

## **Ariel Investments & Financial Literacy**

Ariel Investments is a Chicago-based minority owned money management firm and mutual fund company that serves individual investors through our no-load mutual funds and also manages separate accounts for institutional clients. We have had a long standing commitment to improving financial literacy for minority communities. Through our collective experiences we have seen first-hand the lack of financial knowledge in our respective communities. Ariel Investments founder John W. Rogers, Jr. has made it Ariel's mission to make savings and investing a seminal area of focus for the African American community. We believe the only way Americans can make the right financial decisions is if they are equipped with the proper financial knowledge and tools. This need for financial literacy will only be heightened as more retirement plans shift away from pensions to defined contribution plans, where it is the investor's responsibility to determine their own savings strategy.

### **Savings and Investing Research Studies**

Over the past twelve years Ariel has conducted the Black Investor Survey to highlight attitudes and behaviors of African Americans and Caucasians towards savings and investing. Through the years we found several consistent messages from the African American community. They have a strong desire to receive reliable financial information from people they trust. However, African Americans were far more likely to invest in more tangible assets, like homes, instead of more reliable investments such as stocks.

Then in 2009, Ariel, in conjunction with Hewitt Associates and some of the leading civil rights organizations and think tanks, conducted the largest ever study of 401(k) savings data by race and ethnicity. The study, *401(k) Plans in Living Color*, analyzed over 3 million participants at 57 of the largest companies in the United States. The findings of the study further highlighted what we already knew; African Americans and Hispanics are far behind their Caucasian and Asian counterparts when it comes to retirement savings. We found African Americans were less likely to participate in a 401(k), and when they did participate they contributed less. African Americans and Hispanics were also less likely to be invested in equities. This is important because the stock market has outperformed all other types of investments in the long-run, making it the easiest and fastest way to grow your retirement account. African Americans and Hispanics were also far more likely to have outstanding loans and have taken withdrawals. We consider these actions savings killers. Not surprisingly, all of these disparities led to significantly lower account balances for Hispanics and African Americans across almost every income range.

Below is a summary table of the results.

	<b>Participation Rate</b>	<b>Contribution Rate</b>	<b>Equity Investments</b>	<b>Loans</b>	<b>Hardship Withdrawals</b>	<b>401(k) Balance for Employees Earning \$30,000–\$59,999</b>
African-American	66%	6.0%	66%	39%	7.8%	\$21,224
Asian	76%	9.4%	73%	16%	2.0%	\$32,590
Hispanic	65%	6.3%	70%	29%	3.4%	\$22,017
White	77%	7.9%	72%	21%	2.1%	\$35,551

The Ariel/Hewitt Study outlines five decisive recommendations for policymakers and employers. These recommendations include:

- ✓ **Encouraging employers to voluntarily collect and report 401(k) plan data by race and ethnicity.** Knowledge is power, and collecting and reporting data about 401(k) plan participants would enable employers to know and manage where gaps exist among their workers.
- ✓ **Modifying loan requirements to decrease the likelihood of default.** Extending the amount of time a terminating employee has to pay off a loan may improve overall retirement savings, particularly during challenging economic times such as these. Other options could include allowing loan repayments after termination or exploring new options for allowing loans to roll over from one employer to another.
- ✓ **Mandating financial education at all levels in both private and public schools to boost financial literacy.** A financial literacy curriculum would provide generations of future employees a comprehensive understanding of both the mechanics and importance of sound money management, saving and investing.
- ✓ **Designing 401(k) plans in a way that benefits a broad, diverse employee base.** Features like automatic enrollment with high default contribution rates and periodic contribution increases can go a long way, effectively driving strong, robust participation across all demographics.
- ✓ **Communicating and educating employees in a way that helps them make wise choices.** Creating user-friendly and easily understood communication enables workers to learn more about how to effectively manage and grow their savings. This communication should incorporate different cultural perspectives that resonate with diverse groups of employees.

### **Promoting Financial Literacy**

Ariel believes that these differences can be overcome with improved financial literacy. Ariel is taking an active role in improving the financial literacy of adults and bringing awareness to the issue. Ariel President, Melody Hobson, tours the country giving presentations to companies, civic groups, and affinity groups explaining the gap in financial literacy, and ways to overcome this issue. We are also very active in pushing consumer finance in the mainstream media. Ms. Hobson is a regular financial contributor on ABC News shows and the Tom Joyner morning radio show, and she writes a quarterly column for *Black Enterprise* magazine which focuses on news the average investor needs to know. The company's founder, John Rogers, Jr., also addresses various civic groups on the importance of financial literacy, and is a regular columnist for *Forbes* magazine. We believe our message gets through to the average investor because we are able to tailor our messages to our respective audiences. We do not believe you can have a cookie-cutter approach to increasing financial knowledge. Different groups of people have different goals, priorities and needs. This includes being culturally sensitive to your audience. It is important to craft your message specifically for your audience, and only then will they be able to effectively relate to your message.

### **Financial Literacy for Kids**

Although we have made a strong commitment to improving adult financial literacy, we believe the most effective way to improve financial literacy is by educating kids at a very young age. To this end we created Ariel Education Initiative, the nonprofit affiliate of Ariel Investments. It was founded in 1989 by John W. Rogers, Jr. as a private operating foundation with a mission to strengthen the neighborhoods and cities in which we live and work. The Ariel Education Initiative currently supports the following major projects: Ariel Community Academy, a small Chicago Public School based on a student-family-school-community partnership; Ariel-Nuveen Investment Program, where students learn financial literacy via a unique financial curriculum that includes the opportunity to invest real money; and The Extended Day Program, which helps students explore the fullness of their potential academically, socially, artistically and personally.

In 1991, the Ariel Foundation "adopted" forty sixth grade students at William Shakespeare Elementary on the south side of Chicago and promised to make college affordable for every student who graduated from high school. The experience with the sixth grade class encouraged the Ariel Foundation to do more. Through Mayor Daley's New School Initiative Program, Ariel was awarded a corporate sponsorship of a Chicago public school in 1996. Hence, the birth of **Ariel Community Academy – a public school** located on the south side of Chicago. The Ariel Foundation has since been incorporated as **Ariel Education Initiative (AEI)**.

Currently, Ariel Community Academy (ACA) offers classes from kindergarten through eighth grade serving over 500 students and their families. Ninety-eight percent of the student body is African American and over 85 percent of the students receive subsidized lunches.

The Academy has outperformed all schools in the district and is one of the top elementary schools in all of Chicago. In 2009 and 2010, Ariel Community Academy was a recipient of the Illinois Spotlight Schools Award under the Illinois Honor Roll program (this award recognizes academic progress in closing the achievement gap in impoverished areas). Additionally, the Academy is one of the top performing schools on the Illinois Standards Achievement Test (ISAT) in the entire region. Beyond the student achievement on standardized tests, almost 1/3 of Ariel graduates pass out of Algebra before their freshman year.

In addition to the mandated Chicago Public School curriculum, ACA has incorporated concepts of investing and financial literacy into the classroom. Through a partnership with Nuveen Investments, the Ariel-Nuveen Investment Program awards each incoming first grade class a \$20,000 grant. This money is designated to the class as a whole and follows the students until their graduation.

In the early years the money is invested in Ariel and Nuveen Funds. However, as the students advance through the school's unique investment curriculum, they become actively involved in making the investment decisions. A Junior Board of Directors (made up of sixth, seventh and eighth grade students) is ultimately responsible for deciding how the \$20,000 is invested. Upon graduation all profits that have accumulated in the class' account are divided in half. One half is given by the students in the form of a class gift to the school. The other half is distributed among the graduates as cash or matched contributions toward a 529 college savings plan, depending on each student's choice. The original \$20,000 grant is then turned over to the next incoming first grade class, making the program self-perpetuating.

AEI also offers parents literacy/investment dinners where we arrange for speakers to lead discussions on a variety of topics. The ultimate goal of the Ariel-Nuveen Investment Program is to increase economic and investment literacy within the African American community.

Our program has been so successful that we have received a grant from a third party organization to document our curriculum, so that it can be used at other schools. This is expected to be completed by 2012.

### **Conclusion**

We strongly believe there is a need for robust financial literacy initiatives for all Americans, especially for those in underserved and un-served communities. Recently the President of the United States appointed John W. Rogers, Jr. to be the Chairman of the President's Advisory Council on Financial Capability. This is a clear indication of the importance this administration has put on this daunting issue. We hope that through our

efforts and similar efforts from countless other groups around the country we are able to increase financial literacy and secure the financial futures of all Americans.