counseling Network. http://www.fcn.com/financialpyramid.htm.

Another example of a financial pyramid is found on the website *financialhighway.com*, a financial advice blog written by a collection of financial advisors and journalists. The financial highway (FH) financial pyramid, shown below, identifies four distinct areas of financial behavior: protection, savings, growth, and risk. Protection (level 1) includes debt reduction, disability and life insurance, establishing an emergency fund, and regular saving; savings (level 2) includes contributions to tax-preferred retirement saving accounts, home ownership, and mutual fund investment; growth/wealth-building (level 3) includes investing in stocks and bonds and mortgage repayment; risk/speculation (level 4) includes taking advantage of tax shelters and investing in risky investments. The FH pyramid recommends that no more than 5 percent of an individual's assets are devoted to risk and speculation.

Financial Highway Financial Pyramid



Source: www.financialhighway.com

IV. Financial Guidelines for Working-Age Adults

The purpose of a comprehensive graphic would be to help guide consumers to the necessary financial behavior that will put them on a sound financial path. However, a household's situation can be complex, and the heterogeneity of concerns across different types of households can be substantial. Investment choices for retirees may differ from those of young workers; single adults without children have different insurance and saving needs than married couples with children; and so on. This heterogeneity often means that the optimal, or recommended, behavior can vary across households. While acknowledging this heterogeneity, in this section we focus on working-age adults with children and describe many of the major financial issues they face and that would need to be included in a comprehensive graphic approach to financial planning.

A. Dimensions

Financial guidelines can be categorized and organized in numerous ways. For example, one might consider day-to-day transactions, saving levels, investment strategies, debt management, and insurance. For current purposes, however, we simply list some of the major financial issues that a working-age adult with children would face. Clearly, many of these issues would be covered in more than one category.

Checking accounts/access to banking system: Household members should have access to the banking system. Unbanked households often face high financial fees, such as fees for check cashing, and lower credit scores. Opening a checking account can help establish better credit, which can then lower credit card interest rates and open lines of credit.

Homeownership: Homeownership is not a prerequisite for a sound financial outlook, but can be a part of a healthy financial portfolio. Since homes are often a household’s most valuable and important asset, it is critical that potential owners understand the consequences of homeownership. For consumers electing to purchase a home, it is critical that they understand the terms of their home mortgage and take on an appropriate level of mortgage debt.

Precautionary saving: Households should engage in precautionary saving—savings for unexpected spikes in household expenses or declines in income. Households with limited access to credit can find their financial footing upended by unexpected costs; precautionary saving can help buffer households from the negative effects of spikes. Rule of thumb suggests that households should aim to accumulate precautionary saving equal to 3-6 months of expenses.

Retirement saving: Retirement saving can be confusing, as there are a variety of ways to accumulate assets and benefits for retirement. Workers can save for retirement through employer-sponsored defined-contribution accounts including 401(k)s or 403(b)s. Workers, especially those in the public sector, may be covered by an employer-sponsored pension—a "defined-benefit" plan—that offers a set payment of benefits in retirement based on years of service and salary. Workers can save for retirement on their own, and often receive a tax preference for saving through Individual Retirement Accounts. Workers also receive benefits through the Social Security program. The financial pyramid should encourage households to incorporate Social Security benefits as one aspect of their retirement wealth, rather than rely on the program to provide all income in retirement.

Education saving: Households with children can save for their children's education. Federal and state governments offer tax advantages for education saving, often through "529" or "Coverdell" accounts; households can significantly increase the amount saved for college if they take advantage of various tax preferences.

Diversification of assets: Diversification is a characteristic that runs across various financial categories. Savers should be careful to diversify assets within and across asset classes. Working-age adults are often advised to carry a mixture of assets for growth—such as certain types of stocks, and assets that generate income—like Treasury bills. Workers should be careful to not overinvest in own-company stock; doing so can place an overemphasis of the performance of a single company.

Administrative fees: In addition to diversification of assets, investors should pay particular attention to administrative and management fees associated with investments. High fees can serve to diminish the return to investments, particularly when compounded over time.

Tax considerations: Like diversification, tax treatment of assets and debt is an important consideration in many types of financial decisions. Households can receive tax benefits for taking on home mortgages, saving for college, taking on employer-sponsored health care, contributing to a retirement account, and paying investment fees. Certain low-income taxpayers receive a wage subsidy through the Earned-Income Tax Credit; others can receive a tax credit for saving through the Saver's Credit. Awareness of tax treatment of financial behavior can substantially improve a household's financial position.

Debt management: A large proportion of households carry high balances on their credit cards; these balances typically generate high fees and interest payments. Households can receive tax advantages for certain types of debt, like student loans and home mortgages, and should concentrate debt in these types of loans if possible. Households should also be aware of the dangers of taking on too much overall debt, and seek to limit their borrowing to an appropriate level to match their income.

Asset Insurance: Insurance needs often vary based on household composition and assets. Car owners should own car insurance (and are typically required to do so by law), homeowners should own home insurance (and are often required to do so if taking out a mortgage), and renters should purchase renters insurance.

Life Insurance: A common rule of thumb is that workers with dependents should own life insurance covering 6-10 years of earnings. The exact level of life insurance should depend on the number of years remaining before dependents become self-sufficient and other factors.

Health Insurance: All members of a household should be covered by health insurance; catastrophic coverage represents a bare minimum level of coverage. Households can often receive public assistance towards health care costs.

B. Caveats

For working-adults with children, the development of a comprehensive graphic should address at least the categories of decisions described above. One caveat is that even the relatively short list provided above may well prove to be too crowded for a graphic approach. There are a host of additional challenges to establishing financial guidelines for a general population. For one, household heterogeneity can mean very different recommendations for various households; “rules of thumb” or other heuristics, can prove misleading for households with atypical circumstances. The appropriate amount of life insurance, for example, depends not only on income, but also asset holdings and age of dependents and family composition. The homeownership guidelines can vary not only by income and geographic location, but by tax characteristics (in particular, whether a taxpayer itemizes or plans to itemize), future employment plans, and intrinsic value placed on homeownership.

A second issue is prioritization of the various guidelines. Faced with limited resources to devote to precautionary saving, health insurance, and debt management, where should a household’s resources be directed? Is life insurance more important than saving for a child’s education? Should individuals save for retirement in a tax-preferred account, or purchase a house?

Lastly, uncertainty makes it difficult to produce uniform guidelines. Individuals face a great deal of aggregate uncertainty, in addition to household-specific uncertainty. What is the future trajectory of housing prices? Will college tuition prices continue to accelerate? How will tax laws changes in the future? Will Social Security benefits change? What is the future path of interest rates and financial asset values? All of the questions have a bearing on a household’s optimal behavior.

V. Product Certification and Labeling

To increase the pyramid's efficacy, the federal government could initiate certification and labeling for those products consistent with the financial goals embodied in the graphic. Product labeling would allow consumers to identify the quality of financial products, much as food labeling does for food.. For example, mortgages could be certified based on their administrative costs, the structure of their interest rates, and schedule of payments; mutual funds could be certified based on their administrative costs and investment strategies. Consumers aiming to achieve the recommendations offered by the pyramid could look to the certification as a straightforward guide for purchasing those products deemed to be in compliance.

This approach is intended to build on existing product certification approaches in other industries. For example, the federal government established the ENERGY STAR label to reduce greenhouse gas emissions and other pollutants caused by the inefficient use of energy, and to make it easy for consumers to identify and purchase energy-efficient products that offer savings on energy bills without sacrificing performance, features, and comfort. Products can earn the ENERGY STAR label by meeting the energy efficiency requirements set forth in ENERGY STAR product specifications.[8]

Organic food is certified by the USDA. The aim of the organic certification is to increase consumer confidence in the "organic" label, allow legal action for the fraudulent

[8] EPA establishes these specifications based on the following set of key guiding principles: Product categories must contribute significant energy savings nationwide; qualified products must deliver the features and performance demanded by consumers, in addition to increased energy efficiency; if the qualified product costs more than a conventional, less-efficient counterpart, purchasers will recover their investment in increased energy efficiency through utility bill savings, within a reasonable period of time; energy efficiency can be achieved through broadly available, non-proprietary technologies offered by more than one manufacturer; product energy consumption and performance can be measured and verified with testing; and labeling effectively differentiates products and is visible for purchasers.

use of the organic label, and increase trade in organic goods. The USDA was granted this responsibility by the Organic Foods Production Act of 1990, which required the USDA to develop national standards for organically produced products. This action resulted in creation of the National Organics Program (NOP) certification process, which took effect October 2002. The NOP develops, implements, and administers national production, handling, and labeling standards.

These standards are carried out by USDA-accredited state and private certification agents, who annually visit agricultural production sites wishing to achieve the organic label. These certification agents determine the degree to which products are organic: products labeled "100 percent organic" must contain only organically produced materials; products labeled "organic" must contain at least 95 percent organic ingredients; products that contain between 70 and 95 percent organic ingredients may use the phrase "made with organic ingredients" on the label and may list up to three of the organic ingredients (e .g ., carrots) or food groups (e .g ., vegetables) on the principal display area; products with less than 70 percent organic ingredients may not use the term organic other than to identify specific organic ingredients (Johnson 2008).[9]

A third, contrasting example is financial planners, who are certified by private organizations, not state or federal government agencies. There is no single certification for financial planners; several designations exist, including Certified Financial Planner, Chartered Financial Consultant, and Personal Financial Specialist (GAO 2011b). States generally regulate the use of the title “financial planner”; insurance agents, for example, are often prohibited from claiming to be financial planners.

[9] Producers whose gross agricultural income from organic sales is $5,000 or less are exempt from certification.

Financial planners who wish to be achieve the designation “Certified Financial Planner (CFP)” must participate in education, examination, experience, and ethics training. (These steps are referred to as “the four Es” by the Certified Financial Planner’s Board of Standards.) CFPs must generally have a bachelor’s degree and coursework in designated subjects; must have passed a CFP certification examination; must have three years of work experience in the financial planning industry; and must have agreed to the CFP’s boards standards of ethics (Certified Financial Planner Board of Standards, Inc. 2010).

VI. Product Dissemination

Once the comprehensive graphic has been developed, an additional challenge is effectively disseminating the information. One strategy for the dissemination of the financial pyramid is a public information campaign. Other well-known American public information campaigns have targeted behaviors regarding sexual practices, diet, drug use, littering, and seat belt use among others.

Public campaigns have even been targeted at saving behavior. During World War II, government agencies encouraged households to buy U. S. Saving Bonds. Likewise, Japan conducted a widespread campaign to raise savings in the 1950s and 1960s (Bernheim 1991). More recently in the U.S., the *Choose to Save* campaign was launched in the Washington D.C. area in 1998. The campaign used a multi-dimensional approach towards savings promotion, including public service announcements on radio and TV, signs on local buses and subways, and a “Saving Game” designed to increase knowledge of saving-related topics.

The Irish experience with pro-saving public information campaigns deserves special mention. In 2003 through 2006, Ireland initiated a “National Pension Awareness Campaign” that sought to promote better pension coverage among non-participating workers, and more adequate saving among those already covered. The campaign targeted younger workers aged 25 through 39, women, young graduates and job-seekers, and rural workers. The campaign’s primary strategy was to use an extensive advertising campaign to direct the targeted population towards seeking more information about pensions from either an employer, financial institution, or the public website on pension information (*www.pensionsboard.ie*); the public website also included an online calculator that recommended a target pension contribution based on sex, current age, income, asset, and retirement age characteristics. A similar strategy could apply to the United States.

The mailing of retirement account or bank statements provides another opportunity to disseminate information. Prior to 2011, Social Security statements were annually mailed to all covered workers in the United States; these mailings provide an opportunity for the dissemination of a financial pyramid. In 2010, the Social Security Administration mailed approximately 152 million statements, but suspended this practice for workers under age 60 as a cost-saving measure. If the agency again resumes annual mailing statements to all beneficiaries, inclusion of the financial pyramid could be a prudent.

Public-sector mailings also provide an opportunity to disseminate information. Households who own savings, checking, and brokerage accounts regularly receive account statements, providing an opportunity to include information on the financial pyramid. Private sector companies might voluntarily include financial pyramid information as a means of generating additional saving and investment; the federal government could also incentivize the inclusion of information in statement mailings.

An extensive academic literature has investigated the effectiveness of efforts to change mass behavior and contains important lessons for a campaign that would promote financial literacy. While public information campaigns have achieved mixed success, financial literacy as a "goal" is more nebulous than most other campaigns (see Gale, Harris, and Levine 2011 for a review of the characteristics of effective campaigns and the evidence of their mixed success). The objectives of successful public information campaigns have been typically quite straightforward—stop smoking, buy bonds, wear seat belts, etc. In contrast, the goal of a financial literacy campaign would likely be more complex. Is the goal to reduce myopia? Raise numeracy skills? Improve self-control? To save more? None of those goals lend themselves easily to a simple "sound bite" campaign.

Financial literacy would be further challenged by the nature of the campaign. Evidence suggests that public campaigns that try to change *habits* are less successful than those that require a one-time action or temporary change in behavior—for example, getting a vaccine. In the context of saving, this may indicate that a message tailored towards a one-time action—such as "direct your tax refund towards an IRA" or "enroll in your company's 401(k) plan"—might be more effective than asking households to continually save. In addition, research has shown that while attitudes can be changed by public information campaigns, this change in attitudes often does not further translate into changes in behavior (Verplanken and Wood 2006).

VII. Conclusion

Many U.S. households lack the basic financial literacy to make sound financial decisions. This shortcoming has made it apparent that federal agencies can play a role in helping households make better financial choices. This paper lays the broad groundwork for the creation and dissemination of a single, comprehensive graphic that can inform American households about beneficial financial behavior, and can help fill the gap between current decision-making and optimal financial behavior.

As the newly created Consumer Financial Protection Board and other agencies increasingly target financial decision-making, there is a risk that, done piecemeal, this process will actually end up reinforcing the fractured and overly complex decision-making environment. A comprehensive, overarching approach could help resolve this problem.

The USDA's ongoing effort to educate the public about nutrition serves as a useful guide and a cautionary lesson to this exercise. The evolution of the food pyramid to the newly released *MyPlate* embodies several lessons relevant to a financial literacy graphic: Financial guidelines must be perceived as independent and unbiased; graphics should be easily comprehended and serve as a portal to addition information; the internet is a critical mechanism for disseminating information; and the most effective graphic will both convey useful information and direct consumers towards a website that will provide additional guidance.

The creation of such a graphic is not without challenges. Households face heterogeneous circumstances and taste, and this heterogeneity should be reflected in the recommendations and graphic. Guidelines should also serve to help households prioritize among financial needs. Lastly, like the nutrition debate, reaching a consensus among experts about optimal household behavior may prove difficult.

Despite these challenges, the promise of a better-educated populace makes this proposal worthy of further consideration. The first step in such an endeavor is to organize a group of financial experts, agency officials, consumer advocates, and other interested parties to begin consideration of a set of financial guidelines for American households. This step could build on existing financial literacy efforts. A second step is to finalize and publish the consensus financial guidelines. Once those guidelines have been established, a third step is to translate those guidelines into a useful graphic to be disseminated to the public. The fourth step includes building a website with the capability of producing more individualized financial guidelines. A final step would involve a public information campaign to publicize the financial literacy graphic and corresponding resource.

We do not have illusions that a single comprehensive graphic can dramatically change the American financial landscape in isolation. However, a well-designed resource—combined with ongoing programs hosted by federal, state, and local governments and the private sector—can serve as an important part of a ongoing campaign to better-educate the American public about personal finance matters. Such a campaign can help ensure the financial security of millions of households.

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