



Managing Money in Tough Times: Policy Options for Increasing Financial Security

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**It was the best of
times, it was the
worst of times
it was the age of
wisdom, it was the
age of foolishness
it was the epoch of
belief, it was the
epoch of incredulity
it was the season of
Light, it was the
season of Darkness. . .
Charles Dickens**





Family financial decisions



**Family financial
decisions**

**Better use of
resources**

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**Increased economic
security, better jobs,
more home owners**

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**Family financial
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**Better use of
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**Increased economic
security, better jobs,
more home owners**

**More involved in
schools, community
participation**

**Vital, thriving
communities,
well-educated
labor force**



How does policy relate to financial security?

- ▶ **Policy environment establishes access to:**
 - ▶ **Education**
 - ▶ **Disclosures & information**
 - ▶ **Substantive protections**
 - ▶ **Redress**
 - ▶ **Professional advice**





What do we want families to do?

- ▶ Invest in themselves
- ▶ Spend wisely
- ▶ Plan for their future
- ▶ Be happy





Invest in themselves



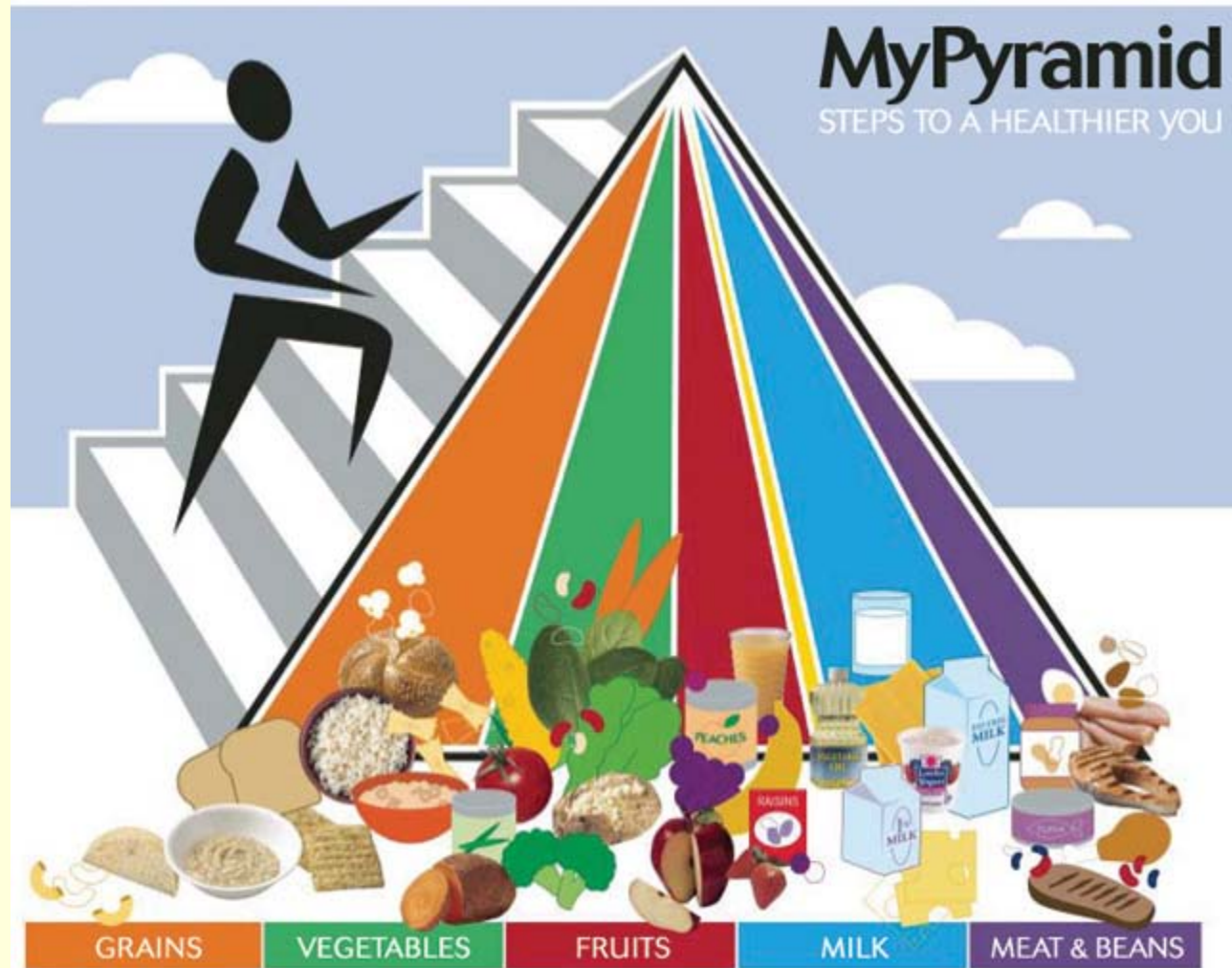
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Invest in themselves

**Eat
right**

**Exercise
more**





Invest in themselves

Spend right



Earn more





Invest in themselves & their families

- ▶ Where do your kids think money comes from?
- ▶ What kind of money manager are you raising your child to be?





Policy options

- ▶ **Provide opportunities for life-long financial education**
 - ▶ Schools (K-12)
 - ▶ Colleges & universities
 - ▶ Work place
 - ▶ Community
- ▶ **Financial education as part of pre-natal care**



Spend wisely





Spend wisely





Spend wisely

▲ **Shop,
compare,
negotiate**



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Consumer Credit



- [5 Tips for Getting the Most from Your Credit Card](#)
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- [Your Credit Report: What it Says about You \(Federal Reserve Bank of San Francisco\)](#)



Federal Reserve approves rules that will better protect credit card users

- [Agencies propose clarifications to credit card rules](#)
- [Press release](#)
- [Highlights of Rules Regarding Credit Card Accounts and Overdraft Services \(27 KB PDF\)](#)
- [Statement by Chairman Bernanke](#)
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Survey Report by Annual Percentage Rate

July 31, 2009

[Key to codes used in survey](#) (will open a new window)

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Institution	Availability and Credit Card Plan	Annual Percentage Rate	Type of Pricing	Index	Grace Period (days)	Annual Fee	Other Features	Telephone
FIRST COMMAND BANK	N - VISA PLATINUM	4.25	V	1	30	0	2,4,6	(888) 763-7600
AMERIPRISE BANK, FSB	N - MASTERCARD	4.50	V	1	30	150	N.R.	(866) 715-4255
FIRST TENNESSEE BANK NATIONAL ASSOCIATION MEMPHIS	R - VISA	5.15	V	1	25	0	4,6,9	(800) 234-2840
CNB BANK	N - VISA GOLD	5.25	V	1	30	0	2,3,4,5,6,8,10	(800) 492-3221
NORTH SIDE BANK AND TRUST COMPANY, THE	R - VISA	6.25	V	1	25	0	3,6,10	(513) 542-7800
FRANKLIN TEMPLETON BANK & TRUST F.S.B.	N - PLATINUM MASTERCARD	6.74	V	1	25	0	2,3,4,6,10	(800) 238-2761



Spend wisely

▶ Understand the real price of things

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Credit Card Repayment Calculator

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Welcome to the Federal Reserve's Credit Card Repayment Calculator. Based on the information you provide, the calculator will give you an estimate of how long it will take you to pay off your credit card balance. The calculator assumes:


- you make no more charges; and
- you make only the minimum payment each month.

A second calculation can help you develop a plan for paying off your balance sooner.

Please use your most recent credit card bill. You may get a more accurate estimate from your credit card issuer's website.

How long will it take me to pay off my credit card balance if I make only the minimum payment?


My total balance: \$ 

My highest annual percentage rate (APR) with a balance: % 

CALCULATE NOW

Last Update: April 21, 2009

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You have entered a balance of \$3,000 at 13.00%. We estimate that:

\$60 Estimated initial minimum payment [?](#)

16 years Amount of time to pay off your balance, if you make no more charges and make only the minimum payment on time each month

\$2,812 Interest charges you will pay in that amount of time

This is an estimate based on the information you provided and assumptions made about your account. The actual time and cost to pay off your balance by only making the minimum payment will depend on the terms of your account and future account activity. [?](#)

How do I pay off my credit card balance sooner?

The following estimates are based on your balance of \$3,000 at 13.00%.

I want to pay off my credit card balance in a specific number of years:

Enter number of years: [GET MONTHLY PAYMENT](#)

\$69 Amount you need to pay each month to pay off your balance in the time above, if you make no more charges and pay on time each month [?](#)

\$1,096 Interest charges you will pay in that amount of time

or

I want to pay a specific amount each month:

Enter monthly payment: \$ [GET TIMEFRAME](#)

6 years Amount of time to pay off your balance if you make no more charges and make the above payment on time each month [?](#)

\$1,345 Interest charges you will pay in that amount of time

[START OVER](#)



Policy options

- ▶ **Access to affordable basic financial services**
- ▶ **Protection from high-cost lending**

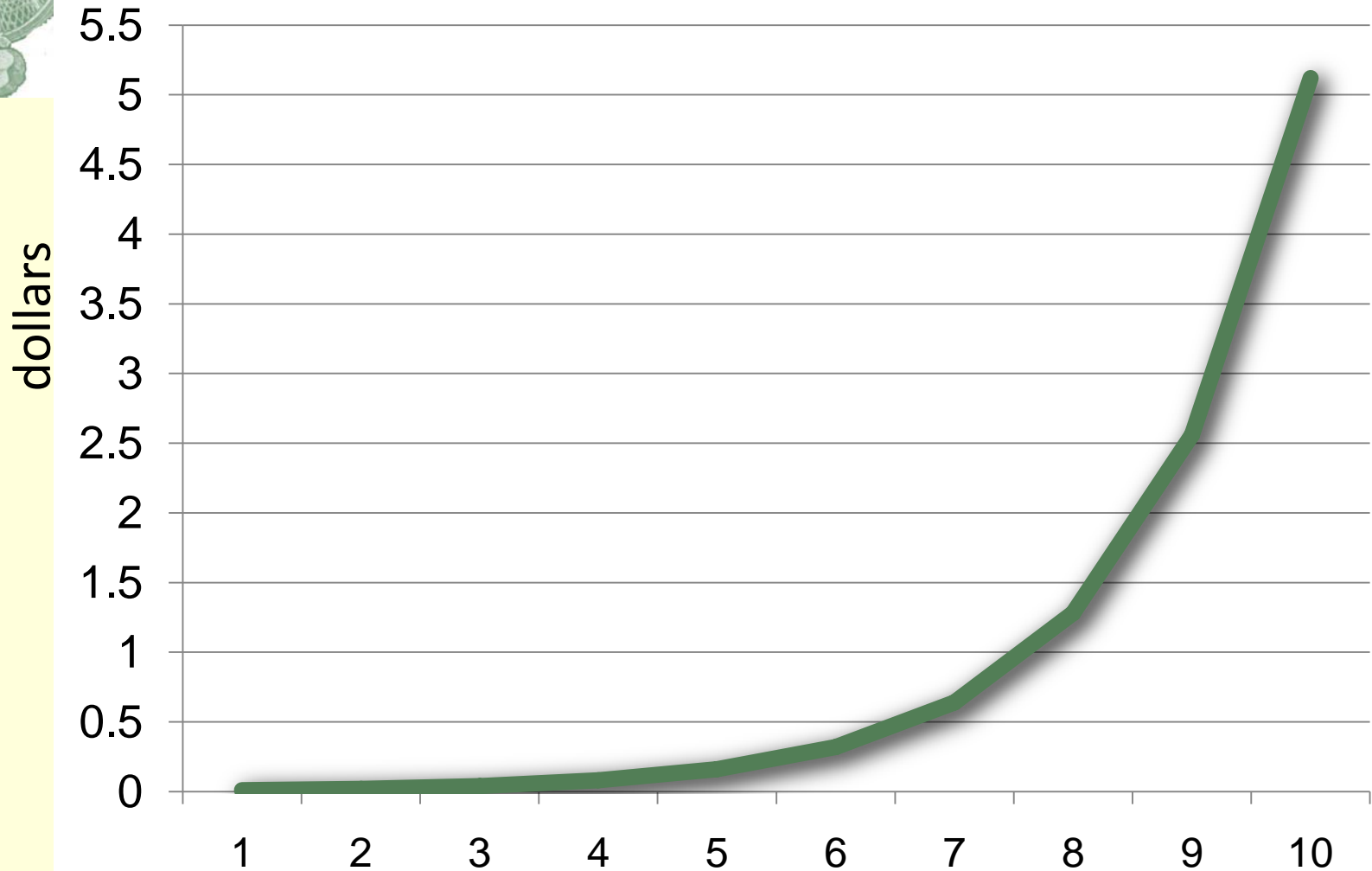


Plan for their future





Plan for their future





Plan for their future (lessons from behavioral economics)

▶ Endowment effect





Plan for their future

(lessons from behavioral economics)

- ▶ **Endowment effect**
- ▶ **Discounting**





Plan for their future (lessons from behavioral economics)

- ▶ Endowment effect
- ▶ Discounting





Plan for their future

(lessons from behavioral economics)

- ▶ **Endowment effect**
- ▶ **Discounting**
- ▶ **Choice architecture**





Plan for their future (lessons from behavioral economics)

- ▶ Endowment effect
- ▶ Discounting
- ▶ Choice architecture
- ▶ Framing

bo go

**BUY ONE
GET ONE
1/2 OFF
EVERYTHING**

Buy 1, get 2nd item of equal or lesser value for 1/2 off the Payless ShoeSource® marked price! Entire stock included.



Policy options

- ▶ **Individual Development Accounts (IDA's)**
- ▶ **Provide a "jump-start" for building assets**
 - ▶ "baby bond" programs
- ▶ **Auto-enroll in retirement**
 - ▶ Select appropriate default option
 - ▶ Consider automatic increase in contribution



Be happy

**Annual income 20 pounds;
annual expenses 19 pounds;
result: happiness.**

**Annual income 20 pounds;
annual expenses 21 pounds;
result: misery.**

Charles Dickens