

## 5 OUT OF 4 PEOPLE HAVE TROUBLE W/FRACTIONS

by [Steve Brown](#)

We saw a wonderful bumper sticker the other day, the make and model of the car were not indicative, but surely it was a math/science geek. The sticker said: Five out of Four people have Trouble with Fractions! To be sure, fractions can indeed be fractious, but a recent survey of Americans over age 50 found that 50% failed a rather simple finance math test. Here is the test - there is \$100 in a savings account that pays 2% interest annually. If the money is left in the account for 5Ys, will the depositor have: more than \$102, exactly \$102, or less than \$102? Our perceptive audience of bankers would first ask, hey where can I find a savings account paying 2% - I will send some money right away. The second question would inquire if there is an annual fee on the account or another product in the customer relationship, because banks can't really afford to have stand-alone accounts with \$100 balances. So maybe confusion over the answer isn't so surprising after all. In addition to the need for basic math skills, there is a larger question of the financial savvy or financial literacy. The Government Accountability Office (GAO) defines financial literacy as "the ability to make informed judgment and take effective action regarding the current and future use and management of money." There are many who believe that the roots of the recent crisis can be found in the lack of financial literacy in society. In recent years, there has been effort to provide high school students with coursework to address the knowledge gap in financial literacy. Fourteen states now require that high school students take a personal finance course and 22 require an economics class. But when looking at the outcomes of school- taught financial literacy courses, there is little conclusive evidence that students have greater financial knowledge or better financial behavior according to a survey by the Fed Cleveland. In another survey those who had not received any financial education at all were more likely to pay their credit card balances in full. Financial literacy taught as a stand-alone in school may not be absorbed very well because high school students mostly are not financially independent - there is no immediate application and so the lessons are not retained. Of interesting note, some school programs have aimed at younger kids and achieved success. It seems kids make short and long term savings plans work (like purchase of an Xbox in 6 months) and can keep track through a school program. Other approaches are aimed at individuals a bit later in life: college curricula in life skills, with finance as an important component. Finally, some companies also offer training beyond retirement plans and insurance and into overall finances as well. All of this is a good start, but the place most people come into contact with the real application of these lessons, both initially and ongoing, is in their banking relationship. Given the complexity of all things financial in the world, community bankers should strive to be certain customers fully understand the products they use and those they are considering.

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## BANK NEWS

### M&A

The parent of Spirit of Texas Bank (\$463mm, TX) will buy Peoples Bank (\$73mm, TX) for an undisclosed amount.

## **Taking Over**

The State of Michigan is expected to announce an emergency state takeover of the Detroit due to insurmountable city fiscal problems.

## **Financial Survey**

A survey by PNC finds 84% of people plan to see their dentist this year and 70% plan to exercise regularly, but only 43% plan to meet with a financial advisor. Only 46% said they plan to increase saving and investing and 65% saw money and finances as complex.

## **Spending**

Thomson Reuters reports 11 major retailers that report monthly same-store sales reported 3.9% growth in Feb. vs. 7.4% for the same period last year. Strength in housing and the stock market were offset by weakness due to payroll tax increases and higher gas prices.

## **Divorce**

A survey by ING finds the average divorced person has \$10,000 less in retirement savings than the average married person.

## **Home Work**

The Census Bureau reports 9.4% of employees worked at home at least one day per week in 2010 vs. 7.0% in 1997. Further, 25% of home based workers were in management, business or finance and nearly 50% were self employed. Critics of telecommuting point out that while productivity may increase, the offsets are less innovation, a weaker corporate culture, weaker employee relationships, difficulty in tracking activity and it can be harder to be on the same page as the company when new projects are launched or changes occur.

## **Global Jobs**

The unemployment rate in the US is 7.7% as of the latest report, compared to the worst countries in the world of Greece (26.8%), Spain (26.1%) and South Africa (24.9%). Countries doing the best are Thailand (0.4%), Singapore (1.8%), South Korea (2.9%) & Malaysia (2.9%). Germany is 6.8%, Britain is 7.7%, France is 10.6% & Italy is 11.2%.

## **Fraud**

Alicia Holmes has pled guilty in NY federal court to operating a scheme to defraud people and businesses. Holmes reportedly told brokers, builders, homeowners and others that she owned high-end properties and had assets of great value. She then asked for and received money from her victims, saying she would repay them by purchasing properties from them or repaying them in cash. She faces 65Ys in prison.

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