

**THE FEDERAL GOVERNMENT'S ROLE IN
EMPOWERING AMERICANS TO MAKE
INFORMED FINANCIAL DECISIONS**

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE, AND THE
DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON

HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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**THE FEDERAL GOVERNMENT'S ROLE IN
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THURSDAY, JULY 15, 2010

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:48 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. I call this hearing of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia to order.

I want to welcome our witnesses to today's hearing, the Federal Government's Role in Empowering Americans to Make Informed Financial Decisions.

Without a sufficient understanding of economics and personal finance, individuals cannot appropriately manage their finances, effectively evaluate credit opportunities, successfully invest for long-term financial goals in an increasingly complex marketplace, or cope with difficult financial situations. It is essential that we continue to improve education, consumer protections, and economic empowerment activities for individuals and families through economic and financial literacy in order to build stronger families, businesses, and communities.

Financial literacy is an issue that is even more important as working families struggle financially. It is when people lose jobs and wages fall, when housing values decline and adjustable-rate mortgages reset, when 401(k) values plummet, that the true cost of financial illiteracy among working families becomes apparent.

My interest in financial literacy dates back to when my fourth grade teacher required me to have a piggy bank. We were made to understand how money that was saved a little at a time can grow into a large amount, enough to buy things that would have been impossible to obtain without savings. My piggy bank experience

(1)

taught me important lessons about money management that have stayed with me throughout my life.

The piggy bank lesson was even more meaningful because I grew up in an unbanked family. My parents kept their money in a box divided into different sections so that money could be separated for various purposes. Church donations were kept in one part. Money for clothes was kept in another. There was a portion of the box reserved for food expenses. When there was no longer any money in the food section, we didn't eat. Obviously, money in a box was not earning interest. It was not secure.

I know personally the challenges that are presented to families unable to save or borrow when they need small loans to pay for unexpected expenses. Unexpected medical expenses or a car repair bill may require small loans to help working families overcome these obstacles.

During my service in the Senate, I have focused on advancing a financial literacy agenda that includes education, consumer protection, and economic empowerment for working families through different venues and at different teachable moments in people's lives. I will summarize several of my financial literacy efforts that will provide some context for the first panel of witnesses.

In 2003, along with Senator Sarbanes at that time and other colleagues, we created the Financial Literacy and Education Commission (FLEC). The Commission is tasked with developing and implementing a national strategy to improve the financial literacy of Americans. I included a mandate that the Office of Personnel Management (OPM) develop and implement a retirement financial literacy and education strategy for Federal employees in the Thrift Savings Plan Open Elections Act of 2004. My Excellence in Economic Education Act authorizes a range of activities, such as teacher training, research and evaluation, and school-based activities to further economic principles. I have obtained funding of approximately \$1.5 million for the Act in each fiscal year since 2004 to fund these necessary activities.

In the Dodd-Frank Conference Report, there are several education-related provisions. It will create an Office of Financial Education within the Consumer Financial Protection Bureau. The office will develop and implement initiatives to educate and empower consumers. A strategy to improve the financial literacy among consumers that includes measurable goals and benchmarks must be developed. The administrator of the Bureau will serve as vice chairman of the Financial Literacy and Education Commission to ensure meaningful participation in Federal financial literacy efforts.

However, education is only one component of financial literacy. We must also ensure that consumers are adequately protected. Too many Americans are taken advantage of by unscrupulous lenders through refund anticipation loans, payday loans, and other predatory products. The new Consumer Financial Protection Bureau will be empowered to restrict predatory financial products and unfair business practices in order to prevent unscrupulous financial services providers from taking advantage of consumers.

The Dodd-Frank bill also modifies the Electronic Fund Transfer Act to establish consumer protections for remittances. It will re-

quire that simple disclosures about the cost of sending remittances be provided to the consumer prior to and after the transaction. A complaint and error resolution process for remittance transactions will be established.

The third vital component of financial literacy is economic empowerment. I am proud to have added Title 12, the Increasing Access to Mainstream Financial Institutions Act, to the Dodd-Frank bill. Mainstream financial institutions are a vital component to economic empowerment. Unbanked or underbanked families need access to credit unions and banks, and they need to be able to borrow on affordable terms. Banks and credit unions provide alternatives to high-cost and often predatory fringe financial service providers, such as check cashiers and payday lenders. Many of the unbanked and underbanked are low-income and moderate-income families that cannot afford to have their earnings diminished by reliance on these high-cost and often predatory financial services.

Unbanked families are unable to save securely for education expenses, the downpayment on a first home, or other future financial needs. Underbanked consumers rely on non-traditional forms of credit that often have extraordinarily high interest rates. Regular checking accounts may be too expensive for some consumers unable to maintain minimum balances or afford monthly fees. Cultural differences or language barriers may also hinder the ability of consumers to access financial services. More must be done to promote product development outreach and financial education opportunities intended to empower consumers.

Title 12 authorizes programs to assist low- and moderate-income individuals establish bank or credit union accounts and encourages greater use of mainstream financial services. It will also encourage the development of small, affordable loans as an alternative to more costly loans. Consumers who apply for these loans would be provided with financial literacy and educational opportunities.

The second panel today will focus on issues relating to investor financial literacy. The Dodd-Frank bill contains several significant items of importance to investors. I added a financial literacy study that will be conducted by the Securities and Exchange Commission (SEC). The SEC will be required to develop an Investor Financial Literacy Strategy intended to bring about positive behavioral change among investors.

I also worked to clarify authority for the SEC to effectively require disclosures prior to the sale of financial products and services. Working families depend on their mutual fund investments and other financial products to pay for their children's education, prepare for retirement, and attain other financial goals. This provision will ensure that working families have the relevant and useful information they need when they are making decisions that will determine their future financial condition.

Today's hearing provides an opportunity to examine Federal financial literacy efforts and the Financial Literacy and Education Commission. I appreciate the appearance of our witnesses today. The Financial Literacy and Education Commission has made significant progress during the current Administration, and I am delighted with the progress being made by all of the agencies represented at the hearing today. I look forward to continuing to col-

laborate with them and with you on these issues of vital importance to working families.

And now I welcome our first panel of witnesses to the Subcommittee: Michael Barr, Assistant Secretary for Financial Institutions at the U.S. Department of Treasury; Christine Griffin, Deputy Director at the U.S. Office of Personnel Management; Brenda Dann-Messier, Assistant Secretary for the Office of Vocational and Adult Education at the U.S. Department of Education; Sandra Thompson, Director of the Division of Supervision and Consumer Protection at the Federal Deposit Insurance Corporation; and Marianna LaCanfora, Assistant Deputy Commissioner for the Office of Retirement and Disability Policy at the U.S. Social Security Administration.

As you know, it is the custom of this Subcommittee to swear in all witnesses. Will you please raise your right hand?

Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. BARR. I do.

Ms. GRIFFIN. I do.

Ms. DANN-MESSIER. I do.

Ms. THOMPSON. I do.

Ms. LACANFORA. I do.

Senator AKAKA. Thank you. Let it be noted for the record that the witnesses answered in the affirmative.

Before we start, I want you to know that your full written statements will be made part of the record, and I would like to remind you to please limit your oral remarks to 5 minutes.

Assistant Secretary Barr, welcome and please proceed with your statement.

TESTIMONY OF HON. MICHAEL BARR,¹ ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS, U.S. DEPARTMENT OF THE TREASURY

Mr. BARR. Thank you very much, Mr. Chairman, for the opportunity to appear today before you on a topic of critical importance to the Administration, to the Department of the Treasury, and really to our whole Nation, that of empowering Americans to make informed financial decisions. We appreciate the Subcommittee's bipartisan focus on this topic, and I want to thank you in particular, Senator Akaka, for your leadership over so many decades on this critical issue.

I also want to thank the other members of this panel here today with me. Financial capability is an area in which we have all been working collaboratively and building upon each other's efforts, and the agencies represented here this morning are among the strongest partners in this effort.

In the wake of the recent financial crisis, there has never been a more important time to get this right. We must improve our system to make it safer and more stable and improve the financial capability of individual Americans to build a country in which more

¹The prepared statement of Mr. Barr appears in the Appendix on page 29.

families have the knowledge, skills, and financial access to make good financial choices and build stronger financial futures.

We have historically just passed the most important financial reform since the Great Depression. Two weeks ago, a Conference Committee of the House and Senate produced a bill with strong protections for Main Street against financial folly or misconduct on Wall Street. And the bill strengthens protections for taxpayers, investors, and consumers. It helps community banks, credit unions, and small businesses. It ends "too big to fail." It winds down the Troubled Asset Relief Program (TARP) and strengthens our financial system. And today, the Senate has followed the House and passed this historic reform.

These changes are absolutely critical, but they are not enough. Personal responsibility and increased knowledge, skills, and access are essential to empowering Americans to make better financial decisions. And the Federal Government has an important role to play in ensuring that Americans have these tools.

Let me just update you slightly on the work of FLEC and to report on the significant activities of the agencies who have worked together over this last year. In January, we were pleased to have the White House, represented by the Office of Public Engagement, formally join the Council, and their membership underscores the Administration's commitment to these issues.

Last July, we brought all 20 member agencies together to identify key priorities. First, one of the most critical issues for our members was that a new national strategy was needed, and after a comprehensive and inclusive year-long process, we will be putting out a national strategy for public comment in the very near future.

The second area of focus is outreach and communications, and in April, FLEC launched its redesigned mymoney.gov Web site. The new site is now available in English and in Spanish and has enhanced interactive features and utility to provide more resources to Americans seeking information that can inform their personal financial decisions.

Third, the Core Competencies Working Group has worked closely with a group of experts in financial education, including researchers and practitioners, to identify core competencies that it will be putting out for public comment in the coming weeks, with the ultimate goal to put it out in a format that is easily accessible and remembered, analogous to the Food Pyramid.

And finally, to encourage research and collaboration among agencies and other experts, Treasury is working closely with the FLEC to establish a research clearinghouse next year.

In addition, we have been working on the National Financial Capability Challenge in partnership with the Department of Education to assist teachers in their financial education efforts and increase the focus on financial education in our high schools. We have worked through the Office of Financial Education to run pilot programs around the country, experimenting with what works and what doesn't work in local communities.

And our most significant new proposed initiative is our Bank on USA program. The President has asked for a serious commitment of Federal dollars to help State and local governments, Community Development Financial Institutions (CDFIs), community banks do

a better job reaching out to low- and moderate-income Americans and bringing them into the financial mainstream.

Of course, the new bill that has just been passed by the Senate includes your Title 12, in which you showed such great leadership in providing a road map for increased access to financial services, to low-cost low-dollar loans, and other initiatives to provide low-income Americans with better opportunities to enter the financial mainstream, and we very much look forward to working with you to implement that program.

Last, let me just mention that we have an opportunity through our electronic Treasury initiatives to make a big difference in the lives of low-income Americans through low-cost debit accounts that we will be working on in the coming weeks and months.

Let me just sum up by saying that in the wake of the financial crisis, we have a real opportunity and an obligation to improve financial stability on both a national and individual level, and Treasury looks forward to working with you and with the Congress as a whole, with our sister agencies, and with the private sector to empower all Americans to make smarter financial choices.

Thank you very much.

Senator AKAKA. Thank you very much, Assistant Secretary Barr, for your testimony.

Now, Deputy Director Griffin, will you please proceed.

**TESTIMONY OF HON. CHRISTINE GRIFFIN,¹ DEPUTY
DIRECTOR, U.S. OFFICE OF PERSONNEL MANAGEMENT**

Ms. GRIFFIN. Thank you, Chairman Akaka, for the opportunity to testify today on the critical work that the Office of Personnel Management is doing to improve the financial literacy of Federal employees and to ensure that they are adequately prepared for retirement.

OPM is committed to educating Federal employees about the need for retirement savings and providing information on how to plan for retirement. As part of that commitment, OPM was pleased to participate in Financial Literacy Day on Capitol Hill in April. OPM is proud of the active role it has taken as a member of the Financial Literacy and Education Commission. As Co-Chair of the National Financial Education Network, OPM seeks to facilitate and advance financial education at the State and local level. OPM is a member of the FLEC Core Competencies Working Group and is working to identify the core financial competencies all Americans should have.

Due to the leadership of the Subcommittee, Congress has taken steps to improve financial literacy of Federal employees by passing the Thrift Savings Plan's Open Election Act of 2004, and in response, OPM developed a comprehensive retirement education strategy called Retirement Readiness NOW. The Retirement Readiness model considers retirement financial literacy and financial education as a career-long process and not just something that happens when you are near retirement.

The model incorporates a broad range of information that helps employees make informed retirement planning decisions. OPM's

¹The prepared statement of Ms. Griffin appears in the Appendix on page 35.

Retirement Readiness NOW model takes a holistic approach to planning that doesn't just focus on getting employees ready for retirement, it also touches upon work-life balance, overall healthy living, and available Federal benefits.

OPM has three key roles in retirement readiness: Catalyst, capacity, and coordination. OPM serves as the catalyst for retirement readiness programs by helping to focus attention on the issue, by speaking at conferences and doing the outreach that we do.

OPM builds capacity by providing training and tools to agency benefit offices so that they can assist employees in understanding their benefits and identifying their financial education needs. In May, OPM conducted our fifth Benefits Officer Retirement Financial Education Symposium. OPM coordinates financial education by identifying resources and creating partnerships with agencies to leverage the use of these materials for employees.

One of the best options available to Federal employees today to plan for retirement is through the Thrift Savings Plan (TSP). This is a critical component for Federal employees who are trying to plan responsibly for retirement. OPM recently released a study analyzing the participation rates in the TSP. While participation rates are generally high, or higher than the private sector, the data indicates that minorities lag behind in terms of participation, contributions, and overall TSP balances, while women lag behind in contributions and balances. Over time, we know the automatic enrollment provisions contained in the TSP Enhancement Act of 2009 should help reduce these discrepancies. However, OPM is taking action immediately to reduce the discrepancies.

We are building strategic partnerships with groups representing diverse populations of Federal employees, such as the affinity groups and the unions. We are providing agencies and partners with financial education programs focused on helping employees understand the importance of savings through the TSP by conducting outreach to agencies to make them aware of the resources available to help promote TSP. OPM will evaluate our outreach programs to determine their effectiveness.

Agencies also play a key role through their responsibility of identifying employee needs, providing training and information to employees, and providing feedback to OPM that enables us to continue to improve the agencies' retirement education capacity. However, OPM and agencies can't adequately improve employees' retirement readiness by ourselves. Employees must be willing to take advantage of the financial education opportunities presented to them and they must assume the responsibility for meeting their own retirement goals. We also have the responsibility of making it attractive for the employees to actually want to receive that education. We at OPM value the agencies and the Federal employees as our partner in this process.

Thanks for allowing me to testify before the Subcommittee on this important issue and I will be glad to answer any questions. Thank you.

Senator AKAKA. Thank you very much, Deputy Director Griffin, for your statement.

And now Assistant Secretary Dann-Messier, your statement.

**TESTIMONY OF HON. BRENDA DANN-MESSIER,¹ ASSISTANT
SECRETARY, OFFICE OF VOCATIONAL AND ADULT EDU-
CATION, U.S. DEPARTMENT OF EDUCATION**

Ms. DANN-MESSIER. Good afternoon, Chairman Akaka, and thank you very much for the opportunity to appear before you today to discuss what the U.S. Department of Education is doing to help Americans improve their abilities in making informed financial decisions, and I also want to express my personal gratitude to you, Mr. Chairman, for your leadership on this very important issue.

In my remarks, I will talk about our current financial education efforts, including ways in which we are working with other agencies as part of the Financial Literacy and Education Commission. The three messages I hope to leave with you are: The Department of Education believes that improving financial literacy in this country is essential if we are to educate our way to a better economy and once again lead the world in the proportion of citizens with college degrees and certificates. We must provide financial literacy education for all segments of students, starting early and going through adulthood, if we are truly going to make a difference. And we have to focus on outcomes, not just activities, so we can be sure we are spending the taxpayers' dollars wisely and doing what works.

Before I came to the Department, I witnessed a consistent lack of financial literacy among the students of Dorcas Place Adult and Family Learning Center that I led in Providence, Rhode Island. I know firsthand how pervasive and pressing this issue is, so I am pleased to be able to tell you what we are doing at the Department of Education to address it.

I will start with what we are doing for post-secondary education students. All of our future competitions for the Talent Search, Upward Bound, Student Support Services programs, three of our Federal TRIO college and success programs, will reflect the new Higher Education Act (HEA) requirement to include financial and economic literacy activities. We are also encouraging State and local coordination across all TRIO programs, GEAR UP and the recently expanded College Access Challenge Grant program, in which financial and economic literacy activities are allowable, and we are examining how to better track whether and to what effect grantees under these programs use funds for this purpose.

The Department's Federal Student Aid program educates students and families about the cost and benefits of post-secondary education and about Federal grants, loans, and work-study opportunities that could help students afford post-secondary education. We have begun to discuss ways to evaluate the effectiveness of these efforts and to pursue promising practices.

An Institution for Education Sciences study from 2006 to 2007 demonstrated that helping people complete the Free Application for Federal Student Aid (FAFSA) immediately after providing tax preparation assistance led to increased FAFSA submissions and college enrollment, while finding that only providing information on

¹The prepared statement of Ms. Dann-Messier appears in the Appendix on page 40.

college costs and available financial aid to a control group had no effect.

Finally, we require entrance and exit loan counseling for all Federal student loan borrowers and we are developing ways to learn more about the effectiveness of loan counseling through an experimental sites initiative at Federal Student Aid (FSA).

We are also concerned about the lack of financial literacy among adult learners. Approximately 55 percent of American adults, over 120 million people, possess only basic or below-basic quantitative literacy skills. This makes them vulnerable to predatory lending practices or to making small mistakes that can have major consequences. The Department is investing \$2.3 million to increase the numeracy levels in adults through the Adult Numeracy Instruction Project.

Now I would like to turn to financial literacy among elementary and secondary education students. The Excellence in Economic Education program, which received \$1.4 million in fiscal year 2010, aims to strengthen teaching and learning in personal finance, economics, and entrepreneurship. Also, under the Civics Education program, the Department promotes economic literacy in the United States and abroad. For fiscal year 2011, we have proposed to enhance the States' and high-need school districts' ability to promote financial literacy by consolidating these programs, along with several others, into a new Effective Teaching and Learning for a Well-Rounded Education Program, which would provide \$265 million to support innovative and promising practices on a range of subjects, including financial literacy.

Also in fiscal year 2010, the Department will devote \$1.7 million for the Fund for the Improvement of Education funds to the Financial Education for College Access and Success Program for one or more States to develop, implement, and evaluate high school-level personal finance instructional materials and related teacher training for the purpose of increasing personal finance understanding, FAFSA completion, and college enrollment. This grant will be for a 4-year period to allow sufficient time to determine effectiveness.

In addition, we are cooperating closely with our FLEC member agencies. We work closely with the Treasury Department, as you heard, to carry out the National Financial Capability Challenge. Over 1,500 teachers and 76,000 high school students participated. We are committed to working with the Treasury Department on this annual project to promote financial education in schools, and we would be very interested in working with you and your colleagues to increase participation in the challenge next year.

We are planning a senior-level meeting with our colleagues in the Treasury Department, Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) to discuss how the Department can support the Administration's economic inclusion strategy, and we are planning many back-to-school events with FDIC and NCUA to highlight schools that promote financial capability by linking with local banks and credit unions.

Finally, FSA is consulting with FDIC on the redevelopment of their Money Smart for Young Adults Financial Education Modules to enhance the paying for college section to make sure that it is current and helpful as possible.

Improving financial literacy for elementary, secondary, post-secondary, and adult students is critically important and it is an important part of the strategy for achieving the President's 2020 college completion goal, and it is essential for making the American dream a reality for people across the country. We are committed to working with you and your colleagues across the Administration on this issue.

Thank you very much, Mr. Chairman.

Senator AKAKA. Thank you very much, Assistant Secretary Dann-Messier.

And now I would call on Director Thompson for your statement. Please proceed.

TESTIMONY OF HON. SANDRA L. THOMPSON,¹ DIRECTOR, DIVISION OF SUPERVISION AND CONSUMER PROTECTION, FEDERAL DEPOSIT INSURANCE CORPORATION

Ms. THOMPSON. Good afternoon, Chairman Akaka. I appreciate the opportunity to testify about the FDIC's role in empowering Americans to make informed financial decisions.

It is essential that people of all ages and all income levels and from all walks of life are able to make sound financial decisions. The recent financial crisis illustrated the broad economic harm that results when individuals spend beyond their means financed by debt that they cannot afford to repay. Access to a federally-insured bank account is a first step to consumers achieving financial security. Unfortunately, many consumers remain outside the financial mainstream.

Last December, the FDIC released the findings of our National Survey of Unbanked and Underbanked Households. The survey estimated that about 8 percent of U.S. households are unbanked and about 18 percent are underbanked. Taken together, this accounts for about a quarter, or close to 30 million U.S. households. The survey findings also showed that Blacks and Hispanics were more likely to be underserved than the population as a whole. Clearly, much more needs to be done to ensure a fully inclusive banking system.

At the FDIC, we believe financial education is critical. Our Money Smart program, which was launched almost 9 years ago, has reached almost 2.5 million people. We conducted a study to determine the program's effectiveness and it showed that financial literacy can positively influence how people manage their finances. The study also found that participants were more likely to open a bank account and save after they took the Money Smart course than before they took the course. The FDIC uses partnerships and collaborative relationships to promote Money Smart. Approximately 1,500 public, private, and nonprofit organizations help to deliver and support Money Smart through the FDIC's Money Smart Alliance.

Another important part of our education efforts involves helping people with bank accounts understand how deposit insurance works. We have an interactive online tool called the Electronic De-

¹The prepared statement of Ms. Thompson appears in the Appendix on page 44.

posit Insurance Estimator, and inside we call it EDIE, and it helps bank customers determine if their bank accounts are fully insured.

Now, we don't do this alone. The FDIC works on the government-wide Financial Literacy and Education Commission. We have been significantly involved in drafting the new national strategy to promote financial literacy and education. And we also chair the subcommittee that is developing the core financial competencies.

The FDIC is also working to ensure that the underserved can access appropriate credit products from banks. In February 2008, the FDIC launched a pilot program to determine the feasibility of banks offering small-dollar loans as an alternative to high-cost credit. We have just completed the pilot and it showed that banks can offer affordable small-dollar loans in a way that suits their business plans and is fair to consumers. Interestingly, the pilot suggests that there may be a correlation between financial education and improved loan performance.

The FDIC believes that a solid financial education is essential for consumers. When people have information, they can make better decisions. A good financial education never stops. It is a long-term proposition. It is not a single class that takes place one time. It is learning that takes place over a lifetime so that good decisions can be made at the critical time in a person's life. A good financial education will result in better financial choices and serves to strengthen our economy in the long run.

Thank you for having me, and we would be happy to answer any questions.

Senator AKAKA. Thank you very much, Director, for your statement. And now, Commissioner LaCanfora, please proceed with your statement.

TESTIMONY OF MARIANNA LACANFORA,¹ ASSISTANT DEPUTY COMMISSIONER, RETIREMENT AND DISABILITY POLICY, SOCIAL SECURITY ADMINISTRATION

Ms. LACANFORA. Mr. Chairman, thank you for the opportunity to discuss the Social Security Administration's (SSA) role in the Federal Government's financial literacy initiatives. I want to especially thank you, Senator Akaka, for taking the lead in promoting the importance of financial literacy. As my colleagues on the panel have noted, you have long been at the forefront of efforts to encourage saving and to ensure that people have the information they need to manage their personal finances.

In 2009, we paid over \$659 billion in Social Security benefits to more than 51 million retired or disabled workers, their families and survivors. Social Security benefits provide some financial protection for the retired, but the public must understand that these benefits were never intended to supply all of their retirement income.

The Retirement Confidence Survey conducted by the Employee Benefit Research Institute indicates that less than half of American workers have estimated how much money they will need to live comfortably during retirement. Similarly, the survey indicated that only a fraction of Americans know at what age they are eligible to

¹The prepared statement of Ms. LaCanfora appears in the Appendix on page 54.

receive full Social Security retirement benefits. Workers who claim benefits at full retirement age will receive their full benefit amount, while the monthly benefits of those who claim early will be reduced.

Understanding the implications of retirement age on benefits is an important part of retirement planning. Young and middle-age workers need to know just how important it is to have other sources of retirement income and to start planning for retirement early.

As the agency responsible for delivering and managing the Social Security retirement program, we are uniquely positioned to help Americans better prepare for retirement and encourage them to save. In recognition of that role, we have established a special initiative to encourage saving. This initiative includes three elements: Our annual Social Security statement, the Retirement Estimator, and our research program.

We mail more than 150 million Social Security statements each year to workers nationwide. Each statement contains personalized information about retirement, survivors and disability benefits, including an estimate of the person's future Social Security benefits based on his or her earnings. The statement serves as a useful planning tool.

Our online Retirement Estimator is an interactive tool that uses a worker's earnings history to estimate what his or her retirement benefit would be under various scenarios. According to the 2009 American Customer Satisfaction Index, the Retirement Estimator received the highest customer rating of any Federal Government Web site. About three million people visited the site in 2009, and we expect that number to grow.

Our research program is developing approaches to improve retirement planning based on an evaluation of what methods and tools are effective. Our work supports research by experts outside the agency, fosters collaboration with other Federal agencies, and develops and tests tools to improve retirement preparedness.

Our largest research effort is the Financial Literacy Research Consortium. In October 2009, we initiated 26 research projects designed to improve program knowledge and encourage saving. We closely monitor the progress of each project and engage the expertise of a panel of scholars in the field of financial literacy to provide ongoing input. The results of our first-year projects will be reported at the Consortium's first annual conference in November of this year.

We also actively participate in the government-wide Financial Literacy and Education Commission (FLEC). We assist the Department of the Treasury by chairing or co-chairing three of the four FLEC working groups, including the National Strategy, Research and Evaluation, and Communication and Outreach groups. We also collaborate with FLEC member organizations to share research findings and eliminate duplication of effort. To that end, we are assisting the Treasury Department in the creation of searchable databases of data sources and research findings. We are also working with the Treasury Department to develop common evaluation metrics, an important part of determining what works.

We hope that our efforts will help people to plan effectively for a secure retirement. We look forward to continuing to work with the Treasury Department and other member agencies on the FLEC.

I want to thank the Subcommittee for inviting me here today and we appreciate your continued support for the agency and for our mission. I would be happy to answer any questions.

Senator AKAKA. Thank you very much, Commissioner LaCanfora.

Assistant Secretary Barr, we share a firm commitment to improving access to mainstream financial institutions for American families. I appreciate your collaborating with me on Title 12 of the regulatory reform bill. You have been extremely helpful. Thank you also for working with me on remittance consumer protections in the Dodd-Frank Conference Report.

Many of my constituents send a portion of their hard-earned wages to relatives living abroad, especially to the Philippines in Hawaii's case. Unfortunately, in far too many cases, they do not know for sure how much money their loved ones will receive and they find it difficult to resolve problems when they arise. Could you please describe how my constituents will benefit from this legislation.

Mr. BARR. I would be happy to, Mr. Chairman. As you indicated, we worked very closely with you and your terrific staff on the Dodd-Frank legislation. I think it will make a meaningful difference in the lives of families who are trying to send money abroad. It will primarily work in three key ways to help families in Hawaii and elsewhere in the United States.

The first is, right now, it is very often quite difficult for someone trying to send money abroad to have certainty about the amount of money that their family in the receiving country will ultimately get. The disclosures have been not uniform and quite difficult to understand. The first step that the remittance provision takes is to say that there needs to be a clear and honest disclosure, really for the first time, about the actual amount of funds in the recipient's home country in local currency that will be received. I think that this will make an enormous difference, not only in helping individuals understand what they can expect their families to receive, but also in improving competition in the remittance sector to drive down prices and improve the situation for everyone on a level playing field.

I think the second main way that the legislation will help people is, in the past, there has not been a consistent practice for resolving errors that happen in remittances and the legislation makes clear that remittances, remittance transfers, are subject now to the same kind of strong consumer protection rules that apply to, say, an ATM transaction or any other electronic transaction. So error resolution procedures will be very strong. It will be much easier for consumers to get redress if something goes wrong.

And the third key area that the legislation promotes is better infrastructure, better work by the Federal Government, by the Treasury Department and by the Federal Reserve and other agencies, in helping to build the electronic systems that will lower costs and improve access for Americans trying to send funds abroad, all over the world.

So I think that the legislation that you crafted will make an enormous difference in the lives of families.

Senator AKAKA. Thank you very much, Assistant Secretary Barr.

Deputy Director Griffin, social networks are a great way to reach out to Federal employees, especially younger employees. In previous testimony, OPM stated it was planning to examine the role the new social networking media, such as Twitter, can play in reinforcing retirement readiness messages. Over the past year, has OPM taken steps to increase awareness of the need to plan for retirement through the use of social networking media?

Ms. GRIFFIN. Yes. As a matter of fact, we have. We used Facebook last year during the Open Season, in the fall, for the health benefits, flexible spending, the dental and the vision program. We are anxiously awaiting FedSpace to be launched by General Services Administration (GSA), and we anticipate that it will be another way of reaching the Federal employees. We are actually using Twitter. I can't say I know a lot about that myself. [Laughter.]

But for those people that use Twitter, which I think they are all sitting up there— [Laughter.]

And other social media, we are going to use those as alternative ways of getting information to people. We certainly have a lot of experience reaching baby boomers through traditional means with benefits and retirement readiness information, but we are really experimenting with all the different aspects of social media to provide the information to a whole new set of people that won't really look at, or value some of the traditional ways that we have transmitted this information in the past.

Senator AKAKA. Thank you, Deputy Director Griffin.

Assistant Secretary Dann-Messier, I appreciated the Administration's support of funding for the Excellence in Economic Education (EEE) program for fiscal year 2010. However, I am disappointed that separate funding was not included in the Department's request for fiscal year 2011. EEE's annual appropriation of \$1.5 million has been a good use of funds because it leverages non-Federal funding and contributes to our economy's long-term health. I am proud of the innovative work that the Hawaii Council on Economic Education has done as just one of the many sub-grants made possible by the EEE's funding to the Council for Economic Education. Assistant Secretary Dann-Messier, how have the EEE resources been used?

Ms. DANN-MESSIER. Mr. Chairman, it has been used for teacher training, development of instructional materials, development and dissemination of assessments, and serving the States, among other activities. And there is absolutely no question these activities have contributed to our shared goal of increasing financial literacy.

I am looking at the way we are going about funding in the future for financial literacy as consolidating towards expansion because we are going to be putting 40 million additional dollars, which is a 17 percent increase, by making sure that we serve students across the spectrum, K through 12, career and technical education, and adult education. And as you know, we are proposing to consolidate programs into a handful of larger programs that will come up, as I mentioned before in my testimony, to the \$265 million pool of

funds called the Effective Teaching and Learning for a Well-Rounded Education, of which financial literacy would be a very large part, and that is a \$40 million increase and a 17 percent increase in funds. So you need to know that we are deeply committed to increasing services and programs for financial education and financial literacy.

Senator AKAKA. Thank you very much, and I really appreciate it. I must tell you, it is moving and expanding and it looks good to me.

Ms. DANN-MESSIER. I am glad to hear that, Mr. Chairman.

Senator AKAKA. Thank you very much for what you are doing.

Ms. DANN-MESSIER. Thank you.

Senator AKAKA. Director Thompson, I am very interested in the results of the FDIC's small-dollar loan pilot program. This innovative pilot has resulted in a model or template of product elements that can produce a safe, affordable, and feasible small-dollar loan. In your testimony, you noted that this template can be copied easily as it is relatively simple and inexpensive to implement. My question to you is what must be done to increase the number of banks that offer affordable small-dollar loan products?

Ms. THOMPSON. Thank you for asking the question. We started this pilot in February 2008 because we wanted to show that banks could offer alternatives to the high-cost financial products and services that were available for low- and middle-income persons. About 28 banks participated in the pilot. We started with 31 and there were some banks that went in and out of the pilot.

The survey, completed over a couple of months ago, confirmed that banks can offer these products. And one of the things that we need to do is make sure that we highlight some of the results of the survey and prototypes. A diverse range of banks participated in the pilot—in terms of the asset size and the communities served. So the template can be adopted to work for different communities. For example, we had one bank that required financial education and we had another bank that didn't, and so taking this pilot and using it as just a model and modifying it to suit the particular needs of the community, I think, worked.

The other thing that we could do as regulators is remove some of the perceived barriers that exist with regard to the bankers' perception of these small-dollar loans. We need to highlight that they can get Community Reinvestment Act (CRA) credit and we also need to highlight that, especially for loans that come with financial education, the default ratios are equal to that of traditional unsecured loans. There are a lot of things that we learned from the pilot that we could take as regulators and bankers and highlight to show the successes of the pilot program.

One of the things that the bankers said that they learned was that they could take these small-dollar loans and develop long-term relationships and sell other products. Also, some of the small-dollar loans had their lines increased so they were higher-dollar amounts. A long-term beneficial relationship can be developed with these borrowers. But, I think we need to market the availability of this program and some of the benefits from both the regulatory side and the banking side.

Senator AKAKA. Thank you, Director Thompson.

Commissioner LaCanfora, I would like to commend SSA for establishing a research program, the Financial Literacy Research Consortium (FLRC), as part of SSA's financial literacy initiatives. I am hopeful that this effort will result in innovative educational materials and programs to help more Americans achieve a secure retirement. Do you have any preliminary findings on this effort?

Ms. LACANFORA. Thank you, Mr. Chairman. We are really pleased about the Financial Literacy Research Consortium, as well, and we share your hope that the findings from our current studies will not only help us inform our educational efforts with respect to Social Security, but will also be useful to our partner agencies in the FLEC as they develop their own materials with respect to educating people on financial issues.

It is a little bit early in terms of findings because we just started our projects in September of last year, and we will have the final results of the first year projects in November. That said, I can tell you that we have been working through a preliminary survey using both telephone and Internet across 4,000 respondents to create some baseline knowledge. We want to identify the gaps in financial literacy, both as it relates to Social Security and otherwise; across age groups, and across ethnic groups, between genders. It is important for us to learn where the gaps are so we can customize materials to target different groups.

In terms of initial findings, we conducted focus groups and in those focus groups we learned that many people respond to visual displays. One of the things they told us about Social Security benefits is that they would like to see us display retirement ages in order from age 62 right up until age 70 and the corresponding benefit amount that they would get if they elected to start receiving benefits at that age. That is not how we now present our benefit structure in the Social Security statement, but it is something we are going to test.

There are various things that we are learning which we will then test on a subset of the survey population to see how people respond to the new ways of the new materials we put out, what they retain, what they find to be most useful, and then, ultimately, what impacts behavior most directly. Then we will take the results of that information and we will modify existing materials that Social Security uses. We will share those findings with our partners across agencies and develop new materials, as needed.

Senator AKAKA. Thank you so much, Commissioner LaCanfora.

I have a question for Assistant Secretary Barr. Modifying disclosures for financial products has the potential to empower consumers and investors to make better informed decisions if they are provided with meaningful and relevant information. My Credit Card Minimum Payment Warning Act, which was enacted as part of the Credit Card Act, requires additional disclosures during the course of making minimum payments. I am also proud to have included an amendment in the Dodd-Frank bill to provide clarified SEC authority for pre-sale disclosures for financial services and products. What else can be done to make disclosures for financial products and services more meaningful for consumers and investors?

Mr. BARR. Thank you, Mr. Chairman. I think the two examples you gave are really important examples of the way that the legislation that you worked on, I think, will make a big difference again to families. The ability to be able to see on your statement how much it would cost if you only made the minimum payments and how long it would take if you did so, as well as information about alternatives that cost less and reach the zero balance sooner, I think are already making a big difference in helping people take more control over their financial lives. It makes it easier for consumers to make decisions that are better for themselves and for their families.

It is exactly the kind of disclosure that I think we want to see more of in the future, that is not simply adding more information to the consumer, but presenting it in a way that resonates with their lives and helps them make better choices. I think that kind of disclosure, not the dumping of more information but improving consumer understanding, is an absolutely critical path forward.

As others on the panel have mentioned, one way we do better on that and that informed the provision that you were able to bring into law now, is consumer testing, paying attention to how consumers actually make financial decisions and then act or don't act on the information that they receive. And having that kind of sound empirical evidence, I think needs to be at the root of any decisions we make about disclosure, not based on some abstract model of how we all make decisions, but based on actual information of the kind the other panelists have mentioned.

I think that will make an enormous difference in making progress in the future, and the new agency, the Consumer Financial Protection Bureau that the Dodd-Frank bill authorizes, will have full authority to improve disclosures across the consumer financial marketplace through consumer testing, through improvements, through merging of Real Estate Settlement Procedures Act (RESPA) and Truth in Lending Act (TILA) disclosures, for example, to come up with one simple mortgage disclosure form. These are all enormous improvements.

And I think as you mentioned in the investor protection context, giving the SEC the tools it needs to improve investor education is absolutely critical, as well. The pre-sale disclosures are, again, an important example of how we need to provide individuals with information at the time that they need it and not when it is too late. I just think that is going to be really critical in the months and years ahead. So thank you again for your leadership on those initiative.

Senator AKAKA. Thank you for your response. I would like to ask you another question, Assistant Secretary Barr. The level of home ownership in Hawaii is one of the lowest in the Nation. Therefore, I am proud to have authorized and subsequently secured funding for a pre-home ownership and financial education demonstration project in Hawaii. Also, as you mentioned in your written testimony, CDFI funding was awarded early this year for other financial education and counseling pilot projects authorized by the Housing and Economic Recovery Act of 2008. What is being done to ensure meaningful evaluation of these demonstrations?

Mr. BARR. Mr. Chairman, as you could tell from my earlier remark, I am a firm believer in really sound empirical research and evaluation as a basis of proceeding on counseling and financial education and programming more generally. So we have been taking a hard look at the pilots that have gone on before. We are in the middle of a serious evaluation of those pilots. We have plans for doing similar kinds of work on the pilots going forward, and I think the learning that we take from those experiences will help us shape better public policy more broadly. So the pilots, I think, do very good things on the ground in the communities that they serve and they also help the whole country do better at the work we are doing together.

Senator AKAKA. Assistant Secretary Barr, I want to thank you for announcing the passage of the bill. It is going to make a significant, positive difference for our country.

I understand that there is business that you must attend to related to the Dodd-Frank bill passed today and I want to thank you for your efforts in helping us do that, as well. And so let me just say, you are dismissed.

Mr. BARR. Thank you, Mr. Chairman, and thank you again for your leadership and friendship on all these issues. I look forward to much more work together.

Senator AKAKA. Well, thank you for being on the panel.

Deputy Director Griffin, I continue to appreciate all of the work done by OPM to fulfill its mandate to better educate the Federal workforce. What is the status of the establishment of benchmarks and goals for OPM's financial literacy efforts.

Ms. GRIFFIN. Well, Senator, I think you know that last year, we mentioned that there were some measures that we were working on as part of our new strategic plan. We have shifted the focus slightly from measuring employees' benefits knowledge to really identifying the roles and responsibilities of the benefits offices. I think we are starting to realize that our best approach is to focus on delivering the best we can to the agencies because they are on the front lines delivering the education to new employees as well as existing employees. We are defining standards for the employee benefit offices and measuring the results and they will be published in the Benefit Scorecard.

Additionally, the Retirement Readiness Index, which is based on scores on the Retirement Readiness Profile, will provide us with more information. We released a beta test version of the Retirement Readiness Profile last winter and we are currently incorporating the feedback that we are getting from the agencies who used the beta version and we will be releasing an updated Retirement Readiness Profile this fall.

Senator AKAKA. Thank you.

Assistant Secretary Dann-Messier, the ability of students to finance and pay for their education is critical in order to support a skilled workforce and ensure national competitiveness. Adequate financial literacy for students and their families is an important component of aiding this effort. How does financial knowledge of students and their families influence the ability of students to complete their education?

Ms. DANN-MESSIER. Mr. Chairman, it has a profound impact on whether even a student considers going into college and accessing college, never mind completing college. In my work in the community at Dorcas Place and as a member of the State Board of Governors for Higher Education, we repeatedly heard stories from students and families who thought they couldn't even apply to college because it was so expensive. And so this is why financial literacy and financial education is so very important, to make sure that our families know that there are resources available to assist them in paying for college and completing college.

All folks are hearing in the press is how unaffordable college is, and so they assume if they are low-income that certainly speaks to them and their inability to go to college. And we incorporated in Dorcas Place in our family literacy program making sure that we embedded financial literacy within our program so that families understood and our students understood that there really were, in fact, opportunities for them to go to college.

I also found in my experience that many low-income communities were adverse to taking out loans and they assume that if they had to go to college, they would have to take out a loan. And so that was part of our work in the community, and we used the mainstream financial institutions to come in and also help our students to understand what options were available to them.

And then we are not surprised, but there was a recent report that showed that 64 percent of the students took out costly private loans and they had not yet even exhausted their eligibility for more flexible and affordable Federal loans. So we have to do a much better job of educating students and their families and our adult students, and that is part of our finance and financial literacy programs, that there are resources available and that they can, in fact, go to college and complete college. It has been a huge barrier.

Senator AKAKA. Thank you.

Director Thompson, I commend FDIC for working last year with the U.S. Census Bureau's Current Population Survey to conduct a National Survey of Unbanked and Underbanked Households. This landmark survey provides a wealth of previously unavailable data on unbanked and underbanked households. I have shared the data with my colleagues as we have worked to advance Title 12. Please share with the Subcommittee how this data is being utilized.

Ms. THOMPSON. Certainly. The survey uncovered that almost one in four households in the United States were either unbanked or underbanked. When we asked the unbanked households whether they had a bank account or have ever had a bank account, it was for the unbanked half and half. We also asked the underbanked whether they were using alternative financial services. Many of them said yes, which really equates to the people that can least afford paying a higher cost for financial products and services.

What we are trying to do at the FDIC is come up with safe, affordable, and easy-to-understand products so that people can come into the banking system and feel comfortable using these products. Our Chairman, Sheila Bair, has established the Chairman's Advisory Committee on Economic Inclusion (ComE-IN). Members include academicians, regulators, banks, community groups, and consumer groups. They talk about ways to bring people into the bank-

ing system. Through the Come-IN, we are developing a model template so that people can have access to a basic checking and savings account.

Also, as I mentioned earlier, the FDIC's small-dollar loan program provides for institutions to provide access to affordable small-dollar credit.

Additionally, the FDIC has established partnerships in about 14 communities around the country. We call those partnerships the Alliance for Economic Inclusion. These partnerships include regulators, banks, and community groups that go into the communities and try to bring households into the banking sector. We provide financial education through our Money Smart program, and encourage the banks to offer safe and affordable products.

We are also working on several "Bank-On" initiatives through cities around the country and we are partnering with the National League of Cities to implement that strategy.

The Money Smart Alliance has about 1,500 members around the Nation. Many of these members go out and teach and train people on banking, banking services, and financial literacy. We think that this work is very important.

Senator AKAKA. Thank you very much.

Commissioner LaCanfora, I want to commend SSA for enhancing the 2009 Annual Social Security Statement to provide additional information relevant to beneficiaries. Will SSA be conducting an evaluation to measure the impact of these changes on influencing worker behavior?

Ms. LACANFORA. As I mentioned in my testimony, the Social Security statement is part of the cornerstone of our outreach and educational efforts. We started sending it out in 1995 and we send out 150 million each year. So you don't just get a statement once in your lifetime; you get it every year. We are hoping that by sending it out on an annual basis that it will, in fact, help educate people and inspire them to plan for retirement.

We are always looking for ways to improve the Social Security statement. We made a couple of changes last year, and there are probably even more ways to enhance the statement so that it resonates more with people across age groups, across ethnic groups, and between genders.

We have a couple of research projects that we think will help inform the statement and help us understand better how people best take in information, what works for them and what makes sense. So yes, we do intend and we have been all along looking at the statement and the effects of the changes that we make to the statement. We will make that information publicly available and be happy to share it with anyone.

Senator AKAKA. Thank you. I want to thank this panel for being here with us and updating us with your responses to our questions. We may have further questions for you that we will submit in writing. So again, thank you. This is a great day for the United States of America, and we need to take advantage of this opportunity and really move ahead to help the people of our country. Thank you very much.

Mr. BARR. Thank you.

Ms. GRIFFIN. Thank you.

Ms. DANN-MESSIER. Thank you.

Ms. THOMPSON. Thank you.

Ms. LACANFORA. Thank you.

Senator AKAKA. I want to welcome our second panel of witnesses, Barbara Roper, who is Director of Investor Protection at the Consumer Federation of America, and I also understand, Ms. Roper, that you have a son, Nick, who is here. Nick, would you raise your hand? Hi. Welcome, too. We also have Lynne Egan, Deputy Securities Commissioner for the Montana Office of State Auditor, and who is appearing on behalf of the North American Securities Administrators Association.

As you know, it is the custom of this Subcommittee to swear in all witnesses. I would ask you to stand and raise your right hand.

Do you swear that the testimony you are about to give the Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. ROPER. I do.

Ms. EGAN. I do.

Senator AKAKA. Thank you. Let it be noted in the record that the witnesses answered in the affirmative.

I want you to know that your full statement will be made part of the record, and I would also like to remind you to limit your oral remarks to 5 minutes.

Ms. Roper, will you please proceed with your statement.

TESTIMONY OF BARBARA ROPER,¹ DIRECTOR OF INVESTOR PROTECTION, CONSUMER FEDERATION OF AMERICA

Ms. ROPER. Thank you. For more than three decades, Consumer Federation of America (CFA) has sought to promote effective financial education to increase financial literacy and improve financial decisionmaking. However, my own work at CFA has been primarily in the area of advocacy, working to promote policies that achieved the same goal, but through a different route. If financial literacy is aimed at educating consumers and investors to make sound financial decisions, my work as an investor advocate has tended to focus on ending the industry practices and market flaws that undermine that goal.

Too often, these two areas of activity have proceeded independently of each other without adequate consideration for how they naturally interact. I realize in saying that I am preaching to the choir because there is no Member of Congress who has done more to work on both sides of these two issues, the literacy and the consumer protection side, than you have, and we greatly appreciate that, Chairman Akaka.

In my written testimony, I cover several lessons that we have learned about how these two features interact. In my oral statement, I would like to just cover a few of the key points.

My first is that financial literacy needs to be treated not as an end in itself, but as a means to an end. In other words, our goal isn't or should not be simply to empower consumers to make informed financial decisions, but to empower them to make sound financial decisions. And thus in measuring the success of Federal fi-

¹The prepared statement of Ms. Roper appears in the Appendix on page 60.

financial literacy efforts, we should look not just at whether they provide consumers with the information they need, but with whether they result in substantial positive behavioral change, especially in areas that are crucial to consumers' financial well-being.

In making that assessment, it is essential that we recognize that statistically significant change is not necessarily socially significant change. So if we increase socially desirable practice, such as creating an emergency fund from, say, 20 percent of the population to 25 percent, that would certainly be statistically significant, but it would not be adequate. For these kinds of financial behaviors that are crucial to consumer well-being, we need to aspire to spread that behavior to a large majority of the population.

If behavior change is the goal, moreover, then more thought needs to be put into determining what messages are most likely to motivate consumers to change their behavior. In other words, financial education efforts need to focus not just on the information that consumers need, but on what one or two factors are most likely to motivate them to act. As the Federal Government develops and implements financial literacy programs, it needs to incorporate both front-end research designed to identify key motivators and back-end assessment to determine a program's impact on consumer behavior, and we greatly appreciate the fact that the investor literacy provision that you included in the financial reform bill provides just that kind of research.

Financial education efforts will always be swimming against the current, however, if they are not supported by regulatory policies that support sound financial decisionmaking. Too often, our regulatory policies either do not support that end or actively undermine it. To achieve our goal in such cases, we need to think not just about how to educate consumers to make sound decisions in that sub-optimum financial world, but about what policy changes are necessary to make consumer education both possible and effective, and the following are among the obvious areas, I believe, where policies should be reexamined to ensure that they support the ability of financially literate consumers to make sound financial decisions.

The first is disclosure. If we want consumers to make sound financial decisions, we need to ensure that they receive the necessary information in a form that is accessible and understandable at a time when it can be factored into their purchase decision. However, most financial disclosures fail at least one of these tests of effective disclosure. Often, consumers receive the relevant information, but obscured in massive fine print or conveyed in overly technical language that makes the information all but impenetrable, or delivered after the purchase, as is typical with mutual fund prospectus. Even point-of-sale disclosures may come too late if the purchase decision has already effectively been made.

Thus, for financial literacy efforts to succeed, we need sweeping revisions to our financial disclosures across product and industry lines with an eye toward designing timely disclosures that not only provide the relevant information but do so in a way that is designed to motivate consumers and investors to act on that information.

Complexity—it is unreasonable to expect financial education to equip consumers and investors to understand concepts that are too complex to be understood by anyone but a highly trained financial professional. In my written testimony, I illustrated this point with an excerpt from a prospectus for an equity indexed annuity, but I could just as easily have chosen the disclosures about a mutual fund's investment strategy or any of a number of other factors that we ask consumers to carefully assess when they are selecting products.

Educating consumers that they need to assess factors that they cannot comprehend is a waste of time and energy. If we can't reasonably expect to educate consumers to understand some factor that we consider crucial to an informed purchase decision, we must adopt other regulatory policy options that ensure that the marketplace conditions support beneficial choices and limit the potential for harmful choices.

So in conclusion, if our goal is to help consumers and investors make sound financial decisions, the first responsibility of the Federal Government is to ensure that the financial marketplace supports that goal. Are good choices available? Even where good choices are available, is the market overwhelmed by bad choices? Do the incentives in the system encourage the intermediaries that consumers and investors rely on to act for or against their customers' best interests? And are the disclosures consumers and investors rely on presented in a way and at a point in the process that encourages informed decisionmaking?

Until you resolve those public policy questions, financial literacy efforts will be fighting a hopeless battle. Only when the regulatory policies themselves support sound financial decisionmaking can financial education be truly effective in promoting that goal.

Senator AKAKA. Thank you very much, Ms. Roper, for your statement.

Now I will call on Ms. Egan to proceed with your statement. But before you do, I just want to let you know that Senator Tester would like to have been here personally to greet you today, but is not able to make it because of a schedule conflict. I wanted to tell you that he was thinking of you and wanted to be here. But as you know, the Senate has so many events scheduled, it is difficult to be every where you want. But he wanted to greet you here, so I will do that for him.

Ms. EGAN. Thank you.

Senator AKAKA. Will you please proceed with your statement.

TESTIMONY OF LYNNE EGAN,¹ DEPUTY SECURITIES COMMISSIONER, MONTANA OFFICE OF STATE AUDITOR, ON BEHALF OF THE NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

Ms. EGAN. Thank you, Chairman Akaka. I am honored to present the views of the State securities regulators on how to empower Americans to make informed financial decisions.

State securities regulators recognized long ago that education is a key weapon in the fight against investment fraud, and as a re-

¹The prepared statement of Ms. Egan appears in the Appendix on page 69.

sult, the North American Securities Administrators Association (NASAA) Investor Education Section was created in 1997 by our Board of Directors to help support our members. Most securities regulators have established investor education divisions within their agencies. The result is an effective network of dedicated professionals delivering financial education in person at the grassroots level. Last year, NASAA members reached over 250,000 consumers through more than 1,800 investor education presentations.

NASAA actively participates with Financial Literacy Education Commission events that have brought individuals and organizations together to discuss ideas and outreach. In the past, the FLEC suffered from a small number of staff and limited funding that provided constraints to its effectiveness. While the FLEC has taken positive steps, the progress has been slow in integrating the Commission's national strategy for financial literacy.

One challenge to be addressed is how to organize the existing financial literacy program of the FLEC's members and how best to reach a consensus on a harmonized message. Another challenge is disseminating the program's information to the public from a centralized location in Washington, DC. In this regard, NASAA's members should be utilized by the FLEC to mobilize their respective grassroots networks to reach more people.

NASAA was pleased when the FLEC formed the National Financial Education Network to create an open dialogue and advance financial education at the State and local level. Ongoing activity has been limited and NASAA encourages the FLEC to move forward in establishing effective ways of connecting State and local parties, both electronically and through face-to-face meetings throughout the year.

The President's Advisory Council on Financial Capability also offers an opportunity to coordinate the efforts of NASAA's grassroots network with the initiatives undertaken at the national level. We recommend a State securities regulator be appointed by President Obama to serve on the Council to utilize the resources and experience of State securities regulators to pursue new programs and partnerships.

NASAA members provide unbiased, relevant, and timely information for anyone interested in the investment markets, which is critical in light of the notoriety of recent investment frauds. Our members also disseminate this information to the public at no cost through our vast network of Investment Education Coordinators across North America.

One example of how FLEC could facilitate this outreach is to coordinate joint efforts with both the Treasury Department and State officials as participants. That way, we could leverage resources and members of the audience have a local point of contact for future questions and requests for information.

To better frame the nature of our work, I would like to share highlights of our financial education initiatives. In Montana, a State vast in size and small in population, we have found the most effective way to reach our population is in face-to-face meetings. We have an investor education campaign entitled, "Securities Fraud: How to Smell a Rat," that we take on the road each September and May, traveling thousands of miles to remote locations

throughout the State. Events are held primarily at senior centers, include a meal, an hour presentation on securities fraud, and a wrap-up game of Smell a Rat Bingo that tests the seniors on the fraud presentation material. During this past year, our staff has driven nearly 4,000 miles and has provided to thousands of Montana seniors the tools necessary to protect themselves from financial fraud.

Additionally, NASAA has partnered with American Association of Retired Persons (AARP) to combat the rising investment fraud among seniors with the Free Lunch Monitor (FLM) program, which seeks to empower seniors to fight fraud. This national campaign is designed to monitor whether senior investors are being pressured into purchasing inappropriate or unsuitable investments, such as equity indexed annuities. The FLM program gives individuals an opportunity to fight back against unscrupulous promoters by reporting to their State securities authorities possibilities of questionable investment practices in their communities.

In times of heightened deployment, U.S. service members have become targets of financial scams. My colleague in New Jersey created a fraud prevention guide tailored to the military called "A Salute to Smart Investing." The guide acts as a resource for military members with information on safe investing, balancing risk and return, retirement planning, red flags for fraud, scams that target the military, and a list of State securities regulators nationwide. This guide has been distributed to more than 90,000 military members.

Teaching youth the principles of sound investing and fraud prevention is the thrust of a NASAA-produced program targeted to high school students entitled, "FSI: Fraud Scene Investigator." FSI is an interactive online investor education program that teaches and empowers students how to detect and stop investment fraud. The FSI program is designed to help students learn how to fight fraud firsthand by delving into newspaper stock tables, researching companies through online news, and deciphering the truth about an investment from fraudulent sales pitches. NASAA's grassroots network is working with educators to integrate the FSI program into schools across the Nation.

In conclusion, State Securities Regulators have traditionally been and remain an extremely effective resource in the pursuit of greater financial literacy. We are the front lines of financial education initiatives in every State, translating Wall Street to Main Street for small investors throughout this country. NASAA and its members welcome the opportunity to work more closely with the FLEC and Subcommittee members in their ongoing efforts to improve the level of financial literacy throughout our Nation. Thank you.

Senator AKAKA. Thank you for your statement, Ms. Egan.

I was greatly disappointed that a harmful provision was included in the Dodd-Frank Wall Street Reform and Consumer Protection Act Conference Report that will exempt equity index annuities from securities laws. Could you please describe why this will be harmful to investors? Ms. Roper.

Ms. ROPER. I will be happy to start. As you know, we share your concern and greatly appreciate the efforts that you made to prevent that from happening. When I talked earlier, I said you cannot edu-

cate consumers to understand things that are too complex. You also can't educate consumers to understand things that don't make any sense.

And regulating products that are sold in competition with each other under different standards so that in some places they are protected, say, by a fiduciary duty for advice or by limits on excessive compensation as the securities law provide, in other cases they are not. You cannot educate consumers to protect themselves against the abuses that will inevitably result. And this is a case where we know that the marketing abuses are rampant.

And so we have now adopted an approach that says, in an area of the market where we know consumers are vulnerable and market abuses are rampant, we are going to deny them the services of securities regulators to help police those abuses, the kind of disclosures they would get under securities laws protections, the securities fraud protections, the excessive compensation protections, for no good sense that I can see. And, in fact, our policies need to be going the opposite direction. We need to be looking to ensure that products and services that are offered in competition with each other to serve comparable functions need to be subject to comparable regulations. Otherwise, you will never be able to educate consumers to understand that.

Senator AKAKA. Commissioner Egan, would you like to comment?

Ms. EGAN. I would again like to thank you, Chairman Akaka, for your efforts in opposing that particular amendment. We as the securities regulators were greatly dismayed when we saw the opportunity to police that particular product leave our radar screens. In Montana alone, we have about 30 percent of our complaints, and we receive several hundred a year, come from senior citizens that have invested in equity indexed annuities. They are not given full disclosure. They do not understand the products. They are unsuitable products. And it will be more difficult now for us to protect these individuals because of the result, as a result of that amendment.

We will do what we can to help them, but the products are high commission products. They are very complicated. They change constantly throughout the life of the product and they are oftentimes products that are flipped over and over again. But we will do what we can and we hope that possibly down the road we will see some changes. Thank you.

Senator AKAKA. Thank you. This, again, is to receive comments from both of you. Section 917 of the Financial Reform Conference Report requires a SEC study on the existing level of financial literacy among retail investors. It also mandates that the SEC develop a strategy to improve the financial literacy of investors. Could you both please share with the Subcommittee why you believe that this provision is important. Ms. Roper.

Ms. ROPER. Absolutely. This was a provision in the bill we strongly supported. We know from testing that has already been done, including testing that we, in CFA, have done on mutual fund investors and testing others have done that the level of financial literacy among investors doesn't begin to approach the level that you would need to make an informed financial, or an informed investment decision.

So we know that there is a gap in understanding there and it is in an area where we have had financial education efforts for years. We did a project on mutual fund purchase practices where there is almost unanimous agreement on what appropriate purchase practices should look like. It has been the subject of education for years. And when you then test investor behavior, you find that their conduct doesn't remotely resemble what the experts agree they should be doing.

So what we need to do is use this study. I think this study provides just a tremendous opportunity to understand what is working, where the areas are where investors are most vulnerable, what is likely to be most effective, and then to not just design investor education around that, which is absolutely essential, but to go back and look at the policies, as I say, about disclosure in particular to ensure that they actually support informed decisionmaking. I just think the study, properly conducted, provides a tremendous opportunity to fundamentally rethink the way we approach that whole issue.

Senator AKAKA. Thank you. Ms. Egan.

Ms. EGAN. Thank you, Mr. Chairman. I agree with Ms. Roper. I have always taken the position that it would be nice to regulate the investor because then we could test the investor and see what level of sophistication he or she may rise to, to make a determination of what investment products are suitable for that person.

Unfortunately, that isn't the case, and I believe that investors many times will never reach a level of financial literacy that is requisite to certain investment products, and that is why the Fiduciary Duty Standard was so important. The disclosures investors receive are oftentimes written in language that is almost unintelligible to many people. That is why they are providing a professional to provide them with investment advice.

So I don't think we can ever fully hope that investors will be completely financially literate. I think we have to write the disclosure in plain English. We need to be more clear in what we are talking about, require the industry to be more clear in what it is talking about or what it discloses to investors. And we need to impose a standard that the industry make these full disclosures. Thank you.

Senator AKAKA. Thank you. Ms. Roper, we share a commitment to establishing a meaningful fiduciary duty for brokers that provide personalized investment advice. What must be done to ensure that the authority provided to the SEC in the Wall Street Reform bill is implemented in a manner that will adequately protect investors?

Ms. ROPER. Well, you are absolutely right. It is actually an issue that I have been working on since I started at CFA in 1986, so we didn't get there fast, but it looks like maybe we got there, which we greatly appreciate the support that you provided for getting that provision through into the final bill.

As Ms. Egan says, you can't adequately educate investors to understand the complex issues that go into some of the decisions that they are required to make for a sound retirement. So how you regulate the intermediaries they rely on becomes absolutely essential.

We now have authority for the SEC to adopt a standard for brokers when they give investment advice that would require them to

act in their customers' best interest, just as other investment advisors, financial planners, are already required to do. The first step in getting that done is going to be to ensure that the study that the SEC conducts, which is on a very short time frame—6 months they have to do the study that lays the groundwork for this—is going to be to ensure that the study is unbiased. I am absolutely convinced that an unbiased study supports the imposition of a fiduciary duty on brokers. But this is a problem that is the result of poor policy decisions at the SEC over a number of decades, and so we need to ensure that the study looks strictly at the issue of what the standards should be rather than trying to make excuses for past decisions that helped create the current confusion.

I am convinced that three of the Commissioners, Chairman Schapiro and two of the other Commissioners, have made public statements that they are supportive of imposing a fiduciary duty. They are committed to that. So the fact that the rulemaking authority is permissive rather than mandatory does not necessarily concern me. But there will be, I think, some need for the Senate, Members of Congress, to keep an eye on that process as it moves along to ensure, with all of the many responsibilities that the SEC now has before it to implement this new bill, that this one doesn't get lost in the process and that it proceeds in a way that really puts investors' interests first.

Senator AKAKA. Ms. Egan, what are your thoughts?

Ms. EGAN. I would mirror what Ms. Roper says. I was totally dumbfounded to think that anybody would even consider not putting the investor first. They should always come first in any financial decision. Objectiveness is key here. I think that those that are conducting the study need to step aside from the relationship and look strictly at the facts. It is the investor that is paying for the product and the investor's interests need to be placed first. Thank you.

Senator AKAKA. Well, thank you very much. I appreciate your responses. It is good to hear from people who deal with investors and consumers, so I thank you very much for your responses.

I feel this has been a good hearing on the day that we passed the Dodd-Frank Wall Street Reform and Consumer Protection Act Conference Report. Without question, it will certainly help the people of this country.

This hearing will be adjourned, but the hearing record will be open for one week for additional statements or questions other Members may have. Again, I want to thank our panelists for being here and for your responses, which will be helpful to this Subcommittee.

The hearing is adjourned.

[Whereupon, at 4:32 p.m., the Subcommittee was adjourned.]

A P P E N D I X

**Testimony of Assistant Secretary Michael Barr
U.S. Department of the Treasury**

**Before the Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia
U.S. Senate Committee on Homeland Security and Governmental Affairs**

**Hearing on
“The Federal Government’s Role in Empowering Americans to Make Informed Financial
Decisions”**

July 15, 2010

Thank you for the opportunity to appear before you today on a topic of critical importance to this Administration, the Department of the Treasury, and our nation – empowering Americans to make informed financial decisions. We appreciate the Committee’s bipartisan focus on this topic. I want to thank you, in particular, Senator Akaka, for the leadership you have shown on this issue for decades. Your commitment to improve financial education and increase financial access for all Americans – and particularly our most vulnerable communities – has had a real impact. From the creation of the Financial Literacy and Education Commission to Title XII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, you have been a champion for financial empowerment.

I also want to thank the other members of this panel, the U.S. Office of Personnel Management (OPM), the U.S. Department of Education (ED), the Social Security Administration (SSA), and the Federal Deposit Insurance Corporation (FDIC). Financial capability is an area in which we have all been working collaboratively and building upon each other’s efforts. The agencies represented here are among the strongest partners in this effort, and I applaud their work.

In the wake of the recent financial crisis, there has never been a more important time for us to get this right. We have an opportunity in which the nation, our communities, and individual families can focus on the steps to build financial security. We must improve our system – to make it safer and more stable – and improve the financial capability of individual Americans - to build a country in which more families have the knowledge, skills, and financial access to make good financial choices and build stronger financial futures.

We are on the cusp of passing the most important financial reforms since the Great Depression. Two weeks ago a conference committee of the House and Senate produced a bill with strong protections for Main Street against financial folly or misconduct on Wall Street. The bill strengthens protections for taxpayers, investors, and consumers, and helps community banks, credit unions, and small businesses. It ends “Too Big to Fail,” winds down TARP, and strengthens our financial system. The House acted swiftly to pass that bill. Now the Senate is poised to act.

The American people need reform now so that new rules for Wall Street can be put in place. Clear rules of the road will help our country harness the financial system’s tremendous capacity

to fuel growth and recovery through lending and investment. Putting in place new rules for the financial system will create the market certainty and confidence that we need to continue to grow and create jobs in our communities. And passing strong reforms now will reaffirm our nation's role as a leader in the world financial community.

Reform will give families the confidence in their financial transactions that they have been seeking. We made major progress in that direction with the Credit CARD Act of 2009, which makes credit cards – the single most important source of unsecured consumer credit – fairer and more transparent. The pending Dodd-Frank legislation creates clear accountability for enforcing and updating these rules in a consolidated place – The Bureau of Consumer Financial Protection. And it establishes clear accountability for ensuring fairness and transparency for home mortgages and all other financial services families may use.

When consumers understand what they are being offered and what it really costs, then they can obtain the services that best meet their needs at competitive prices. Clear rules of the road and consistent enforcement will help make sure that providers act responsibly and transparently. These changes are absolutely critical – but they are not enough. Consumers must also take responsibility for their decisions. Personal responsibility and increased knowledge, skills and access are essential to empowering Americans to make better financial decisions. The Federal government has an important role to play in ensuring Americans have these tools, and this Administration has been working with Congress and across agencies to advance this common agenda.

FLEC Update

In 2003, Congress created the Financial Literacy and Education Commission (FLEC) to better focus and coordinate federal efforts in this area. Treasury is honored to lead the FLEC and to report on the significant activities the FLEC agencies collaboratively have undertaken over the past year. In January, we were pleased to have the White House, represented by the Office of Public Engagement, formally join the FLEC. Their membership underscores the Administration's commitment to these issues and to the FLEC.

Last July, we brought all 20 member agencies together to identify key priorities for the FLEC. Based in large part on our Congressional mandate, the FLEC members agreed on four areas of strategic focus and created working groups for each: National Strategy, Outreach and Communications, Core Competencies, and Research and Evaluation. Each group has made considerable progress over the past year, with important leadership and involvement from all of the FLEC member agencies.

One of the most critical issues for FLEC members was that a new national strategy was needed. Over the past year, the National Strategy Working Group has conducted research and sought input from over 150 key stakeholders representing financial industry associations, private and non-profit organizations, consumer and advocacy groups, educational institutions, state and local government agencies, and the previous President's Advisory Council on Financial Literacy. We are currently drafting a national strategy document and implementation plan. We will be putting the national strategy out for public comment in the near future, with the goal of presenting the

final strategy at our September FLEC meeting. In the implementation phase, the Working Group plans to engage all of the member agencies, as well as the non-profit, private, and academic sectors in helping to achieve the Strategy's goals.

On the outreach front, FLEC members agreed that the financial education field has an abundance of materials readily available. The Federal government should be an unbiased, reliable source for financial information, and a user-friendly website is critical to playing this role. Thus, we undertook a major redesign of the FLEC website. In April, the FLEC launched its redesigned www.MyMoney.gov. The new site, available in both Spanish and English, has enhanced interactive features and utility to provide more resources to Americans seeking information that can inform their personal financial decisions. Treasury and the FLEC plan to initiate a second phase of changes to build on this new foundation, including adding a research clearinghouse and interactive tools such as financial knowledge and behavior self-assessments. Treasury is also in the process of implementing measurement tools to track website usage and efficacy.

The Core Competencies Working Group was created because we believe the Federal government is uniquely positioned to address a frustration in the financial education field – the lack of a common understanding of what we collectively are trying to achieve. Treasury, in conjunction with the FLEC's Core Competencies Working Group, worked closely with a group of experts in financial education, including researchers and practitioners, to identify five core concept areas: (1) earning, (2) spending, (3) saving and investing, (4) borrowing, and (5) protecting against risk. We developed knowledge and action items for each concept, and plan to put these out for public comment in the coming weeks. The ultimate goal is to put a widely agreed upon set of core competencies into a format and language that are easily accessible and easily remembered – analogous to the “food pyramid”. Additionally, Treasury, in conjunction with another team of experts, developed two self-assessment financial fitness tests based on the core competencies to enable individuals to gauge their overall levels of financial capability. These self-assessment tools will be posted on the My Money website.

Finally, more rigorous evaluation and research is needed to advance the goals of financial education. To encourage such research, as well as collaboration among agencies and other experts, Treasury is working closely with the FLEC's Research and Evaluation Working Group to establish a research clearinghouse next year. The clearinghouse will provide an initial set of tools and metrics for evaluating financial competency at the individual, program, and national level, which could be augmented and extended as additional research becomes available.

President's Advisory Council on Financial Capability

In addition to our work with the FLEC and other agencies, Treasury also collaborates with many non-profit, academic and private sector leaders in this field. We worked closely with the President's Advisory Council on Financial Literacy (PACFL) prior to its expiration last January. In January, President Obama issued an Executive Order to renew the PACFL, now called the President's Advisory Council on Financial Capability (PACFC). The name was changed to emphasize the need not only for knowledge (financial literacy), but also for the necessary financial access and skills to translate that knowledge into better financial behaviors and choices. Together, this set of knowledge, access, and skills comprises financial capability. Secondly, the

new executive order places more emphasis on the need to improve financial access for all Americans and to focus on reaching historically underserved populations. We hope to announce the members of the PACFC and convene their first meeting soon.

The PACFL made a number of recommendations and important contributions to the field. One of these was the development of a voluntary high school test aimed at increasing financial education in our schools. This year, we built upon and enhanced that program in partnership with the Department of Education, launching the National Financial Capability Challenge. The Department of Education has been a committed partner, and we applaud the work and vision of Secretary Duncan and his talented team in integrating financial education into their broader efforts to improve our schools. The Challenge was created to assist teachers in their financial education efforts and increase the focus on financial education in our high schools. We developed an educator toolkit to assist teachers, and the voluntary online exam was administered to over 76,000 students in all 50 states and the District of Columbia. This is a good start, but there is much work to be done in ensuring that the next generation is well-prepared for the complex financial world in which they will live.

New Initiatives

Treasury has implemented and hopes to implement other initiatives to improve financial access.

Financial Education and Counseling (FEC) Pilot Program:

Through the FEC Pilot Program, Treasury provides grants to enable experienced organizations to provide a range of financial education and counseling services to prospective homebuyers, with the goals of:

- increasing the financial knowledge and decision-making capabilities of prospective homebuyers;
- assisting prospective homebuyers to develop monthly budgets, build personal savings, finance or plan for major purchases, reduce their debt, improve their financial stability, and set and reach their financial goals;
- helping prospective homebuyers to improve their credit scores by understanding the relationship between their credit histories and their credit scores; and
- educating prospective homebuyers about the options available to build savings for short- and long-term goals.

In May of 2010, the Community Development and Financial Institutions (CDFI) Fund announced the winners under the inaugural round of this program. Five organizations, each received awards of \$400,000. In September of 2010, the CDFI Fund anticipates announcing the recipients of an additional \$4.15 million of award dollars, including \$3.15 million that has been specifically designated for an organization located in the state of Hawaii.

Bank On:

Our most significant new proposed initiative is our Bank on USA program, designed to help bolster local and private sector initiatives, including initiatives led by CDFI, to ensure that low and moderate income people have access to safe and appropriate financial services and products. The 2009 FDIC Survey of Unbanked and Underbanked Households found that one of every four

American households is unbanked (meaning they do not have any type of account) or underbanked (meaning that although they may have an account, the mainstream financial system is not meeting their needs, and they are turning to alternative financial services providers). In practice, this indicates that, too often, those who can least afford it are paying the most for basic financial services – like cashing a paycheck or paying bills. The unnecessarily high fees that many families often are paying for alternative financial services could be going, instead, to saving for a child's education, purchasing a home, or planning for retirement.

Senator Akaka's leadership in authoring Title XII of the financial reform bill provides a roadmap for increasing financial access, and the President's budget for next year includes funding to develop Bank on USA – to follow that roadmap. Bank on USA would help increase the number of Americans who have access to safe and appropriate financial products and services, as well as the knowledge they need to use them effectively. Bank on USA would build on and enhance local efforts, under the Bank on name and others, already going on around the country, as well as harness new technologies and innovations to better meet the needs of the unbanked and underbanked.

Electronic Treasury:

Treasury is expanding its efforts to disburse all federal benefits payments electronically. This will be accomplished by ensuring that all federal benefit recipients have access to a basic transaction account and can access their benefits at little or no cost. This effort will build on Treasury's Direct Deposit marketing campaign – Go Direct – and our MasterCard Direct Express pre-paid debit card program (Direct Express), which is currently available to Social Security and Supplemental Security Income (SSI) benefit recipients. The Direct Express program will grow to include all SSA, SSI, Veterans Affairs (VA), Railroad Retirement Board (RRB), OPM and other federal benefits programs. The current notice of proposed rulemaking requires current federal benefit recipients to use Direct Deposit by March 1, 2013, and requires individuals whose claims for federal benefits are filed on or after March 1, 2011, to receive their benefits by Direct Deposit. This effort will help unbanked federal benefit recipients and save the Federal government \$300 million dollars in the first 5 years.

The benefits of Direct Deposit are well documented. It eliminates check cashing fees, and ensures that payments are not lost, stolen, delayed, altered, or fraudulently endorsed. Moreover, as was learned during Hurricane Katrina, natural disasters can disrupt mail and delay the delivery of paper checks, a problem that is solved by Direct Deposit.

The benefits of a basic account are also well documented, including better safekeeping of funds and the ability to pay bills and make retail purchases by card in lieu of paying for money orders.

Past efforts to require Direct Deposit of federal benefits in a way that would help all recipients have been hampered by two main issues: lack of a widely available low-cost account for the unbanked, and the problem of improper garnishment of accounts containing exempt federal benefit. Treasury has recently addressed both of these issues.

- On April 14th, Treasury, with SSA, VA, RRB, and OPM published a proposed rule that protects exempt federal benefits directly deposited into an account from improper

garnishment. The rule would require financial institutions that receive a garnishment order for an account to determine whether any federal benefit payments were deposited to the account within 60 calendar days prior to receipt of the order and, if so, would require the financial institution to ensure that the account holder has access to an amount equal to the sum of such payments in the account or to the current balance of the account, whichever is lower.

- In June 2008, we launched Direct Express, which addressed the need for a low-cost electronic payment option for people without bank accounts. With over one million voluntary enrollments since June 2008, the Direct Express card offers a low cost, consumer friendly alternative to paper checks. The Direct Express card features include one free ATM withdrawal per federal government deposit, unlimited point of sale usage and cash back feature, and Regulation E protection (Regulation E is a Federal Reserve Board regulation that protects individual consumers engaging in electronic funds transfers by means of, for example, ATM and debit card transactions. Regulation E limits a consumer's liability related to lost or stolen debit cards and other unauthorized transfers.) Direct Express is a model in the prepaid card industry in affording consumers a low cost transaction account with full consumer protections.

In the future we plan to examine providing additional features on the Direct Express card, such as a linked savings account or mobile banking functionality.

In the wake of the financial crisis, we have both an opportunity and an obligation to improve financial stability on a national and individual level. American families are focused on building more secure financial futures for themselves, and they deserve a fair, stable financial system, as well as the skills and access they need to navigate it successfully. Treasury looks forward to continuing to work closely with Congress, other agencies, and the private and non-profit sectors to empower all Americans to make smarter financial choices.



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
 CHRISTINE M. GRIFFIN
 DEPUTY DIRECTOR
 U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT,
 THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA
 COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
 UNITED STATES SENATE

on

The Federal Government's Role in Empowering Americans to Make Informed Financial Decisions

July 15, 2010

Chairman Akaka, Ranking Member Voinovich and Members of the Subcommittee:

Thank you for the opportunity to testify today on the critical work that the Office of Personnel Management (OPM) is doing to improve the financial literacy of Federal employees and to ensure that they are adequately prepared for retirement.

OPM is committed to educating Federal employees about the need for retirement savings and investments and providing information on how to plan for retirement, including how to calculate the retirement savings and investments needed to meet their retirement goals. As part of that commitment, we were pleased to participate in Financial Literacy Day on Capitol Hill in April where we provided information about the various benefits programs available to Federal employees. We had experts available to answer attendees' questions and also invited representatives from the Thrift Savings Plan (TSP) to join us. These experts provided attendees with additional resources to discuss important facets of their retirement benefits.

OPM is proud of the active role it has taken as a member of the Financial Literacy and Education Commission (FLEC). OPM co-chairs, with the Department of Treasury, the National Financial Education Network, which seeks to facilitate and advance financial education at the state and local level. This network creates a clearinghouse of state and local government financial education programs that serves as a place to share best practices and resources. The clearinghouse not only serves as a valuable resource to state and local governments, it provides a

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rich array of resources that agency benefits officers can use to expand their retirement readiness education program for Federal employees. OPM is a member of the FLEC core competencies working group. This working group brought together the full range of financial education leaders, practitioners and constituency groups to identify the core financial competencies all Americans should have to be financially fit.

Due to the leadership of this subcommittee, Congress took the necessary steps to improve financial literacy of Federal employees when it passed the Thrift Savings Plan Open Elections Act of 2004. The Act directed OPM to develop a strategy to “provide employees information on how to plan for retirement, and how to calculate the retirement investment needed to meet their retirement goals.” OPM developed a comprehensive retirement education strategy based on a model called *Retirement Readiness NOW*. The model focuses on the outcome of our retirement financial education programs, which will ultimately provide employees information on how to plan for retirement and how to calculate the retirement investment needed to meet their retirement goals.

The retirement readiness strategy combines basic information about the benefits provided by the Government, as an employer, and the broader financial education needs of employees. Rather than being a “near retirement” event, the retirement readiness model considers retirement financial literacy and financial education as a career-long process. The model incorporates a broad range of information that employees need to assist them in making informed retirement planning decisions. The model also recognizes that needs change as individuals progress through their careers.

OPM’s *Retirement Readiness NOW* model takes a total balanced approach to planning that covers:

- Networking and Engagement – finding enjoyable challenges, connecting with people in meaningful activities such as volunteer work, or exploring a new career;
- Overall Health – staying as healthy as possible for the duration of your life; understanding the aging process and how best to approach healthcare issues such as preventative and disease treatment; and
- Wealth – preparing financially to have sufficient income to have a sustainable standard of living and lifestyle in retirement.

Retirement readiness is also a dynamic that changes over time. The activities and planning employees should do, such as being aware that they may need to monitor and/or alter their choice of TSP funds during their careers; become pro-active in preventative health care measures; and deciding what plans to make with regard to what they will do and where they will live in retirement are all changes made as one moves through life stages. Providing employees with the necessary tools and resources to empower them to make informed financial decisions is

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a shared responsibility amongst OPM, employing agencies, and employees. Each has an important role to play.

OPM has three key roles in retirement readiness: Catalyst, Capacity, and Coordination. OPM serves as a catalyst for retirement readiness programs helping to focus attention on the issue. OPM speakers participate in a variety of conferences involving Federal employees to discuss the need for retirement readiness and our education programs. This past April, OPM began to send weekly "Retirement Readiness NOW Tips" to more than 10,000 subscribers of our email list. These tips focused on small steps employees can take to move toward retirement readiness, as well as provided a weekly reminder of the need for retirement readiness.

Building capacity means providing the necessary training and tools to agency benefits officers so that they can assist employees in understanding their benefits and identify their financial education needs. The Federal benefits programs form an important base for employees to build their financial security upon. OPM training programs for benefits officers play an important role in preparing them to provide employees with the information they require.

In May, OPM conducted our fifth benefits officers Retirement Financial Education Symposium. The symposium provides training for agency benefits officers on a wide variety of benefits administration topics including updates on our retirement readiness initiatives. The theme of this year's symposium focused on communicating benefits information to different generational groups in the workforce. Young employees entering the workforce have spent their entire lives "wired" and connected. They have different learning styles, information preferences and benefit needs in relation to older employees. It is critical for benefits officers to understand these differences and tailor their educational programs accordingly so that they can effectively provide the information needed by all employees to make informed benefits choices. In addition, OPM has begun to look at the role of new social networking sites/media, such as Twitter, and how they can aid in reinforcing retirement readiness messages.

Evaluation measures are critical to ensuring that our efforts are effective. Our strategy requires agencies to develop their own plans guided by OPM's Retirement Readiness Now model. Additionally, agencies will report annually to OPM on their retirement readiness programs. These annual reports help to guarantee that agencies institute sustainable programs and evaluate their effectiveness.

OPM is also developing tools for employees to use in order to better understand their benefits and plan for retirement. One of the tools developed in partnership with the American Savings Education Council (ASEC) of the Employee Benefits Research Institute is the Federal Ballpark Estimate, a savings goal worksheet that is based on the widely used ASEC Ballpark Estimate. The Federal Ballpark Estimate makes it possible to automatically calculate estimates of future Civil Service Retirement System or Federal Employees Retirement System retirement benefits and TSP account balances, as well as inform the user of how well the individual is doing in meeting his savings goal. During FY 2009, there were 90,000 visits to the Federal Ballpark Estimate on OPM's web site and more than 273,000 estimates completed. Users typically

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created 2 or 3 scenarios to help them test different savings strategies to assist them in setting up their savings goal. Many agencies, such as the Federal Retirement Thrift Investment Board, link their sites to the Federal Ballpark Estimate.

Another key role of OPM is coordination of financial education resources. A wealth of financial education materials and programs—course materials, web sites, brochures, newsletters, etc., have been developed by Federal agencies such as the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Department of Agriculture Cooperative State Research, Education and Extension Service, and the Thrift Savings Plan. In addition, there are numerous non-profit organizations, such as the American Savings Education Council and the National Endowment for Financial Education, that have also developed excellent resources that are available at little or no cost.

OPM's role is to identify those resources and create partnerships to leverage the use of those materials by agencies for their employees. In 2008, we entered into a partnership with FDIC to provide train-the-trainer training and course materials for their Money Smart program to benefits officers. Over the past two years, we've trained over 200 benefits officers through this partnership. FDIC gave a presentation on Money Smart and how benefits officers can use the program in their agencies during our Retirement Financial Education Symposium in May.

Over the next year, OPM plans to expand our partnerships with nonprofit financial education organizations, and to reach out to Federal Executive Boards and employee organizations to build partnerships that will leverage their day-to-day relationships with employees to utilize the financial education resources of our other partners.

OPM recently released a study analyzing participation in the TSP. The study identified employee participation rates and determined if the data suggests whether possible actions were to be taken to improve the methodology by which we educate Federal employees so that they will be better able to plan for retirement. The study showed that participation in the TSP is generally high, and employee participation rates increased between 2005 and 2007. However, some of the data indicated that minorities were lagging behind non-minorities in terms of the percentage of employees participating, salary deferral rates, and TSP balances. Discrepancies were also present when participation rates and TSP balances were compared across genders (men and women).

The TSP Enhancement Act of 2009 provisions of the Family Smoking Prevention and Tobacco Control Act (P.L. 111-31) provided for agencies to automatically enroll all new Federal civilian employees into the TSP. Employees who do not want to participate in the TSP can choose to opt out of the program. Based on research studies on behavioral economics, we expect that automatic enrollment in TSP will reduce the discrepancies in TSP participation described above. However, since this new policy only affects new Federal employees, OPM is taking action now to increase TSP participation among current employees and reduce the discrepancies across groups.

Statement of Christine M. Griffin
Deputy Director of the U.S. Office of Personnel Management

July 15, 2010

OPM will increase educational and outreach efforts in three main areas. Primarily, we will work to build strategic partnerships and coalitions with Federal employee groups such as unions and employee affinity groups representing diverse populations of employees. Secondly, we will provide agencies and partners with financial education programs focused on helping employees understand the importance of saving through the TSP at events such as chapter meetings and conferences. Finally, OPM and other partners will conduct outreach programs to agency benefits officers and their respective memberships to make them aware of the resources available to help promote participation in the TSP. We will measure the effectiveness of these efforts by regularly tracking changes in TSP participation among all Federal employees, groups of employees currently underrepresented in TSP, and individual employees who participate in our education and outreach activities.

Agencies share responsibility and play a key role in OPM's retirement readiness programs. They have primary responsibility for identifying employee needs by using the tools OPM developed; providing training, information and access to resources to their employees; and giving OPM feedback so that we can continue to improve agencies' retirement education capacity. For example, OPM conducts a speaker series throughout the year on topics such as debt management, TSP, college savings plans, and home mortgages. OPM employees also have access to a financial education page on the agency intranet. The recent DOD Worldwide Human Resources Conference included a financial education fair that provided information to participants and introduced the entire DOD human resources community to this effective financial education tool. DOD also recently launched a Financial Fitness web site to provide tips, techniques, and tools to assist DOD employees in staying on track toward achieving their goals.

OPM's responsibility, and one we work on daily, is to provide sufficient tools and information to help employees understand the importance and value of retirement savings and investments and to make informed financial decisions in preparation for retirement. However, OPM and agencies cannot improve employees' retirement readiness without the direct involvement of the employees themselves. Employees must take advantage of opportunities provided and assume responsibility for taking steps to meet their retirement goals.

Thank you for allowing me to testify before the Subcommittee on this very important issue, and I will be glad to answer any questions you may have.

**Testimony of Dr. Brenda Dann-Messier
Assistant Secretary for Vocational and Adult Education
U.S. Department of Education**

**Before the Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia
U.S. Senate Committee on Homeland Security and Governmental Affairs**

**Hearing on
“The Federal Government’s Role in Empowering Americans to Make Informed
Financial Decisions”**

July 15, 2010

Good afternoon, Chairman Akaka, Ranking Member Voinovich, and distinguished Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss what the U. S. Department of Education is doing to help Americans improve their abilities in making informed financial decisions, and thank you for your leadership on this important issue. More generally, the lack of financial literacy is a threat to our Nation’s economic security and a roadblock to the American dream for too many of our citizens. Financial education is part of the solution. The Department of Education is committed to doing its part to help elementary, secondary, postsecondary, and adult students develop the knowledge and skills to make sound financial decisions for themselves, their families, and their communities.

In my remarks, I’ll talk about our current financial literacy efforts, and I’ll highlight our work with other agencies as part of the Financial Literacy and Education Commission (FLEC).

Throughout, I will communicate how we are holding ourselves accountable by measuring student outcomes, not just emphasizing programs and activities. Across the board, we’re not only looking at what we are doing, but also asking ourselves if it is working.

I’ll start with our efforts for postsecondary education students.

In reauthorizing the Higher Education Act of 1965 (HEA) in 2008, Congress required that the Talent Search, Upward Bound, and Student Support Services programs, which are part of the Federal TRIO Programs that support college access and success, include financial and economic literacy activities for students. All new competitions for these programs will reflect this new requirement. Financial and economic literacy activities are allowable activities for the Educational Opportunity Centers and Post-Baccalaureate Achievement programs (also part of TRIO), the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) or the recently-expanded College Access Challenge Grant Program, and so we will coordinate across these programs and examine how we can track whether these program’s grantees use their funds for these activities (and to what effect).

Throughout the country, the Department's Federal Student Aid (FSA) program is ramping up its student aid outreach and awareness efforts to increase FAFSA submission and college enrollment rates, especially among students from underrepresented groups. FSA educates students and families about the costs and benefits of postsecondary education and the various Title IV, HEA programs that can help them afford postsecondary education, whether they are traditional students right out of high school, or older adults seeking additional training. The recent changes to direct lending ensure all students have access to reliable and affordable Federal student loans, and the same Act dramatically increased the funding available for Federal Pell Grants for our highest-need students. However, we can't help students pay for college if they don't apply for financial aid. While FSA does not currently track whether its outreach efforts – such as public service announcements, Web sites, conference attendance, and distribution of materials – increase FAFSA submission or college enrollment, we are discussing potential ways to measure their effectiveness.

Recently published research, supported in part with funds from the Institute of Education Sciences, demonstrated that helping people complete the FAFSA immediately after providing tax preparation assistance led to increased FAFSA submissions and increased college enrollment with no effect found for a control group that received only information on college costs and available financial aid¹. It is unclear whether we would see similar results with our new simplified FAFSA form and our new tax-data exchange with the IRS. In addition, the Department is discussing with the IRS possible connections between Volunteer Income Tax Assistance sites and FAFSA assistance, recognizing that there may be important lessons from behavioral economics that should inform and complement our outreach approach and efforts.

Entrance and exit loan counseling presents another opportunity to provide borrower-focused financial education to the millions of students in the federal student loan program. While default rates have decreased substantially since loan counseling was first required in 1989, we don't have conclusive evidence on the effectiveness of the various types of loan counseling used by institutions to fulfill the requirement. The new regulations effective July 1 updated the minimum content loan counseling standards and aligned them with the Higher Education Opportunity Act of 2008 (HEOA) provisions. These new requirements can help borrowers better understand their repayment obligations.

We're also concerned about the lack of financial literacy among adult learners. Recent studies show that low financial literacy – in particular, the ability to understand and perform basic calculations related to interest rates and inflation – is correlated with unfavorable financial decision-making. According to the National Center for Education Statistics, 22 percent of adults lack even basic quantitative literacy skills and another 33 percent have only basic quantitative skills levels - that's more than 120 million American adults². This may make them vulnerable to predatory lending practices, or to making

¹ "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment," Eric P. Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu, National Bureau of Education Research Working Paper Number 15361: September 2009, Revised June 2010.

² U.S. Department of Education, National Center for Education Statistics, 1992 National Adult Literacy Survey (NALS) and 2003 National Assessment of Adult Literacy (NAAL), A First Look at the Literacy of America's Adults in the 21st Century; and supplemental data retrieved July 6, 2006, from http://nces.ed.gov/naal/Excel/2006470_DataTable.xls. (This table was prepared July 2006.)

seemingly small mistakes with major financial consequences for themselves and their families. The Department is investing \$2.3 million to increase numeracy levels in adults through an effort known as the Adult Numeracy Instruction Project.

Now I'd like to turn to our financial literacy efforts for elementary and secondary education students.

The Excellence in Economic Education program, which received \$1.4 million in fiscal year 2010, will strengthen teaching and learning in personal finance, economics, and entrepreneurship. Also, under the Civic Education program, the Department has supported the development of instructional materials and teacher professional development programs in economic literacy in elementary and secondary classrooms both in the United States and in developing democracies and other countries to strengthen democracy abroad. For fiscal year 2011, we have proposed to enhance States and high-need school districts' ability to promote financial literacy by consolidating these programs into a new Effective Teaching and Learning for a Well-Rounded Education program, which would provide \$265 million to support innovative practices in a range of subjects, including financial literacy. This amount is \$38.9 million, or a 17 percent increase over fiscal year 2010 levels.

Also in fiscal year 2010, the Department will devote \$1.7 million of funds appropriated for the Fund for the Improvement of Education to support a grant competition called Financial Education for College Access and Success. There is mounting evidence that a lack of financial literacy and poor financial decision-making prevent students from starting and completing college and that each year more and more college graduates end up with more debt than they can reasonably handle. Through this competition, the Department will provide one State with funds to develop, implement, and evaluate personal finance instructional materials and related teacher training to increase rates of personal finance understanding and to help students with completing the FAFSA and enrolling in college. This grant will be for four years to allow sufficient time to determine effectiveness. This competition will send a signal to States and school districts about the importance of the connection between financial literacy and college access and completion.

In addition, over the past year and a half, the Department has developed relationships with several other FLEC member agencies, and we look forward to expanding and deepening those relationships.

Our most significant partner is the Department of the Treasury. It is an outstanding partner, and we're all fortunate to have Treasury's leadership and support. I'll share just a few examples of our combined efforts. First, the Department worked closely with Treasury over many months to carry out the 2010 National Financial Capability Challenge, a voluntary online personal finance exam administered by over 1,500 teachers in every State— plus several Department of Defense schools overseas — to over 76,000 high school students. We are committed to working with Treasury on this annual activity to increase the number of teachers and students participating and to increase support to teachers. We are very interested in working with you and your colleagues in Congress to encourage participation in the Challenge in your States and districts.

We are also working with Treasury on the report on postsecondary financial literacy programs, as required by section 1042 of the HEOA. In addition, President Obama named Secretaries Duncan and Geithner to the newly-established President's Advisory Council for Financial Capability.

Finally, we have some upcoming efforts that I'd like to share. Financial literacy is only one aspect of financial capability, which also encompasses financial access. We are planning a senior-level meeting with our colleagues at Treasury, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA), to discuss how the Department might support the Administration's economic inclusion strategy. We're also planning back-to-school events with the FDIC and the NCUA which will highlight schools that connect financial education and financial access by linking with local banks and credit unions. And, FSA is helping the FDIC on the redevelopment of its Money Smart for Young Adults financial education modules to keep the "Paying for College" section as current and helpful as possible.

We look forward to our continued work with these agencies, and we will identify additional ways to work together.

Thank you Mr. Chairman and Members of the Subcommittee for your attention to this important issue, and I would be happy to answer any questions.

STATEMENT OF

**SANDRA L. THOMPSON, DIRECTOR
DIVISION OF SUPERVISION AND CONSUMER PROTECTION
FEDERAL DEPOSIT INSURANCE CORPORATION**

on

**THE FEDERAL GOVERNMENT'S ROLE IN EMPOWERING AMERICANS TO
MAKE INFORMED FINANCIAL DECISIONS**

before the

**SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE
FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE**

July 15, 2010

Room 342, Dirksen Senate Office Building

Chairman Akaka, Senator Voinovich and members of the Committee, I appreciate the opportunity to testify on behalf of the Federal Deposit Insurance Corporation (FDIC) regarding the role of the federal government in empowering Americans to make informed financial decisions.

As requested by the Subcommittee, our testimony will discuss a number of initiatives by the FDIC to improve financial education and access. First, I will briefly address the importance of this topic and highlight FDIC's recently released research into the unbanked and underbanked. Next, I will overview the FDIC's financial education resources available to the public and highlight some of the ways the FDIC is promoting financial education in collaboration with the Financial Literacy and Education Commission (the Commission) and other external partners. Finally, I will review several of our initiatives to ensure that underserved consumers can access affordable credit and transactional products at insured financial institutions.

Background

It is essential that people of all ages, at all income levels, and from all walks of life learn to make informed and prudent financial decisions. As the recent financial crisis demonstrated so clearly, it harms the entire economy – not just the individual consumer – when people spend beyond their means by taking on debt they cannot afford to repay.

Access to an account at a federally insured institution provides households with an important first step toward achieving financial security. Having an account can provide the opportunity to conduct basic financial transactions, save for emergency and long-term security needs, and access credit on affordable terms. For working families, a savings cushion to fall back on might be the only thing that keeps them from bouncing a check or turning to high-cost sources of credit.

Unfortunately, many consumers remain outside the financial mainstream. In December 2009, the FDIC released the findings of our National Survey of Unbanked and Underbanked Households, which was a supplement to the Census Bureau's Current Population Survey. The survey sought to estimate the size of the unbanked and underbanked markets and to identify the factors that inhibit their participation in the mainstream banking system.

The study, which we believe is the most comprehensive survey to date of the unbanked and underbanked, estimated that 7.7 percent of U.S. households are unbanked, while 17.9 percent of U.S. households are underbanked. Taken together, at least 25.6 percent of U.S. households, close to 30 million, are either unbanked or underbanked.

In addition, the survey findings indicated that some racial and ethnic groups were more heavily represented as underserved than the population as a whole. Almost 54 percent of black households, 44.5 percent of American Indian/Alaskan households, and 43.3 percent of Hispanic households appeared underserved.

Additional data for the household survey is available in an interactive format on www.economicinclusion.gov, a website established by the FDIC to highlight our efforts to

expand access to the financial mainstream. Also available through this website are results of a nationwide survey of FDIC-insured depository institutions to assess their efforts to serve unbanked and underbanked individuals and families.

FDIC's Financial Education Initiatives and Resources for the Public

Money Smart Program

Since its launch in 2001, the FDIC has reached over 2.5 million consumers with Money Smart, our comprehensive financial education curriculum designed to help individuals develop financial skills and positive banking relationships. The curriculum is available free of charge in four primary formats:

- An instructor-led curriculum for adults on CD-ROM in seven languages (English, Spanish, Chinese, Hmong, Korean, Russian, and Vietnamese) and large print/Braille.
- An instructor-led version to teach young adults between the ages of 12-20 on a CD-ROM, *Money Smart for Young Adults*. The curriculum has been aligned with relevant state educational standards and endorsed by the National School Boards Association. Since its launch in April of 2008, over 75,000 instructor-led copies have been requested.
- An online self-paced Computer-Based Instruction (CBI) format for all ages in English and Spanish.
- A portable audio (MP3) version, *Money Smart Podcast Network*, for all ages.

In addition to providing the Money Smart curriculum, the FDIC publishes the quarterly Money Smart News to provide more than 40,000 financial educators and other subscribers timely and relevant tips, updates, and other information on the delivery of financial education. For example, each edition highlights a success story that provides ideas and best practices. These strategies are helpful for educators teaching any financial education curriculum.

Findings from a longitudinal survey of consumers who have taken the FDIC's Money Smart financial education program show that the course can positively influence how people manage their finances, and these changes are sustainable in the months following the training. The survey results indicate that those who took the Money Smart course were more likely to open deposit accounts, save money, use and adhere to a budget, and have increased confidence in their financial abilities when contacted 6 to 12 months after completing the course. A majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of financial principles, and an increased willingness to comparison shop for financial services.

As a result of FDIC's successes, a growing number of bank regulators/insurers in other countries have expressed interest in replicating the FDIC's Money Smart program. In response, for example, over the past two years the FDIC conducted multi-day training in Money Smart for bank regulatory leaders in El Salvador and Columbia.

Looking ahead in the Money Smart program, the FDIC plans to release a comprehensively updated version of Money Smart for adults and young adults that reflects recent changes in law and industry practice. We also plan to release a Spanish language version of our podcast version of Money Smart.

White Paper and Awards

As part of the observance of the FDIC's 75th Anniversary, FDIC Chairman Sheila Bair convened discussions with community leaders from across the country to discuss strategies for integrating the underserved into the financial mainstream and providing the financial education essential to help ensure that consumers use mainstream services in a responsible way. The panel discussions were summarized in *The Financial Education and the Future White Paper* released by the FDIC in December 2009.

Also, last December, as the final component of the observance of the FDIC's 75th Anniversary, Chairman Bair recognized six outside individuals/organizations with a Chairman's Award for Innovation in Financial Education. The Chairman's Award was intended to recognize individuals and organizations that have shown excellence and innovation leading to measurable results in reaching consumers with financial education, and to highlight best practices that others can model to increase financial literacy in their own communities.

FDIC Consumer News

The quarterly FDIC Consumer News (over 60,000 mail and electronic subscribers and an average of about 20,000 Internet visits monthly) provides practical guidance to help consumers protect and stretch their money. Information from the newsletter has been carried by major media organizations with subscriber lists in the millions.

Deposit Insurance Resources

The FDIC maintains deposit insurance resources to help all depositors understand how deposit insurance works and whether their deposits are fully covered by deposit insurance. These resources are available online and in print in English, Spanish, Traditional and Simplified Chinese, Korean, Vietnamese and Tagalog/Filipino. In particular, FDIC's Electronic Deposit Insurance Estimator (EDIE) is an interactive online tool created by the FDIC to help consumers determine if their deposit accounts at FDIC-insured institutions are fully insured. EDIE also assists bank employees who answer customer questions about deposit insurance coverage. FDIC-insured institutions can now customize and integrate EDIE into their Web sites so customers can access EDIE without leaving the institution's Web site.

Deposit Insurance Awareness Campaigns

In June 2008, the FDIC embarked on a campaign to raise public awareness about FDIC deposit insurance coverage. The campaign involved a series of nationwide public service announcements (PSAs) featuring personal finance expert Suze Orman, who donated her time to this initiative. The success of this campaign prompted the FDIC to launch a Spanish-language

campaign that also included EDIE in Spanish and featured Julie Stav, a Hispanic personal finance expert who also donated her time. The Spanish-language campaign was launched in late 2008. The PSAs were redistributed in 2009 and continue to be shown today. In addition to the English and Spanish-language campaigns, the FDIC produced a radio advertisement specifically intended for the African-American community, and held several events targeting the Asian and Pacific American community.

Loan Scam Alert Public Awareness Campaign

Homeowners at risk of foreclosure need to know how to seek help and avoid foreclosure rescue scams. The FDIC is supporting a Loan Scam Alert public awareness campaign led by NeighborWorks of America and will be participating in public awareness events around the country. The campaign is aimed at educating homeowners about the warning signs of mortgage modification scams, encouraging consumers to seek out reliable sources of assistance, and to reporting suspicious activity.

Other Consumer Resources

The FDIC produces various brochures and electronic resources for consumers on areas such as Identity Theft, understanding their consumer protection rights, how to file a complaint with the regulators, and foreclosure prevention. For example, the FDIC's foreclosure prevention brochures provide information on how homeowners can avoid falling victim to common foreclosure rescue scams and how, instead, they can access legitimate resources for help. In March 2010, in conjunction with National Consumer Protection Week, the FDIC launched a new service, Consumer Tip of the Week, to make it easier and more convenient for people to stay informed about issues that may affect their financial decisions.

Financial Literacy and Education Commission

The FDIC is a member of the Commission and actively supports the Commission's efforts to improve financial literacy in America. The FDIC's support currently includes: assigning experienced FDIC staff to work with the Treasury Department's Office of Financial Education; aiding in the development of a national strategy; providing leadership in the development and maintenance of the *My Money* hotline and toolkits; and, addressing issues affecting the promotion of financial literacy and education.

Also, the FDIC has been significantly involved in the work of the National Strategy Working Group, which was charged with drafting a new national strategy to promote financial literacy and education. In addition, the FDIC chairs the Commission's Core Competencies Subcommittee, which worked closely with the Department of the Treasury and a group of experts in the financial education field, including researchers and practitioners, to help draft the various core principles that individuals should know and the basic concepts program providers should cover. These soon to be released "core competencies" are the basic set of knowledge and skills needed at various ages and life events in order for consumers to make financial decisions in their best interest.

The FDIC's financial education activities are conducted in collaboration with the Commission and other Commission members. For example, the FDIC has partnered with the U.S. Office of Personnel Management to help facilitate up to two million federal employees nationwide gain access to the FDIC Money Smart curriculum online or through the classroom. We are also working with staff in the U.S. Department of Education as we update our *Money Smart for Young Adults* curriculum to ensure our resources continue to present timely, up-to-date information.

External Partnerships and Collaborations

A central component to the FDIC's strategy to advance financial education is to partner and collaborate with both educational agencies and non-government organizations. For example, about 1,500 organizations including financial institutions, bank trade associations, national non-profit organizations, community- and consumer-based groups, and faith-based organizations have joined the FDIC's Money Smart Alliance since 2001 to deliver or otherwise support the Money Smart program.

We particularly recognize the importance of facilitating the instruction of youth on how to responsibly handle their finances and use mainstream banking products. The importance of doing so is supported by the results of the FDIC's unbanked surveys which suggest that the younger a person is, the more likely they are to be unbanked. The FDIC's research also suggests that younger adults are more likely to incur sizable fees in automated overdraft programs.

As one of our strategies to promote youth financial education, the FDIC has partnerships with national and regional organizations such as Campfire USA, Operation Hope, the national Jump\$tart Coalition, National Catholic Educational Association, North Carolina Department of Public Instruction, and Washington Council on Economic Education. The FDIC also partners with the White House Initiative on Historically Black Colleges and Universities to deliver or facilitate the delivery of financial education on college campuses around the country.

Additionally, as a result of outreach by FDIC staff, various key national organizations provided information on the curriculum to their stakeholders even without a formalized agreement with the FDIC. For example, the Consumer Federation of America's *America Saves* initiative sent organizational partners a memo that listed the *Money Smart for Young Adults* curriculum as a recommended curricula, and the National League of Cities highlighted ways the curriculum can be used in an article for cities participating in the *Bank On* program.¹ State agencies in California, Indiana, Maine, New Hampshire, New Jersey, Tennessee, Texas, Washington, and the District of Columbia, have also promoted the curriculum in ways ranging from referring educators to the curriculum as a resource to hosting train-the-trainer workshops.

We are pleased to see the curriculum delivered in a variety of ways by our partners. Teachers have integrated material from the curriculum into existing classes or used it as the foundation for new classes, such as educators at one school that have used all eight modules of the curriculum to anchor a personal finance class for 200 students. Bankers also teach or co-

¹ *Bank On* programs in many cities and communities around the country provide starter accounts, financial education, and other financial opportunities to consumers who have little or no connection to banks or credit unions.

teach the curriculum in the classroom. One example is a community bank that has already taught the curriculum to thousands of students in area high schools and junior high schools in conjunction with several other organizations.

Activities to Promote Financial Access

Financial education may be most effective when consumers have opportunities to practice concepts soon after instruction. For unbanked consumers, this means getting the opportunity to open an appropriate savings or transaction account after or during a financial education workshop. We must make sure that consumers have access to financial products and services that are well-structured, easy to understand, and competitively priced. The FDIC is pursuing several strategies to help ensure that underserved consumers are able to access affordable and appropriate transactional and credit products from insured financial institutions.

Alliance for Economic Inclusion

The Alliance for Economic Inclusion (AEI) is the FDIC's national initiative to establish broad-based coalitions of financial institutions, community-based organizations and other partners in several markets across the country to bring unbanked and underserved populations into the financial mainstream. To date, more than 967 banks and organizations have joined AEI nationwide, more than 160,000 new bank accounts have been opened, and more than 115,000 consumers have been provided financial education. Additionally, as a result of the FDIC's leadership and initial success with AEI, we have worked closely with the National League of Cities and others to facilitate the launch of *Bank On* campaigns in several cities. To advance this work, we are serving on a National Steering Committee with the National League of Cities, Department of Treasury, Federal Reserve Board and the New America Foundation.

Advisory Committee on Economic Inclusion

The FDIC's Advisory Committee on Economic Inclusion (ComE-IN) was established by Chairman Bair in 2006 to provide advice and recommendations to the FDIC regarding expanding access to banking services by underserved populations. The ComE-IN is comprised of representatives from banks, academia, consumer and community groups, and government agencies.

A strategic plan adopted by the ComE-IN in April of 2010 reflects two primary objectives: (1) lower the level of underserved households and (2) increase the supply of financial products and services targeted to underserved households. The ComE-IN has outlined project initiatives to help meet its objectives. Initiatives are concentrated in, but not limited to, the following program areas: Transactional Accounts, Savings, Affordable Credit, Financial Literacy, Incentives, and Safe Mortgages.

Safe, Low-Cost Account Templates

At the April 1, 2010 FDIC ComE-IN meeting, the Strategic Planning Subcommittee presented draft templates for safe, low-cost transactional and savings accounts for underserved

low- and moderate-income consumers. These model account templates provide a roadmap for basic account elements to encourage insured financial institutions to make safe, low-cost transactional and basic savings account products more widely available to low- and moderate-income consumers. The guiding principles in developing these templates are that these financial products have low and transparent fees; are simple to use; include easily understandable terms and conditions; are FDIC-insured and subject to consumer protection laws, regulations and guidelines; and represent sustainable product offerings for financial institutions.

The FDIC published the templates for public comment and in response to the comments, the FDIC revised the templates and presented an updated version at the ComE-IN meeting on June 24, 2010. The ComE-IN recommended that the FDIC further revise the templates and then launch a short-term pilot project based on the templates. We expect this recommendation to be considered by the FDIC Board of Directors in the near future. The ultimate goal of the pilot is to encourage insured institutions to offer safe, low-cost accounts that have been proven to be both beneficial to consumers and sustainable for banks.

Small-Dollar Loan Pilot Program

The FDIC is also working to ensure that the underserved can access appropriate credit products from insured financial institutions. In February 2008, the FDIC launched a two-year Small-Dollar Loan Pilot to determine the feasibility of banks offering small-dollar loans as an alternative to high-cost emergency credit sources, such as payday loans or fee-based overdraft programs. Twenty-eight banks participated with total assets ranging from \$27 million to \$10 billion, with almost 450 branches in 27 states.

The pilot concluded in the fourth quarter 2009. During the pilot, banks made 34,400 loans with a principal balance of \$40.2 million. Defaults on loans originated under the pilot are in line with the default rates for consumer loans generally. Perhaps most importantly, the pilot demonstrated that banks can offer affordable small-dollar loans in a manner that suits their business plans and is fair to consumers.

Best practices and elements of success emerged from the pilot and resulted in a model, or template, of product elements that can produce a safe, affordable, and feasible small-dollar loan. Product elements include loan amounts of \$2,500 or less, loan terms of at least 90 days or more, annual percentage rates (APRs) of 36 percent or less, low or no fees, streamlined but solid underwriting and optional savings and financial education components. The template is replicable in that it is simple and requires no particular technology or other major infrastructure investment. Moreover, adoption of the template could help banks better adhere to existing regulatory guidance regarding offering alternatives to fee-based overdraft protection programs.²

Most banks in the pilot indicated that small-dollar loans were a useful business strategy for developing or retaining long-term relationships with consumers, including those who previously were unbanked or underbanked. In terms of overall programmatic success, bankers reported that long-term support from a bank's board of directors and senior management was

² "Overdraft Protection Programs, Joint Agency Guidance" Financial Institution Letter, February 18, 2005, <http://www.fdic.gov/news/news/financial/2005/fil1105.html>.

most important. The most prominent product element bankers linked to the success of their program was a loan term longer than just a few pay cycles to give consumers time to repay.

Based on a preliminary review, there are indications of a correlation between financial education and improved loan performance. Most of the larger originators indicated they offered some form of financial education with the loans. As a result, 90 percent of small dollar loans in the pilot were made with an educational component. For these banks, the cumulative charge-off rate was 5.7 percent compared to 12 percent when financial education was not featured. Given the limited sample size and differences in program features, we cannot definitively say whether the extent to which formal financial education directly affected performance, but it appears to be a factor.

Going forward, the FDIC will continue to work with the banking industry, consumer, community and philanthropic groups, other government agencies, innovators in small-dollar lending, and others to research and pursue strategies to expand the supply of affordable small-dollar loans.

America Saves Week

The FDIC has been a long-term partner with the Consumer Federation of America on its *America Saves* initiative. This effort combines education, many times using the Money Smart curriculum, with opportunities for consumers to access free or low-cost savings accounts. The FDIC's support of the 2010 *America Saves Week* included a video featuring FDIC Chairman Sheila Bair released on YouTube that encouraged consumers to make a savings commitment.

Conclusion

In closing, I want to respond to the Subcommittee's request to briefly discuss what constitutes a "good financial education." It is important to define this concept in fairly concrete terms since it provides a baseline for determining what steps need to be taken going forward.

A good financial education should be thought of as a long-term proposition as opposed to a one-time only strategy. Financial education, at a minimum, should cover the financial education core competencies mentioned earlier in the testimony. Education based on these core competencies should start in grade school and continue through secondary school. Later, consumers should have access to additional education as they face major life events, such as starting a new job or shopping for a home, so that they have the tools to make informed and prudent financial decisions.

I believe that the development of core competencies for financial education and accompanying metrics creates an excellent opportunity to establish a baseline measurement for financial knowledge and skills. Additionally, data from FDIC's unbanked/underbanked population survey provides an excellent way to measure the use of mainstream financial services.

I should also note that to deliver a good financial education, you need an instructor who has a solid grasp of the fundamentals of personal financial management, particularly a strong in-

depth understanding of the financial education core competencies. The instructor must also be knowledgeable of strategies for developing and delivering effective lesson plans, as well as knowledgeable on the content, and changes in law and industry practice.

The more we can encourage people to properly balance income and expenses and to increase their savings - and the more we can ensure people have access to appropriate products at insured financial institutions - the better off our entire economy will be.

Not only is a solid financial education essential for consumers to make informed decisions in the marketplace, but this knowledge serves to protect informed consumers from potentially costly scams. A consumer who knows the right questions to ask, understands economic fundamentals, and has the confidence to challenge products and practices that seem "too good to be true," is a regulator's best weapon in consumer protection efforts.

Thank you. I would be happy to answer any questions from the Subcommittee.



COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

UNITED STATES SENATE

JULY 15, 2010

**STATEMENT
OF
MARIANNA LACANFORA
ASSISTANT DEPUTY COMMISSIONER FOR
RETIREMENT AND DISABILITY POLICY
SOCIAL SECURITY ADMINISTRATION**

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the Social Security Administration's (SSA) initiative to help the American public better prepare for retirement and other important life events and to encourage Americans to save. As the agency responsible for delivering and managing Old-Age, Survivor, and Disability Insurance benefits, we have a longstanding relationship with the American public on the subject of financial security. In 2009, more than 51 million retired or disabled workers, their families, and survivors received over \$659 billion in benefit payments. Through our telephone, Internet, and mail services, as well as our 1,300 field offices, we have been educating the American people about our programs for many years. Our agency has a responsibility to help Americans prepare for retirement.

In recognition of that responsibility, our agency 2008-2013 Strategic Plan contains a Special Initiative to Encourage Saving with a focus on helping Americans better prepare for retirement. Commissioner Astrue recognized that this Special Initiative was needed because so many Americans are in danger of having insufficient savings for retirement and other life events. Even before the current Strategic Plan, the Commissioner stressed the importance of financial literacy. During his January 2007 confirmation hearing before the Senate Finance Committee, he told Chairman Baucus that, as Commissioner, he would "... urge people to think hard about their own private savings and retirement plans, and make sure that they understand the role of Social Security in their own personal future."

According to the Employment Benefit Research Institute's 2010 Retirement Confidence Survey, less than half of American workers have estimated how much money they will need to live comfortably during retirement¹. Since studies show that increased financial awareness can improve attitudes toward saving, expand participation in retirement savings plans, and increase retirement asset accumulation, we see the need to help the public better understand our program and to encourage saving.

Financial literacy is defined by the Government-wide Financial Literacy and Education Commission (FLEC) as "...the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being (the 2007 FLEC annual report to Congress)." From our agency's perspective, the American public should have the knowledge and skills to effectively plan their financial resources in conjunction with their entitlement to Social Security. We want Americans to understand that while Social Security is a good foundation for providing income for retirement, it should not be a retiree's only source of income. In addition, young and middle-aged workers need to know the importance of other sources of retirement income and the importance of early planning for retirement. Currently, almost two-thirds of aged beneficiaries rely on Social Security as their main source of income; for over one-third, Social Security provides 90% or more of their income.²

¹ EBRI Issue Brief, No. 340, issued March 2010.

² Fast Facts & Figures About Social Security, 2009, page 7

We want to encourage Americans to develop the savings habit early in life.⁴ Increases in longevity mean we may spend many years in retirement. The typical 65-year old today can expect to spend about 20 years in retirement, so planning early for a long retirement can help assure those golden years are secure.

We are also striving to address a general lack of awareness and understanding of our programs. For example, only a fraction of Americans knows their full retirement age. Knowing the full retirement age is a key factor in deciding when to claim retirement benefits, since benefits are reduced for each month they are taken before full retirement age, and can increase for months that benefits are not taken between full retirement age and age 70.³ In addition, surveys show that many workers do not understand basic economic principles such as inflation and the power of compound interest.⁴ Lack of understanding of these principles is associated with low wealth accumulation and poor ability to control spending and debt.⁵

What We Are Doing to Improve Financial Literacy

In addition to our traditional role of ensuring that the public understands how Social Security benefits fit into the overall retirement picture, we have a responsibility to provide Americans with information about the importance of supplementing Social Security with retirement savings. Our financial literacy initiative includes three major elements: 1) production of the annual *Social Security Statement (Statement)*; 2) promotion and support for the Retirement Estimator; and 3) our research program.

The annual *Social Security Statement* (<http://www.socialsecurity.gov/mystatement/>) provides personalized information about retirement, spousal, survivor, and disability benefits (based on a person's lifetime earnings) to help him or her plan for his or her financial future. The Social Security Act requires us to mail the *Statement* to workers and former workers aged 25 and older and workers of any age who request it. We mail *Statements* to about 150 million Americans a year. The *Statement* provides a concise explanation of Social Security benefits based on a person's earnings. Since it comes out each year, people can see how the estimated amount of their future benefits is affected by their current earnings. This information can assist individuals as they plan for retirement. We believe the *Statement* is a helpful financial literacy product.

We introduced two changes to the *Statement* in 2009. First, we reformatted the *Statement* to show the amount of benefits the worker could expect at full retirement age in the most prominent position. This change provides a better balance of the benefits and the trade-offs of early vs. late retirement.

³ EBRI's Retirement Confidence Survey (2007)

⁴ Financial Industry Regulatory Authority (FINRA) 2009 National Financial Capability Study

⁵ Examples include Lusardi, Annamaria and Olivia S. Mitchell (2006) and Hilgert, Marianne, Jeanne Hogarth and Sondra Beverly (2003)

Second, *Statement* mailings now include a customized insert for workers at different stages in life. One goes to workers 55 and older, focusing on benefit choices for near-retirees (<http://www.socialsecurity.gov/mystatement/statsamples.htm>). In the second insert, we introduce workers 25-35 years old to disability and survivor's benefits, update them on the future of Social Security, and provide information about how Social Security benefits fit into an overall retirement plan. The insert also describes the importance of saving for the future. In the *Statement*, we also promote www.mymoney.gov, the Financial Literacy and Education Commission website designed to be a trusted source of financial information for the public.

The Online Retirement Estimator (<http://www.socialsecurity.gov/estimator/>) is another financial literacy product we developed. Deciding when retirement benefits should begin is a personal choice, but we are responsible for explaining the options available to individuals. We developed the online retirement estimator to allow people to see, based on their own earnings record, what their retirement benefit could be using different options for stopping work and different ages for starting retirement benefits. This, too, is a useful and important financial planning tool.

Since its launch in July 2008, this site has become popular with the American public, and is the highest rated online service in the Federal government. Our Spanish-language version of the Online Retirement Estimator, which will be available next year, will be one of the Federal government's first interactive Spanish-language online service.

As a complement to the Estimator, we are also developing an Online Life-Expectancy Calculator - a simple, but important tool to assist the public with retirement planning. Many people substantially underestimate life expectancy, and this new online service will add a measure of accuracy to retirement planning by providing average life expectancies at different ages based on the person's gender and date of birth, and drawing on assumptions provided in the annual Social Security Trustees' report. We hope to have the Calculator available within the next year.

The third major element to our Financial Literacy initiative is our research program. The research program involves designing effective approaches to improve financial literacy, based on an evaluation of what works. Our program supports research by experts outside the agency and fosters collaboration with other Federal agencies with similar goals.

The Financial Literacy Research Consortium (FLRC) is a multidisciplinary research initiative to develop and test innovative educational materials and programs to help Americans plan for a secure retirement and better understand Social Security's programs. The FLRC is supported by funding agreements with Boston College, the RAND Corporation, and the University of Wisconsin-Madison, that began in October 2009.

The FLRC is currently conducting 26 research projects in the area of financial literacy through its three centers, each collaborating with a range of educational, non-profit, and financial services-related organizations. The FLRC will present results from the first year

of the cooperative agreement at its first annual conference in November 2010. Each year, we review program progress both internally and through our Panel of Outside Scholars. Our Outside Scholars are expert representatives from academics, the private sector, and the Federal government who provide the agency and our grantees with input on current work as well as suggestions for future research. Abstracts describing all 26 awarded projects are available online at:
<http://www.ssa.gov/retirementpolicy/abstracts.html>.

We are also working to expand the minority sample of the Health and Retirement Study (HRS). The HRS is the premier data resource for tracking the health, wealth, and labor force activity of Americans aged 50 and older. The survey, conducted by the University of Michigan through grant support from the National Institute on Aging (NIA), has been ongoing since 1992. However, the minority sample of the HRS is declining due to death and attrition, limiting in-depth analysis of older minorities. Therefore, we entered into an interagency agreement with NIA to support an increase of the sample of minority households in their pre-retirement years. In 2010, the HRS will interview 2,000 additional African-American and Hispanic respondents, born between 1948 and 1959. This will allow for more intensive study of financial literacy in minority populations, providing a greater understanding of how financial literacy knowledge affects saving and retirement decisions.

Financial Literacy and Education Commission (FLEC)

We are also participants in the Government-wide Financial Literacy and Education Commission (FLEC). The FLEC was established by legislation enacted in 2003 to coordinate financial education efforts throughout the Federal government, support the private sector in providing financial literacy programs, and encourage the synchronization of efforts between the public and private sectors. The Commission is chaired by the Secretary of the Treasury and coordinated by the Department of the Treasury's Office of Financial Education. As one of 21 members of the FLEC, we work with other Federal agencies to increase awareness of the importance of financial education and to improve financial literacy.

We are chairing or co-chairing three of the four standing FLEC working groups: National Strategy (co-chair with Treasury); Research and Evaluation; and Communication and Outreach. We are also interacting with FLEC member organizations to coordinate and to eliminate duplication of research efforts.

One of the challenges facing FLEC is the development of measures to evaluate the impact of member agency programs on financial capability and outcomes. The development of evaluation metrics for financial education programs and national measures of financial competency in the population are a critical and complex part of measuring success. We are working to assist Treasury in the development of these measures.

Other Financial Literacy Activities

We participate in America Saves Week, a nation-wide communications campaign that encourages saving. A broad coalition of non-profit, corporate, and government groups participate annually during the last week of February. As part of America Saves Week, this year we issued a special Commissioner Broadcast and a financial literacy electronic newsletter to all 60,000 of our employees emphasizing the importance of saving and planning for their future. We distributed an article about America Saves Week campaign for publication in hometown newspapers across the country. We published a similar article in our online newsletter, *Social Security Update*, and distributed it to advocates and staff on Capitol Hill. The SSA homepage, which receives over a million visits a week, also featured a link to America Saves Week publications and information.

In November 2007, we established the Financial Literacy Advisory Group within SSA to help shepherd, review, and produce several products now in use by the agency. These products include a fact sheet entitled *When to Start Receiving Retirement Benefits*. This fact sheet highlights something important: monthly retirement benefit amounts differ substantially based on when they start. It also provides information on the effects of working in retirement, how the worker's retirement decision can increase or decrease the benefit amount ultimately paid to his or her survivors, and the fact that retirement may last a long time. This fact sheet is available on our website as well as at all of our field offices.

Our network of field offices across the country gives us a presence unlike any other in the Federal government. Our public outreach efforts help workers understand how their savings, other retirement plans, and Social Security benefit claiming options can affect their retirement security and emphasize the importance of planning for retirement. We educate the public about the role of Social Security as one of the foundations of household income not only in retirement, but also in the event of disability or death. We target key audiences of all ages for financial literacy products through our presence at senior citizen fairs, community events and retirement seminars, and routinely provide information to human resources departments of large employers.

Conclusion

The mission statement of Social Security reads: "*Deliver Social Security services that meet the changing needs of the public.*" Saving for retirement and understanding how retirement decisions influence Social Security benefit levels are critical parts of retirement planning. However, survey evidence consistently shows that few Americans effectively plan for retirement. Clearly, people need to be better informed. In response, we have expanded our efforts to encourage saving and to explain Social Security programs.

By working together with Congress and other Federal agencies on financial literacy initiatives, we hope to raise the public's awareness and provide useful tools to help them effectively plan for a secure retirement. We are confident that with your support and the support of our stakeholders, we can achieve this goal.

I want to thank the Chairman and members of the Subcommittee for inviting me here today. We appreciate your continued support for the agency and our mission.



Consumer Federation of America

Testimony of

**Barbara Roper, Director of Investor Protection
Consumer Federation of America**

Before

**The U.S. Senate
Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia**

On

**The Federal Government's Role in Empowering Americans to Make
Informed Financial Decisions**

July 15, 2010

Chairman Akaka, Ranking Member Voinovich and Members of the Committee:

I am Barbara Roper, director of investor protection for the Consumer Federation of America. CFA is a nonprofit organization that was created in 1968 to advance the consumer interest through research, education and advocacy. For more than three decades, CFA has sought to promote effective financial education to increase financial literacy and improve financial decision-making. Indeed, CFA Executive Director Stephen Brobeck has testified on this topic on a number of occasions over the past decade before this and other congressional committees. In that testimony, he has emphasized both the importance of programs to promote financial literacy and the limits of financial education. He has called for development of a coherent national strategy to promote financial literacy, has credited the Financial Literacy and Education Commission (FLEC) with making progress toward that goal, and has detailed a variety of constraints that have limited its effectiveness. He has described what he views as the key components of effective financial education, and he has outlined one option for a federal financial literacy campaign to promote saving.

My own work at CFA has been primarily in the area of advocacy, working to promote policies that achieve the same goal of encouraging sound financial decision-making but through a different route. If financial literacy is aimed at educating consumers and investors to make sound financial decisions, my work as an investor advocate has tended to focus on ending the industry practices and market flaws that undermine that goal. Too often, these two areas of activity have proceeded independently of each other without adequate consideration for how they naturally interact. In my testimony today, I plan to discuss this interaction between financial education and consumer and investor protection policy in promoting sound financial decisions.

Although I have worked primarily as an advocate, I have also been involved in several research projects at CFA related to investor education which have shaped my views on this question. One project I was involved in consisted of a survey that was designed to explore the disconnect between expert recommendations and actual consumer practices with regard to saving and investing. The survey looked both at what consumers know – about setting up an emergency fund, for example, or saving for retirement – and what they did. Although the survey produced a lot of data, one finding jumped out from all the rest. We found that, across income levels, those who reported having some kind of savings plan, whether developed on their own or with the help of a professional, had dramatically higher savings rates than those without a plan. That finding provided one of the original kernels of research behind CFA's America Saves campaign, which promotes savings among lower and moderate income Americans.

I was also involved in a research project at CFA that looked at investors' mutual fund purchase practices. We began the project with a literature review to determine how experts recommend investors go about making an informed mutual fund purchase. What we found was nearly unanimous agreement about the factors that investors should consider and the information sources they should consult when selecting a mutual fund. Moreover, this message had been conveyed for many years, in every conceivable format, and by a wide variety of sources – regulators, industry groups, and investor advocates and educators, not to mention personal finance newspaper columns, magazines, books, and websites. And, finally, we found that the

information needed to follow those recommendations and make an informed choice was readily available to investors. In short, we appeared to have in place nearly all the characteristics required for an effective financial education campaign. And yet, when we then surveyed investors about their actual mutual fund purchase practices, they didn't remotely resemble those recommended by the experts. In this case, the primary outcome of that project was not a new financial education campaign, but a change in our advocacy positions and priorities to better reflect the reality revealed by that survey.

Based on these and other experiences, I have developed what I think are some common sense lessons regarding financial education and its interaction with consumer protection policy. These include lessons about what financial education can and cannot reasonably be expected to achieve, what it takes to develop an effective financial education campaign, and how what we know about Americans' financial literacy can and should be folded in to the larger policy debate regarding consumer and investor protection. Some of these lessons may seem old hat to those of you with greater experience in the field of financial education. But since it does not appear to me either that these simple lessons have been fully incorporated into our financial education programs or that an awareness of financial literacy constraints has been fully incorporated into our consumer and investor protection policies, perhaps they bear repeating.

Lesson 1: Financial literacy should be viewed, not as an end in itself, but as a means to an end. Our goal is not (or should not be) simply to empower consumers to make informed financial decisions. Our goal should be to empower consumers to make *sound* financial decisions. Thus, the measure of a successful financial education campaign should be its ability to produce substantial, positive behavioral change, especially in areas of critical importance to consumers' financial well-being. In measuring financial literacy programs' success, it is important to keep in mind that statistically significant changes in behavior are not necessarily socially significant. For example, increasing desirable behaviors from 20 percent of the population to 25 percent might be statistically significant, but for critically important financial decisions we need to aspire to spreading that behavior to a large majority of the population.

In some relatively rare cases, educating consumers may be an adequate means to achieve that goal. But in all too many cases, our regulatory policies either do not support that end or actively undermine it. To achieve our goal in such cases, we need to think not just about how to educate consumers to make sound decisions, but also about what policy changes are necessary to make consumer education both possible and effective or to produce the desired outcome through other means. An effective federal financial literacy campaign must, therefore, include an assessment on the front end not just of what consumers and investors need to know to make informed decisions about their finances, but also whether existing regulatory policies thwart that goal, and, if so, what regulatory changes are needed to support the desired outcome. As the campaign proceeds, it must also include an assessment of its effectiveness in achieving the goal of promoting socially significant behavior change.

Lesson 2: For consumers and investors to make informed decisions, they need to get good information. Consumers and investors can't make sound decisions if they don't get the information they need, at a time when it is useful to them, and in a form they can understand. However, most financial disclosures fail at least one of these three tests of effective disclosure.

Often, consumers receive the relevant information, but obscured in a mass of fine print, or conveyed in overly technical language that makes the information all but impenetrable, or delivered after the purchase (as is typical with mutual fund prospectus delivery). Even point-of-sale disclosures may come too late if the purchase decision has already effectively been made. Thus, for financial literacy efforts to succeed, we need sweeping revisions to our financial disclosures across product and industry lines. This should include testing disclosures with consumers and investors to determine how they can be designed and delivered to most effectively convey the desired information. Without those changes, financial literacy efforts will at best be fighting an uphill battle and will at worst be utterly futile.

Lesson 3: For financial disclosures to be effective, and to support financial education goals, they need to be designed to motivate consumers to act. In a system that relies heavily on disclosure to aid consumers to make informed decisions, too little thought has been given to the question of how to design financial disclosures so that they encourage consumers to make sound financial decisions. Or, more accurately, what we know about how to design such disclosures is rarely incorporated into our laws and regulations.

A perfect case in point is mutual fund cost disclosure. For years, financial educators have emphasized the importance of minimizing mutual fund costs. And yet, on CFA's survey regarding mutual fund purchase practices, just under half of respondents didn't even rate mutual fund costs as somewhat important to their purchase decision, and only a small minority rated them as very important. One problem may be the way that cost information is presented, in poorly understood percentages rather than dollar amounts and without adequate context for investors to understand where the fees they are paying fit within a scale from low to high among comparable funds. Conversely, allowing payday loan costs to be presented as dollar amount fees rather than as an annual percentage rate that could be compared to rates charged for other types of loans helps to hide the astronomical charges that are often imposed.

In short, if we want consumers and investors to make cost-conscious decisions, we need to present cost information in a way that is likely to get their attention and motivate them to act. And the same is true for other aspects of sound financial decision-making as well. In redesigning disclosures, we must look not only to ensure that they present the relevant information at the appropriate time and in an accessible format, we must also look to ensure that they present information in a way that is likely to motivate consumers to act on that information.

Lesson 4: For education campaigns to be effective, they need to be based on messages that will motivate consumers to act. Financial education campaigns often do a good job of providing people with useful information, but they may not be as effective in motivating people to change their behavior. Studies that look at consumer behavior as well as consumer knowledge, such as the *Financial Capability* study released last December, seem to indicate that, even in areas that have been the subject of significant efforts at financial education, we see frustratingly little evidence of changed behavior. That study found, for example, that altogether too many consumers don't have rainy day funds, don't plan for predictable events such as a child's college education or their own retirement, don't compare products or shop around, aren't knowledgeable about the financial products they own, and engage in numerous questionable or

risky financial practices. These are hardly areas where financial education efforts have been lacking.

While other factors may play a role (as discussed below) of undermining the effectiveness of financial education efforts in these areas, one problem may be that financial education campaigns, like financial disclosures, are designed with too little thought about how to motivate behavior change. As I noted above, the America Saves campaign was built around research that showed that, if you can get people to develop a saving plan, that relatively simple step will dramatically increase their saving level. While there is more to the program than that – including an emphasis on motivational messages, the availability of low-cost savings options, and group or one-on-one savings support – the requirement that participants identify an achievable savings goal and develop a plan to reach that goal is key component of the program. Time and again, we have found that individuals who experience success saving in one area go on to build on that success in other areas. The individual who saves successfully to eliminate credit card debts goes on to create an emergency fund. The individual who successfully saves for a down payment on a house goes on to establish a retirement fund. And, in the process, the opportunity is provided for additional financial education.

This suggests that one way to improve financial education efforts is to focus not just on the information that consumers need, but on what one or two factors are most likely to motivate them to act. In other words, more study on the front end of the factors or messages that are likely to promote the desired behavior (whether increased savings, less reliance on high-cost debt, avoidance of unnecessarily high fees, or some other desirable financial conduct) could significantly improve the outcome of financial education efforts, with or without significant increases in financial knowledge or sophistication.

Lesson 5: To be effective, financial education must be realistic about what consumers can and will do. When, as part of CFA's study of mutual fund purchase practices, we looked at the reasons why investors failed to follow the practices recommended by experts, we concluded that one reason was that the expert recommendations were unrealistic. Even if investors were financially sophisticated enough to compare the relative investment strategies, costs, and risks of various mutual funds, conscientiously following the expert advice for researching and comparing mutual funds would consume huge amounts of their time. Far more time than busy people with jobs, and families, and lives were likely to devote to the task. That is, of course, precisely why so many investors choose to invest through a broker, financial planner, or investment adviser. And to turn around and suggest, as the experts do, that investors should carefully review the recommendations they receive from those financial professionals may be sound advice, but it ignores the simple reality that the reason they hired them in the first place was precisely because they either did not want to spend the time or effort, or did not feel capable of, making those assessments.

Lesson 6: Complexity is the enemy of effective financial education. One reason it is so difficult to design effective financial education programs is that the decisions we are educating consumers and investors to make can be extraordinarily, and in some cases unnecessarily, complex. For example, a financial education campaign targeted at purchasers of annuities might suggest that, before purchasing an annuity, the consumer ensure that they fully

understand any penalties they might pay for withdrawing money from the account early. The following excerpt from a prospectus for an equity-indexed annuity demonstrates, however, the futility of that advice:

A market value adjustment is applied to withdrawals or surrenders prior to the end of the surrender charge schedule elected ... The market value adjustment equals the contract value withdrawn or surrendered in excess of the free withdrawal amount multiplied by the following:

$$\left[\frac{1 + i}{1 + j + 0.0050} \right]^{(n/12)} - 1$$

where:

i - is the Treasury Constant Maturity yield as published by the Federal Reserve on the business day prior to the contract date for the maturity matching the duration of the surrender charge period;

j - is the Treasury Constant Maturity yield as published by the Federal Reserve on the business day prior to the date of withdrawal or surrender for the maturity matching the remaining years in the surrender charge period (fractional years rounded up to the next full year);

n - is the number of complete months from the time of withdrawal or surrender to the end of the surrender charge period.

If a Treasury Constant Maturity yield for a particular maturity is not published, the yield will be interpolated between the yields for maturities that are published. If the Treasury Constant Maturity yields are no longer published, we will choose a suitable replacement, subject to any regulatory approvals and provide you with notice accordingly.

A positive market value adjustment will increase the amount withdrawn or surrendered. There is no limit on a positive market value adjustment. A negative market value adjustment will decrease the amount withdrawn or surrendered. A negative market value adjustment will not decrease the amount withdrawn or surrendered by more than the interest or index credit earnings proportionately attributable to the withdrawal or surrender amount.

The market value adjustment is waived on the free withdrawal amount, on death, and on annuitization if annuitization occurs after five contract years. The market value adjustment is not waived on the nursing home and terminal illness waivers.

This is model disclosure language in many ways. It presents the relevant information thoroughly and in relatively straightforward language. And yet, few if any consumers who took the time to read the prospectus would walk away with a clear understanding of the market adjustment penalty they might pay for early withdrawal of their funds, and I doubt you could design a financial education campaign that would enable a significant percentage of consumers to do so. You simply cannot educate consumers to understand concepts that are so complex that they require the knowledge and sophistication of a highly trained financial professional to understand them.

Lesson 7: You can't educate consumers to understand things that don't make sense.

Complexity is just one of the things that stand in the way of sound financial decision-making. Too often, our regulatory policies themselves are the problem. You cannot, for example, educate investors to understand that a financial advisor is not an investment adviser, but a financial planner is. Or that a financial advisor is not required to act in their best interest while an investment adviser is. But that is currently the case. Fortunately, the financial regulatory reform legislation pending before the Senate as this testimony is being drafted would fix at least part of that problem, by authorizing the SEC to adopt rules imposing a fiduciary duty on brokers when they give investment advice.

But the legislation solves only part of the problem. Assuming it passes, as we hope it will, and the SEC proceeds with rulemaking, the fiduciary duty for brokers will still apply only to advice about securities. Advice about insurance products will be exempt. And, in one regard, the legislation actually makes the problem worse, by exempting equity-indexed annuities from regulation as securities, and regulating them exclusively under state insurance laws. So equity-indexed annuities, which sound like securities and are sold as investments, won't be subject to a fiduciary duty (or other investor protections such as limits on excessive commissions). But a whole host of other products that compete with equity-indexed annuities, including mutual funds and variable annuities, will be regulated as securities and thus subject to these enhanced investor protections. How on earth are you supposed to design a financial education campaign to explain that? For financial education efforts to be successful, our regulations must make sense.

Lesson 8: Consumer and investor protection policies must be based on a realistic understanding of consumer and investor financial literacy as well as consumer and investor behavior. Too often, our consumer and investor protection laws are based on an ideal or theory rather than reality. For example, a basic underpinning of securities regulation is that, if you give investors adequate information, they can make informed decisions and thus protect their own interests. In some cases, however, it is simply not realistic to expect that investors will be able to make informed choices about products, such as the equity-indexed annuity cited above, whose complexity defies comprehension. Similarly, our experience suggests that it is unrealistic to expect that you can educate consumers and investors into adopting certain appropriate practices – such as carefully comparing the costs, risks, and investment strategies of different mutual funds and double-checking the recommendations they get from investment professionals – however strongly we believe that would be in their best interests. While securities laws reflect these limitations to a degree (with the suitability obligation it imposes on securities sales, for example), more thought needs to be given to the gap between theory and reality in the assumptions that underlie our financial regulations.

When CFA concluded its study of mutual fund purchase practices, we conducted just such an assessment. As a result, we adopted two changes in long-held policy positions. For years, we had opposed sale of mutual funds from an abbreviated disclosure document, arguing that it encouraged uninformed decision-making. The results of our research, however, helped to convince us that it would be misguided to continue to insist on delivery of a long-form prospectus that a large majority of investors refused to read. We felt it would be more beneficial to focus our efforts on ensuring that any abbreviated disclosure document relied on was effective in conveying the most important information mutual fund investors need to make a sound purchase decision.

Second, having warned for years that investors should carefully assess the recommendations they receive from investment professionals, we recognized that this was advice that relatively few investors were likely to heed. The implication, in our view, was that regulatory policies to protect investors from those they rely on for recommendations needed to be strengthened in several ways: 1) they need to get better information up-front to make a more informed decision of who to rely on; 2) the standard of conduct for brokers offering advice needs to be raised; and 3) regulations restricting conflicts of interest that encourage those who sell investment products to recommend products that are not in the clients' best interest need to be strengthened. While these had always been priorities for CFA, our research conveyed a renewed sense of urgency to those efforts. Moreover, we concluded that, if the vast majority of investors will rely on others for recommendations of investments, educating investors to make an informed choice of who to rely on for recommendations was a higher priority than trying to educate them about how to select appropriate investment products. Unfortunately, this is an area where, so far at least, both disclosure requirements and investment education efforts are sorely lacking.

Lesson 9: One way to reduce complexity, and improve financial education in the process, is to adopt consistent policies across industry and product lines. It would be far easier to design effective financial education campaigns if one didn't have to adopt a different approach and a different set of messages for each industry and each product line. Regulatory policy that applies common principles across industries and product lines would simplify that process considerably. If, for example, all financial advice – whether about mortgages, or insurance, or securities – were subject to a fiduciary duty to act in the best interest of the customer, it would be far easier to educate around that policy. The same could be said if all financial product sales outside an advisory relationship were subject to a suitability obligation. And a huge financial education benefit would be gained from providing some degree of uniformity in the way we approach the timing, content and format of financial disclosures both for service providers and for products that are sold for essentially the same financial purposes. While there are limits to that approach, this is an area that deserves far greater attention than it has received to date.

Conclusion

If our goal is to help consumers and investors make sound financial decisions, the first responsibility of the federal government is to ensure that the financial marketplace supports that goal. Are good choices available? Do consumers, for example, have access to reasonably priced

short-term loans from reputable lenders so they won't be dependent on payday lenders charging exorbitant fees? Even where good choices are available, is the market overwhelmed by bad choices? Do the incentives in the system encourage the intermediaries that consumers and investors rely on for financial products and services to act for or against their customers' interests? Are the disclosures consumers and investors rely on presented in a way and at a point in the process that encourages informed decision-making? Until you resolve those public policy questions, financial literacy efforts will be swimming against too strong a current to be effective. Only when the regulatory policies themselves support sound financial decision-making can financial education be truly effective in promoting that goal.

Testimony of Lynne Egan

Montana Deputy Securities Commissioner and
Member, NASAA Investor Education Committee

Before the

Subcommittee on Oversight of Government Management, the Federal
Workforce, and the District of Columbia

Senate Committee on Homeland Security and Governmental Affairs

“The Federal Government’s Role in Empowering Americans to Make
Informed Financial Decisions”

July 15, 2010

Chairman Akaka, Ranking Member Voinovich, and Members of the Subcommittee,

I'm Lynne Egan, Montana Deputy Securities Commissioner and a member of the Investor Education Committee of the North American Securities Administrators Association, Inc. (NASAA).¹ Tung Chan, Hawaii Commissioner of Securities, chairs the Investor Education Committee and regrets that she is unable to be here today. I am honored to present the views of state securities regulators on how to empower Americans to make informed financial decisions.

State Securities Regulatory Overview

The securities administrators in your states are responsible for enforcing state securities laws, licensing firms and investment professionals, registering certain securities offerings, examining broker-dealers and investment advisers, and providing investor education programs and materials to your constituents. Ten of my colleagues are appointed by state Secretaries of State, five fall under the jurisdiction of their states' Attorneys General, some are independent commissions and others, like me, are appointed by their Governors and Cabinet officials.

Financial Education Role of State Securities Regulators

State securities regulators recognized long ago that education is a key weapon in the fight against investment fraud, and as a result, the NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of our members. The Investor Education Section, along with a network of professionals from across the NASAA membership, is responsible for developing,

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators Association, Inc., was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, the U.S. Virgin Islands, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

coordinating, delivering, and supporting financial education initiatives that can be utilized by state securities regulators in their ongoing endeavor to improve the level of financial literacy in their jurisdictions. Currently, the Section has six focus areas: Affinity and Military Outreach, Youth Outreach, Senior Outreach, Informed Investor Outreach, Research and Coordination, and a new area dedicated to women and their families called Women in Transition Outreach.

Most state and provincial securities regulators have established investor education departments or divisions within their agencies. The result is an effective network of dedicated professionals delivering financial education at the grassroots level. In 2009, NASAA members reached more than 250,000 consumers through more than 1,800 investor education presentations. Our financial education professionals can be found at work in such venues as the classroom, the workplace, senior centers, and at trade and professional organization events. They partner with teachers, employers, and peer-based volunteer groups to deliver financial education to our constituents of all ages.

Federal Financial Literacy Efforts

NASAA supported the creation of the Financial Literacy and Education Commission (FLEC), and continues to actively participate with FLEC at roundtables, summits, and conferences that have brought individuals and organizations together to discuss ideas and outreach. In the past, the FLEC suffered from a small number of staff and limited funding that provided constraints to its effectiveness.

While the FLEC has taken positive steps, the progress has been slow but deliberate in integrating the Commission's national strategy for financial literacy. One challenge to be addressed is how to organize the existing financial literacy programs of the FLEC's members and how best to reach a consensus on a harmonized message. Another challenge is disseminating the programs and information to the public from a centralized location in Washington, DC. In this regard NASAA members should be utilized by the

FLEC to mobilize their respective grassroots networks to reach more people in need of financial education.

Coordination of Efforts and Partnerships

NASAA was honored to be invited as a panelist in the inaugural meeting of the National Financial Education Network (Network) in 2007. At that time, the FLEC stated the Network is intended to create an open dialogue and advance financial education at the state and local level. Ongoing activity has been limited, and NASAA encourages the FLEC to move forward in establishing effective ways of connecting state and local parties both electronically and through face-to-face meetings throughout the year. This continuous dialogue and communication could be facilitated electronically through a listserv, website, quarterly conference calls, and in-person meetings.

Currently the structure of the Network is less formalized than the FLEC or the President's Advisory Council on Financial Capability (Council). This presents a constraint which doesn't afford the Network the same structure to officially notify the public of its meetings, facilitate in-person meetings and conference calls, and incorporate calls to action. We recommend the Network receive resources similar to their counterparts on the FLEC and the Council.

It is essential that the Network be fully integrated into the FLEC framework, thus utilizing and mobilizing the vast resources of both state, private, and nonprofit organizations and their extensive operations. This would ensure that events held across the nation include all members of the financial literacy community that wish to participate. Creation of a liaison from the Network to report and coordinate activities with the FLEC and Council could help facilitate this integration.

NASAA members provide unbiased, relevant, and timely information for anyone interested in the investment markets, which is critical in light of the notoriety of recent investment frauds. Our members also disseminate this information to the public at no

cost given our vast grassroots network of investment education coordinators across North America. One example of how the network could facilitate this outreach is to coordinate joint events with both Treasury and state officials as participants. That way, we could leverage resources, and members of the audience have a local point of contact for future questions and requests for information.

NASAA agrees with the GAO's assessment in 2006 that "greater collaboration by the Commission with state and local governments may be particularly important given the critical role that school districts can play in improving financial literacy."² Further consideration should also be given to the GAO's recommendation that "the Commission consider how the federal government can influence or incentivize states or school districts to include financial education in school curriculum."

The President's Advisory Council on Financial Capability also offers an opportunity to coordinate the efforts of NASAA's grassroots network with the initiatives undertaken at the national level. We recommend a state securities regulator be appointed by the President to serve on the Council to utilize the resources and experience of state securities regulators and their staffs at the local level to pursue new programs and partnerships.

Complete coordination with federal, state, and local government and private organizations should not be considered just a step in the national strategy, but viewed as a crucial and integral part of the FLEC's mandate. The existing grassroots network available to the Commission provides the entire picture of financial literacy efforts that we believe Congress intended when creating the FLEC. The many participants in the financial education community and the considerable amount of resources that they provide are remarkable. The FLEC has a unique opportunity to unite these groups, foster

² U.S. Government Accountability Office. (2006, December). *Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy*. (Publication No. GAO-07-100). Retrieved from GAO Reports Main Page via GPO Access database: <http://www.gao.gov/new.items/d07100.pdf>

dialogue, and promote cooperation. Nothing short of complete cooperation with these groups will fully constitute a fully integrated National Financial Literacy Strategy.

Specific Examples of Successful State and Provincial Programs

To better frame the nature of our work in the area of financial education and why integration of the National Financial Education Network would prove mutually beneficial to the Financial Literacy Education Commission members, we share highlights of several of our financial education initiatives focusing on youth, pre-retirees, seniors, and the military.

Youth Outreach

Teaching youth the principles of sound investing and fraud prevention is the thrust of a NASAA-produced program targeted to high school students titled, "*FSI: Fraud Scene Investigator*." *FSI* is an interactive online investor education program that teaches and empowers students how to detect and stop investment fraud. The *FSI* program is designed to help students learn how to fight fraud firsthand, by delving into newspaper stock tables, researching companies through online news, and deciphering the truth of an investment from fraudulent sales pitches. In the initial *FSI* program titled, "Suitable Investments," students help uncover a million-dollar fraud in progress and put the mysterious con man, "Mr. X," behind bars. NASAA's grassroots investor education network is working with educators to integrate the *FSI* program into schools across the nation. Teachers from Arizona to West Virginia report students are getting hooked on the program, teachers like the curriculum, and students want to know what's next in the interactive game.

Senior Outreach

In the area of Senior Outreach, state securities regulators have developed partnerships with adult protective services workers and leading medical associations to increase

awareness among doctors and medical professionals of elder financial abuse. The program educates professionals who provide front-line elder care about how to refer at-risk seniors to the appropriate authorities, whether it is to report investment fraud to securities regulators or suspected abuse to adult protective services workers. State securities regulators helped develop "*Pocket Guide on Elder Investment Fraud and Financial Exploitation*" for clinicians, which serves as a quick reference tool for medical practitioners outlining the red flags of investment fraud, tips for discussing financial capacity with senior patients, and resources for reporting suspected abuse. NASAA also assisted in the development of "*Elder Investment Fraud and Financial Exploitation*" a brochure for senior patients and their families highlighting ways to protect themselves from elder financial fraud and where to get help.

In Montana, a state that is vast in size and small in population, we have found the most effective way to reach our senior population is in face-to-face meetings. We have an investor education campaign entitled "Securities Fraud: How to Smell a Rat" that we take on the road each September and May, traveling thousands of miles to remote locations throughout the state. Events are held primarily in senior centers, and all include a free lunch or dinner, an hour presentation on securities fraud, and a wrap-up game of "Smell a Rat Bingo" that tests the seniors on our fraud presentation material. During the last year, our staff has driven nearly 4,000 miles and has provided to thousands of Montana seniors the tools necessary to protect themselves from financial fraud.

Affinity and Military Outreach

In times of heightened deployment, United States service members have become targets of financial scams. These scams can directly affect unit morale and readiness as well as military service members' credit history and military career. In response to fraud among military service members and their families, our member in New Jersey created a fraud prevention guide tailored to the military called "*A Salute to Smart Investing*." The 28-page guide acts as a one-stop resource for military members with information on safe investing, balancing risk and return, retirement planning, red flags for fraud, scams that

target the military, and a listing of state securities regulators nationwide. The guide has been distributed to more than 90,000 military members across four branches of the military at installations around the world by NASAA members. Many of our NASAA members continue to combat investment fraud with specialized military community outreach programs, a few include the Alabama *Protect Alabama Troops Program* (PATs); the California *Troops Against Predatory Scams (TAPS)*, and the Pennsylvania *Armed Services Assets Protection Program* (Operation ASAP). NASAA has formed a specialized outreach project group with members from various states to continue, develop, and implement new military community outreach programs worldwide; actions include working as a non-profit partner with the Department of Defense Financial Readiness Campaign.

NASAA is ramping up efforts to reach out to ethnic communities that may lack access to financial education resources due to limited English proficiency and have a potential to become victims of affinity fraud schemes. NASAA worked with the Department of Labor on a Spanish-language version of our joint retirement planning workbook, "*Taking the Mystery Out of Retirement*." NASAA will be distributing this guide and other Spanish-language investor education materials at the 2010 national conference of the League of United Latin American Citizens (LULAC).

Partnering Relationships/Collaborations

NASAA looks for opportunities to join forces with other members of the financial education community. NASAA believes it is essential to pool our resources and share our expertise on these joint ventures.

Recently, NASAA partnered with AARP to combat the rising investment fraud among seniors with the "*Free Lunch Monitor*" program, which seeks to empower seniors to fight fraud. This national campaign is designed to monitor whether senior investors are being pressured into purchasing inappropriate or unsuitable investments such as equity indexed annuities. The *FLM* program gives individuals an opportunity to fight back against

unscrupulous promoters by reporting to state securities authorities possibilities of questionable investment practices in their communities.

NASAA joined the Consumer Federation of America for the third year as a partner in their annual “America Saves Week” campaign bringing a fraud prevention and investor protection focus to the national saving initiative. During the 2010 “America Saves Week,” NASAA launched a new investor education program designed to bring retirement planning assistance to the workplace. The “*Planning Your Retirement with Confidence*” program helps prepare pre-retirees for the financial challenges they will face in retirement through workplace seminars that address the specific retirement planning needs of individuals at every stage of their working lives – early career, mid-career, near retirement, and retirement.

NASAA members utilize other avenues of educational outreach at events such as the Senior Olympics and the National Council on Aging Conference, and in presentations to the Military at the AFCPE conference and annual meeting of the Office of Personal Management (OPM) Federal Benefit Officers. On a regular basis, our members work with the American Savings Education Council (ASEC), the Councils for Economic Education, and are involved in state-level Jump\$tart coalitions.

State securities regulators meet annually with the financial education professionals from the Securities and Exchange Commission to engage in a dialogue about our respective programs and progress in the ongoing quest to improve financial literacy. This meeting gives us an opportunity to learn what’s new or under development, helps us identify gaps in financial education, leverage resources of our financial education colleagues, and further hone best practices.

Resources

The NASAA network of financial education professionals can be an excellent delivery vehicle for state/federal collaborative education programs.

NASAA offers a wide range of investor education resources on its website. Visitors to the site will find a wealth of information to help them build both financial knowledge and financial security. Among other educational experiences on the NASAA Web site, visitors can utilize the Senior Investor Resource Center and the NASAA Fraud Center, and locate state-specific resources available through individual NASAA members.

NASAA has developed a series of backgrounders containing information on complicated and topical securities matters. The new Informed Investor Series includes product briefs on headline-grabbing investments such as derivatives, variable annuities, and gold.

NASAA's investor education podcast series, "*The Alert Investor*," is a valuable resource for the public to learn about investing wisely, avoiding fraud and how to exercise their rights as investors. The series, available on iTunes, has grown in popularity and currently features 12 episodes and has been downloaded nearly 10,000 times by listeners. These resources, along with brochures, investor alerts and other financial education materials are available in the Investor Education Section of the NASAA website, www.nasaa.org. In addition, NASAA developed and funds the Investing Online Resource Center, www.investingonline.org.

Conclusion

State securities regulators have traditionally been and remain an extremely effective resource in the pursuit of greater financial literacy. They represent a nationwide network of highly trained, unbiased, non-commercial experts in financial services, products, and fraud avoidance. They are on the front lines of financial education initiatives in every state, translating Wall Street to Main Street for small investors throughout the country. NASAA and its members welcome the opportunity to work more closely with both the Financial Literacy Education Commission and Subcommittee members in their ongoing efforts to improve the level of financial literacy throughout the nation.

BACKGROUND
THE FEDERAL GOVERNMENT'S ROLE IN EMPOWERING AMERICANS TO
MAKING INFORMED FINANCIAL DECISIONS
JULY 15, 2010

BACKGROUND

Government and private studies, statistics, and national surveys indicate that far too many Americans of all ages lack the knowledge and skills necessary to make informed decisions regarding their personal finances. Without a sufficient understanding of economics and personal finance, individuals have struggled to manage their finances appropriately, effectively evaluate credit opportunities, successfully invest for long-term financial goals, and cope with difficult financial situations.

This hearing will examine the progress of the activities of the Financial Literacy and Education Commission (FLEC) and address the status and effectiveness of Federal financial education programs.

FEDERAL FINANCIAL LITERACY INITIATIVES

Financial Literacy and Education Commission

The Financial Literacy and Education Commission (FLEC) was created by Congress in 2003 through passage of the *Financial Literacy and Education Improvement Act* under Title V of the *Fair and Accurate Credit Transactions Act of 2003* (P.L. 108-159). Congress designated the U.S. Department of the Treasury's (Treasury) Office of Financial Education as the entity responsible for coordinating the activities of the FLEC, which is chaired by the Treasury Secretary and composed of the heads of 20 additional Federal agencies.¹

The FLEC has worked with its member Federal agencies to improve financial literacy and education and provide free, reliable financial information to the American public through the MyMoney.gov website, and the toll-free 1-888-MyMoney hotline. The FLEC also developed and maintains a national strategy on financial education; reviews Federal financial literacy and education initiatives; and coordinates the promotion of Federal financial literacy efforts,

¹ The additional Federal agencies: the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Reserve; the Federal Deposit Insurance Corporation; the National Credit Union Administration; the Securities and Exchange Commission; the Departments of Education, Agriculture, Defense, Health and Human Services, Housing and Urban Development, Labor, and Veterans Affairs; the Federal Trade Commission; the General Services Administration; the Small Business Administration; the Social Security Administration; the Commodity Futures Trading Commission; the Office of Personnel Management; and the White House Office of Public Engagement.

including partnerships between Federal, state, and local governments, and non-profit organizations. The FLEC is required to hold at least one public meeting every four months.²

Office of Personnel Management's Retirement Financial Literacy and Education Strategy

The *Thrift Savings Plan Open Elections Act of 2004* (P.L. 108-469) required OPM to develop and implement a retirement financial literacy and education strategy for Federal employees as part of the retirement counseling offered by OPM under 5 U.S.C. § 8350. The strategy must educate Federal employees on the need for retirement savings and investment, provide information on how to plan for retirement, and include guidance on calculating the retirement investment needed to meet retirement goals.

The OPM retirement financial education strategy is based on a model of financial education titled *Retirement Readiness NOW*, which brings together information and training on the Federal benefits programs with a broader holistic approach about what information employees need to know in order to set and achieve retirement goals.

This strategy broadens the focus of pre-retirement education in Federal agencies, moving beyond basic information about the benefits provided by the Government, as an employer, to address broader financial education needs of employees. Rather than being a "near retirement" event, the strategy considers retirement financial literacy and education as a dynamic, career-long process.³

Federal Deposit Insurance Corporation: Economic Inclusion Initiatives

Congress created the Federal Deposit Insurance Corporation (FDIC) in 1933 to restore public confidence in the nation's banking system. The FDIC is dedicated to ensuring consumers have access to basic banking and other financial services. The FDIC is currently undertaking several initiatives aimed at bring the unbanked and underbanked populations into the financial mainstream:

- *Advisory Committee on Economic Inclusion*
This cross-functional committee provides the FDIC with counsel and recommendations on important initiatives focused on expanding access to banking services by underserved populations.
- *Survey of Banks' Efforts to Serve the Unbanked and Underbanked*
A nationwide survey of FDIC-insured banks to assess their efforts to serve unbanked and underbanked individuals and families, published in February 2009.

² U.S. Department of the Treasury, *Office of Financial Education, Financial Literacy and Education Commission Background*, <<http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/commission/>>.

³ U.S. Office of Personnel Management, *Retirement Financial Literacy and Education Strategy*, <<http://www.opm.gov/retire/pre/botdg/training/finlit.asp#opmresponsibilities>>.

- *Alliance for Economic Inclusion*
FDIC's national initiative to establish broad-based coalitions of financial institutions, community-based organizations, and other partners in markets across the country.
- *Small-Dollar Loan Pilot Program*
Identified effective and replicable business practices to help banks incorporate affordable small-dollar loans into their other mainstream banking services.
- *Money Smart*
A comprehensive financial education curriculum that helps individuals outside the financial mainstream develop practical financial skills and positive banking relationships.⁴

Social Security Administration Special Initiative to Encourage Saving

Recognizing the importance of promoting financial literacy, especially in regard to saving for retirement, the U.S. Social Security Administration's (SSA) 2008-2013 Strategic Plan included the Special Initiative to Encourage Saving. As part of this new initiative, in September 2009 SSA established a new Financial Literacy Research Consortium (FLRC) composed of non-partisan, multidisciplinary research centers at Boston College, the RAND Corporation, and the University of Wisconsin.

The FLRC is supported through five-year cooperative agreements, and is tasked with developing innovative, research-based communications and programs to help Americans plan and save for a secure retirement. With approximately \$7.6 million in first-year SSA funding, the FLRC is working on tailoring products that target Americans at different stages of their working lives, with a special emphasis being placed on helping traditionally underserved populations better understand how to plan for a secure retirement.⁵

ADDITIONAL INFORMATION

Financial Literacy and Education and Commission website:

www.mymoney.gov/

The Department of the Treasury's Office of Financial Education website:

www.treas.gov/offices/domestic-finance/financial-institution/fin-education/

U.S. Office of Personnel Management's Retirement Financial Literacy & Education Strategy:

<http://www.opm.gov/retire/pre/botdg/training/finlit.asp>

⁴ Federal Deposit Insurance Corporation, *Initiatives*, December 2009, <<http://economicinclusion.gov/initiatives.html>>.

⁵ U.S. Social Security Administration, Office of Retirement Policy, *Financial Literacy Initiative*, December 4, 2009, <<http://www.ssa.gov/retirementpolicy/financial-literacy.html>>.

Federal Deposit Insurance Corporation's National Survey of Unbanked and Underbanked Households:

http://www.fdic.gov/householdsurvey/full_report.pdf

Additional Information can be found at: <http://www.economicinclusion.gov/>

Social Security Administration's Financial Literacy Research Consortium website:

<http://www.socialsecurity.gov/retirementpolicy/financial-literacy.html>

The President's Advisory Council on Financial Literacy

<http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/council/>

Financial Literacy and Education Summit 2010

<http://www.practicalmoneyskills.com/summit2010/webcast.php>

GAO's December 2006 Report to Congressional Committees, *Financial Literacy and Education Commission: Further Progress Needed to Ensure an Effective National Strategy (GAO-07-100)*:

www.gao.gov/highlights/d07100high.pdf

GAO's April 29, 2009, testimony by Richard J. Hillman, Managing Director of Financial Markets and Community Investment, before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, on the Financial Literacy and Education Commission:

<http://www.gao.gov/new.items/d09638t.pdf>

Post-Hearing Questions for the Record

Submitted to the Honorable Michael S. Barr

From Senator Daniel K. Akaka

**“The Federal Government’s Role in Empowering
Americans to Make Informed Financial Decisions”**

July 15, 2010

- 1. The Dodd-Frank Wall Street Reform and Consumer Protection Act creates an Office of Financial Education within the newly created Bureau of Consumer Financial Protection, and places the Director of the Bureau as vice chair of the Financial Literacy and Education Commission (FLEC).**

What must be done to ensure effective interagency coordination within the Commission?

In July 2009, the Department of the Treasury brought all 20 member agencies together to identify key priorities for the FLEC. Based in large part on our Congressional mandate (Title V of the Fair and Accurate Credit Transactions Act of 2003), the FLEC members agreed on four areas of strategic focus and created working groups for each: National Strategy, Outreach and Communications, Core Competencies, and Research and Evaluation. Each group has made considerable progress over the past year, with important leadership and involvement from all of the FLEC member agencies. Through the use of working groups, the FLEC has been able to enhance its performance and interagency coordination.

The Department of the Treasury has worked collaboratively with other agencies on a wide array of financial capability projects, including the development of a new national strategy for financial literacy, the establishment of common core competencies to address the lack of consistency in the field, and the redesign of www.mymoney.gov.

In order to enhance quality and reduce overlap and duplication, the Department of the Treasury will ensure the same collaborative relationship with the Bureau of Consumer Financial Protection. The Department of the Treasury looks forward to working with the Bureau to further enhance financial education and literacy in the United States.

- 2. Over the past few years, progress has been made to improve www.mymoney.gov. What must be done to further increase the awareness, effectiveness, and utilization of this website?**

This past April, the FLEC launched its redesigned www.mymoney.gov. The new site, available in both English and Spanish, has enhanced interactive features and tools to provide more resources to Americans seeking information that can inform their personal financial

decisions. The Department of the Treasury and the FLEC plan to initiate a second phase of changes to build on this new foundation, including adding a research clearinghouse and interactive tools such as self-assessments of financial knowledge and behavior. The Department of the Treasury is also in the process of implementing measurement tools to track website usage and efficacy.

Additionally, Treasury has been working with the FLEC's Outreach and Communications Working Group to increase awareness and utilization of the website. For example, an article about the My Money website was sent to 10,000 newspapers and publications around the country and more than 10,000 My Money bookmarks have been distributed by FLEC members at various events.

To illustrate a comparison, during the entire 2009 Fiscal Year the previous website received more than 8 million hits and the redesigned website has already received more than 7 million hits in just the time period from May through June 2010, a 70% increase in the number of hits per month.

3. The Fiscal Year 2010 Consolidated Appropriations Act for Treasury's Office of Financial Education contained an additional \$1 million in funds. Please describe how this funding has been utilized and describe how additional resources could improve Federal financial literacy efforts.

Treasury's OFE received \$2.6 million in FY 2010, which included \$1 million above its FY 2009 budget provided by Congress specifically to improve financial education efforts aimed at elementary and high schools, as well as efforts of the FLEC, including support for the revision of the national strategy and the development of goals and measurable objectives. We are using these funds pursuant to Congressional guidance. More specifically, this additional \$1 million was spent on:

K-12 Efforts:

- With respect to financial education efforts aimed at high-school age youth, the Department of the Treasury is planning to conduct the Financial Capability Challenge once again in the spring of 2011. To further enhance the current Challenge, Treasury is developing a teacher training program as well as improving the online Educator Toolkit.

FLEC Activities:

- Resources were allocated to further enhance MyMoney.gov, including establishing a research clearinghouse, adding interactive tools, and implementing measurement tools to evaluate the performance of the site.
- Funding was allocated towards the development of core competencies which are part of the new national strategy currently under development. On behalf of FLEC, Treasury is in the process of developing core competencies for both consumers and

financial education providers to address the current lack of consistency in the field. The ultimate goal of this program is to put the core competencies into a format and language that are both easily accessible and easily remembered, analogous to the food pyramid. This task will be accomplished by working with a contractor.

- Funds were also allocated to comply with statutory mandates including the Credit CARD Act of 2009 and the Higher Education Act of 2008. In compliance with the Credit CARD Act of 2009, this included working with the Department of Education on a review of all FLEC agencies' financial and economic literacy education programs. Pursuant to the Higher Education Act of 2008, the OFE, in conjunction with the Departments of Education and Agriculture, and the FLEC, will be working to identify and evaluate financial education programs for college students. Both reports will be disseminated widely.

In addition to supporting the goals of the new national strategy for financial literacy (currently under development), the Department of the Treasury has identified other areas of focus such as conducting research to determine the impact of financial education and to identify innovative delivery strategies.

**Post-Hearing Questions for the Record
Submitted to the Honorable Christine M. Griffin
From Senator Daniel K. Akaka**

**“The Federal Government’s Role in Empowering
Americans to Make Informed Financial Decisions”
July 15, 2010**

1. **In 2009 the U.S. Office of Personnel Management (OPM) implemented two financial literacy measures: a government-wide baseline of employee benefits knowledge, and a retirement readiness index.**

Please describe how OPM has used this information to assess the retirement readiness of the Federal workforce.

As part of OPM’s new Strategic Plan we have shifted the focus slightly from measuring employees’ benefits knowledge to identifying the roles and responsibilities of benefits officers; defining standards for agency benefit officers and measuring their results. We will publish a Benefits Scorecard to track how agencies are meeting these standards. We believe this will focus attention more directly on the employing agency that has responsibility to provide benefits information and training to their employees.

The Retirement Readiness Profile is a web-based planning tool that provides employees with a way to measure how well they are preparing for retirement. The questionnaire is designed to examine the three areas of Retirement Readiness NOW (Networking, Overall Health, and Wealth), and the steps they are taking to get ready for retirement. Their answers are presented as a Retirement Readiness Index.

We released a beta, or test, version of the Retirement Readiness Profile last winter. We are currently incorporating feedback from benefits officers who used the beta version and will release the updated Retirement Readiness Profile this fall.

2. **To address gaps in financial literacy knowledge of the Federal workforce, has OPM targeted additional development and training programs to address identified weaknesses?**

OPM has focused our efforts on providing training programs to agency benefits officers so they are better able to furnish information on benefits and counseling services to enable Federal employees to make fully informed benefits decisions.

In partnership with FDIC, we’ve provided train-the-trainer training and course materials for their Money Smart program to over 200 benefits officers. Other examples of our benefits officer training program are workshops on conducting early, mid-career and pre-retirement seminars for employees and on how to use retirement estimates as a retirement planning and counseling tool.

3. **OPM has developed tools, such as the Federal Ballpark Estimate, that enable employees to better understand their benefits and effectively plan for retirement.**

During Fiscal Year 2008, over 400,000 Federal Ballpark Estimates were completed on OPM's website. How is OPM working to increase utilization of this tool, and what else must be done to help Federal employees make better informed retirement decisions?

OPM's efforts have focused on benefits officers since they have direct day-to-day opportunities to help employees. Our annual benefits officers Retirement Financial Education Symposium has speakers and workshops to help benefits officers more effectively communicate benefits and retirement planning information to their employees. For example, this year's symposium focused on better understanding how to effectively communicate to the various generations in the work place. We work with agencies such as the Federal Retirement Thrift Investment Board, to include direct links to the Federal Ballpark Estimate on their web sites.

4. **OPM is responsible for identifying financial education resources and creating partnerships to leverage the use of those materials by agencies for their employees.**

Please describe the steps OPM is taking to expand partnerships with nonprofit financial education organizations, Federal Executive Boards, and employee organizations, to ensure federal employees are receiving and using available financial education resources?

OPM is working to expand partnerships that leverage available resources. Our partnership with FDIC has trained over 200 benefits officers to be able to conduct the Money Smart program. We are currently working with the Pittsburgh FEB to pilot a financial education module in their pre-retirement seminars. The goal of the pilot is to make the module available for other FEBs and agencies to use in their training. OPM co-chairs the Government Interagency Group (GIG), a consortium of Federal agencies who develop and provide financial education information and programs. The goal of the GIG is to have a forum where agencies can identify opportunities where they can share their resources. We are working with the National Endowment for Financial Education to present a workshop on their Financial Education Evaluation Online Toolkit at our next Retirement Financial Education Symposium.

5. **In addition to being an active member of the Financial Literacy and Education Commission (FLEC), OPM is also the co-chair of the National Financial Education Network. This network created an online database of state and local government financial education programs to serve as a place to share best practices and resources.**

How does OPM measure the effectiveness of this database, and have stakeholders provided feedback on the efficacy of the database?

Because the database is managed by non-federal partners, the recent evaluation of FLEC agencies did not include an assessment of the database in the evaluation. The Treasury

Department and OPM are working with members of the Network to assess areas of need and priorities to enhance the activities of the Network in the months ahead.

6. **Direct involvement by Federal employees is a critical factor in determining how successful OPM and agencies will be in improving employees' retirement readiness.**

Please describe how OPM and agencies are working to ensure employees not only have access to tools and information -- but that they actually use these resources to make informed financial retirement decisions?

The challenge of all financial education programs is to get the consumers, in our case Federal employees, to use the tools and take action on the information provided. Our approach has two foci—make it readily available and make it immediately practical. Working with agencies to have financial education fairs and web sites such as DOD's Financial Fitness site keeps the information in front of employees so they have ready access. Our weekly series of Retirement Readiness Tips distributed to over 10,000 subscribers to our email list provides a quick tip and link that employees can immediately use and understand. Recent tips have included: information on electronic check conversion; a test of your insurance IQ; and FTC Scam Watch.

**Post-Hearing Questions for the Record
Submitted to the Honorable Brenda Dann-Messier
From Senator Daniel K. Akaka**

**“The Federal Government’s Role in Empowering Americans to Make Informed Financial
Decisions”
July 15, 2010**

1. Under the proposed Fiscal year 2011 budget, what can the Department of Education do to ensure that resources are dedicated to fund Excellence in Economic Education (EEE) activities?

The Department believes increasing student financial literacy is an important component of the Administration’s effort to graduate more students, which is why we are planning to expand our work in this area across all segments of students, including K-12. Programs that support financial literacy would be eligible for grants out of the requested \$265 million for our proposed Effective Teaching and Learning for a Well-Rounded Education program.

In addition, the Department would grant continuation awards for the current winner of the Excellence in Economic Education program, which is in the middle of an award cycle.

2. I am encouraged that the Department of Education (ED) is looking at tracking the activities and effectiveness of a number of programs, including TRIO, GEAR UP, College Access Challenge Grant, and FSA programs.

Please identify additional work on measurable outcomes or research on evidence-based practices that would be helpful.

Tracking which TRIO, GEAR UP, and College Access Challenge Grant grantees use funds for financial and economic literacy activities would be helpful. While this would place some additional reporting requirements on grantees, it would provide us with a better understanding on the portions of the funds currently used in these programs on activities aimed at increasing financial and economic literacy. Establishing a baseline is an important first step to establishing targeted goals.

Another useful tool would be to conduct research and evaluation projects to determine the effectiveness of current financial and economic literacy activities funded by these programs in order to better determine which activities should be continued or scaled up. This will allow us to more effectively target taxpayer dollars and will lead to better outcomes for students. Under the Department’s Financial Education for College Access and Success program, which doubles our investment in K-12 financial literacy, we require applicants to leverage their federal funds by taking into account other programs, such as TRIO, GEAR UP, and College Access Challenge Grant programs, when designing project activities

and the evaluation of the effects of the program on participant outcomes. It is our intent that this will lead to increased understanding of the effectiveness of financial literacy instruction and teacher training on students' ability to make sound personal financial decisions and obtain greater access to, and completion of, postsecondary education.

In the Federal Student Aid (FSA) office we are administering a pilot project to determine if providing high schools and school districts access to information about whether students have completed a FAFSA increases FAFSA completion and college enrollment. We are encouraged by the early results, and hope to scale up implementation of this project.

A previous non-Federal research project showed that providing assistance with FAFSA completion increased FAFSA completion and college enrollment rates, so we are talking to the IRS and community organizations about increasing the number of Volunteer Income Tax Assistance sites that also provide FAFSA help.

We are also interested in learning more about the effectiveness of loan counseling required of all students taking federal student loans. While new regulations were published in July to align entrance and exit counseling rules with the HEOA, we know little about how variations in implementation of loan counseling – frequency, content, delivery method, etc. – change outcomes for students.

3. The numbers of students participating in the National Financial Capability Challenge are impressive. Please share what the Department has learned so far and what plans it has to expand or improve the program.

The Department was pleased to have more than 76,000 students and 2,500 teachers across the country participate in the 2010 National Financial Capability Challenge, led by the Treasury Department. We plan to continue to work closely with Treasury to further increase participation in the future. By announcing the 2011 Challenge earlier in the fall, and expanding the window for students to take the voluntary online exam from three weeks to four, we believe we will have more students and teachers participate in the next Challenge. We also anticipate a charitable foundation to announce that it will make available college scholarships for a small number of high-performing students who participate in the 2011 Challenge, which will provide added incentive for teachers and students to participate.

We also will work closely with Members of Congress to enlist their help with increasing participation in their States and districts. Since there is significant selection bias associated with the National Financial Capability Challenge (teachers decide whether or not to have their students participate), it is difficult to make generalizations based on the results. Therefore, a future goal is to have a scientific-based project. To that end, the National Center for Education Statistics (NCES) at the Department is working with the Organization for Economic Cooperation and Development (OECD) to review and field test a financial literacy assessment that will be offered to countries participating in the 2012

Program for International Student Assessment (PISA) data collection. If NCES finds that the final instrument is suitable, we will consider implementing the 2012 PISA financial literacy assessment in the United States, which would provide us with statistically valid data. Resources are available for a field test, and we believe there is no downside to including the financial literacy assessment in the PISA used in our schools. We expect, in addition to administering the 2012 PISA financial literacy assessment, to continue supporting Treasury with the National Financial Capability Challenge. We believe having both instruments would allow us to reach more teachers and students, and it would stimulate increased financial education in our classrooms.

4. The economic challenges facing adult students dramatically differ from those encountered by younger students. What must be done to ensure that adult students have access to the financial literacy programs that are the most relevant and useful to them?

Improving financial literacy for adult students is an integral part of our strategy for achieving the President's 2020 college completion goal, and is a critical component of our nation's long-term economic security and sustainability efforts. We must reach out to working adults without a postsecondary certificate or degree who can benefit from investing in further education and help them understand the various funding opportunities available to them under Federal financial aid programs. We must help them become financially literate so that they better understand the opportunities and risks associated with managing their finances. FAFSA completion and college coaching could be integrated into programs for low—and moderate-income adults, such as the Volunteer Income Tax Assistance Program (VITA), Temporary Assistance for Needy Families (TANF), and Unemployment Insurance.

More than 120 million Americans, approximately 55 percent of adults, possess only basic or below-basic quantitative literacy skills. This makes them vulnerable to making poor financial decisions that compound and have major consequences. For example, a 2009 FDIC study showed that about 25 percent of households are “unbanked” (those without federally-insured bank or credit union accounts), or “underbanked” (those who may have an account but at least occasionally use non-traditional financial services). These households are using costly alternative financial services such as non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops. This is why financial access initiatives, such as Treasury's Bank On USA initiative proposed in the President's FY 2011 Budget, are so important. We are working with Treasury to explore possible connections between Bank On USA and community colleges, which serve a large number of adult students and hopefully will play a significant role in achieving the President's 2020 college completion goal.

Financial literacy instruction must also be contextualized and practically applicable, and should reflect an understanding of the varying skill levels of adults. Many existing resources are at a level of literacy that is too high for adults who have only basic or below basic numeracy and literacy skills. We will continue to encourage developers of financial literacy curricula for adults to take this into account.

**Response to questions from
the Honorable Daniel K. Akaka
by Sandra Thompson, Director of Supervision and Consumer Protection,
Federal Deposit Insurance Corporation**

Q1. The Alliance for Economic Inclusion had helped open more than 160,000 new bank accounts and over 115,000 consumers have been provided financial education opportunities.

What lessons have been learned from the Alliance's efforts to help open accounts and provide education?

A1. Our AEI experience provides insight into what may be key variables to success in encouraging and motivating consumers to open and sustain new accounts, as well as the important role financial education can play in encouraging consumers to establish relationships with mainstream financial institutions. These valuable lessons include the following:

- Local markets differ and, to be most effective, it is important to understand each market and who the unbanked or underserved are in that market as well as their needs.
- Today's technology (kiosk, cell phone banking, and mobile banking) provides tremendous potential to deliver financial services to the unbanked, and we will continue to pursue the use of technology to promote financial access.
- Encouraging and getting a consumer to open an account is only a start. The next step is providing the consumer with a good banking experience that will encourage him or her to keep the account open. This includes providing the consumer with safe and convenient services that affordably meet his or her banking needs and that are devoid of expensive fees and overdraft charges.

Q2: Almost a decade has passed since the Federal Deposit Insurance Corporation (FDIC) created Money Smart. As you noted in your testimony, surveys of consumers who have participated in the Money Smart financial education program indicate that after completing the Money Smart, participants were more likely to open a deposit account, save money, use and adhere to a budget, and have increased confidence in their financial abilities.

Since then, what else has the FDIC learned about the effectiveness of the Money Smart curriculum?

A2: The longitudinal evaluation of the adult *Money Smart* curriculum identified several other statistically significant changes in participants' behavior. For example, a majority of those surveyed reported an increase in personal savings, a decrease in debt, a better understanding of

financial principles, and an increased willingness to comparison shop for financial services after completing *Money Smart*.

In addition, several case studies identified in the *FDIC's 2008 National Survey of Banks' Efforts to Serve the Unbanked and Underbanked* reported positive outcomes (new accounts) from outreach using *Money Smart*. Interestingly, one of these institutions also participated in the FDIC's Small-Dollar Loan Pilot and has attributed its *Money Smart*-based educational component as the "key to [the small dollar loan program's] success."

This research clearly demonstrates that positive outcomes can result from training based on the *Money Smart* curriculum. However, FDIC also learned that the effectiveness of the curriculum, to some degree, is a function of other factors, including the motivation of students, effectiveness of the instructor, and opportunities for class participants to implement newly learned concepts after training (e.g., access to appropriate banking products and services). To help practitioners understand how to maximize the effectiveness of *Money Smart*, the FDIC publishes the quarterly *Money Smart News* that offers practical advice, best practices, lessons learned, and success stories for financial educators. To view past editions, visit www.fdic.gov/consumers/consumer/moneysmart/newsletter/success_stories/index.html.

Q3. As a long-time advocate of the need to increase access to banking services for underserved populations, I was pleased FDIC extended the charter for the Advisory Committee on Economic Inclusion. The Committee's current strategic plan identifies four program area goals for Financial Literacy.

Please provide an update on the progress made for each goal, and share any key findings that have been made so far.

A3: The Financial Literacy work group's first goal was to offer recommendations for consideration by the FDIC to enhance youth financial education. These recommendations include expanding partnerships with various public and private organizations, leveraging bank involvement in financial education, training teachers, offering innovative and timely financial education resources, and financial education research, such as our planned longitudinal evaluation of the *Money Smart for Young Adults* curriculum.

The second goal was to develop a framework for a financial educator voluntary certification program. The FDIC later was advised by the Advisory Committee that this (or any) voluntary federal certification program for financial educators could dissuade the delivery of financial education and duplicate private certification programs. Based on recommendations from the Advisory Committee, the FDIC is focusing its resources on teacher training initiatives.

The third goal was to examine financial education efforts during the past 25 years and consider how financial education best practices observed by the government can be more broadly disseminated to practitioners. Subsequently, the FDIC learned that the National Endowment for Financial Education (NEFE) is developing an annotated bibliography on best practices. Once finalized, the FDIC plans to explore ways to help the NEFE disseminate this resource.

The fourth goal is addressed in the response to the next question.

Q4. The Advisory Committee on Economic Inclusion is examining whether there are regulatory impediments to making changes that would promote outcome-based financial education.

Has the Advisory Committee identified specific regulatory impediments or incentives that could further encourage the delivery of financial education?

A4. The FDIC Advisory Committee explored the existence of regulatory impediments or additional benefits that could be offered to outcome-based financial education.

The FDIC conducted a literature review and consulted with several external stakeholders to better understand any regulatory impediments to outcome-based financial education. No regulatory impediments were identified for the FDIC to amend unilaterally. However, opportunities exist to continue to ensure that low- and moderate-income individuals who complete financial education workshops have access to safe, low-cost transactional and savings accounts. On August 10, 2010, the FDIC Board of Directors approved a pilot program to evaluate the feasibility of insured depository institutions offering safe, low-cost transactional and savings accounts. Under this pilot, participating institutions will offer electronic deposit accounts with product features identified in the FDIC Model Safe Accounts Template.

As a positive regulatory incentive to encourage financial education, an institution can potentially earn positive consideration for financial education under the Community Reinvestment Act (CRA). The FDIC and the other federal bank regulatory agencies are holding a series of joint public hearings¹ to receive public comments as the agencies consider how to update the CRA regulations to reflect changes in the financial services industry, changes in how banking services are delivered to consumers, and current housing and community development needs. After any updates are made to the CRA regulations, the FDIC will consider creating a one-page reference guide that outlines what consideration is provided for financial education during the CRA evaluation process.

Q5. FDIC chairs the Financial Literacy and Education Commission's Core Competencies Subcommittee. Has the Subcommittee identified a set of core financial principles consumers should know, and basic concepts providers should cover?

A5. The Department of the Treasury, in conjunction with the Financial Literacy and Education Commission's Core Competencies Subcommittee chaired by the FDIC, worked closely with a group of experts in the financial education field, including researchers and practitioners, to identify five core areas:

- Earning
- Spending

¹ <http://www.ffiec.gov/cra/pdf/hearingspr.pdf>

- Saving and investing
- Borrowing
- Protecting against risk.

The group then identified specific core competencies for each of these five areas based on established research and practices. These core competencies will be released by Treasury for public comment in the near future. The development of these Core Competencies is a fundamental step in establishing a clear understanding about what individuals should know and the basic concepts program providers should cover.

**Post-Hearing Questions for the Record
Submitted to Ms. Marianna LaCanfora
From Senator Daniel K. Akaka**

**“The Federal Government’s Role in Empowering
Americans to Make Informed Financial Decisions”
July 15, 2010**

1. **In your testimony, you noted that only a fraction of Americans know their full retirement age. Without this knowledge, Americans will not be able to make informed decisions on when to claim retirement benefits.**

What must be done to ensure that all workers are aware of their full retirement age, so they can make informed retirement decisions?

The *Social Security Statement* that we mail each year to workers nationwide contains personalized information about Social Security benefits, including the person’s full retirement age. We use feedback from public surveys and other measurement techniques to make improvements or modifications to the *Statement*.

We also created a research program to test what works. Our Financial Literacy Research Consortium (FLRC) supports research by experts outside the agency to design and test ways to improve financial literacy and foster collaboration with other Federal agencies with similar goals. The FLRC consists of cooperative agreements supporting research centers at three institutions: Boston College, the RAND Corporation, and the University of Wisconsin-Madison. The centers started work in October 2009 and will report the results of their first year projects at a public conference in November 2010. One project underway will help evaluate the different ways of presenting the choice of what age to begin Social Security retirement benefits. We will use findings from the FLRC research to refine and focus the information provided and identify effective ways to deliver it.

2. **The U.S. Social Security Administration (SSA) chairs the Financial Literacy and Education Commission (FLEC) Research and Evaluation working group. One of the challenges facing the FLEC is the development of measures to evaluate the impact of member agency programs on financial capability and outcomes.**

Please describe the steps SSA is taking to assist the Department of the Treasury in the development of these measures.

SSA is helping Treasury develop content for a research resource clearinghouse that will include tools, metrics, data resources and summaries of research findings to support evaluation of financial capability at the individual, program, and national levels. These research resources will be made available to the public through the FLEC website, <http://mymoney.gov/>

We also expect the FLRC to be a key contributor to the FLEC group and its research and evaluation goals, and to serve as a valuable source of experts for the FLEC.

3. **Dealing with the most severe recession since the Great Depression, Americans are faced with significant economic challenges and limited resources. Therefore, it is vital that Federal financial literacy efforts are both effective and efficient.**

How is SSA working with FLEC member organizations to coordinate and eliminate duplication of research efforts?

We have already held discussions with several FLEC member agencies including Treasury, the Department of Health and Human Services, the Securities and Exchange Commission, the Department of Education, and the Department of Labor, to reduce the likelihood of duplication and foster collaboration and coordination of activities.

We report to the FLEC about the research sponsored by the FLRC. Beyond our interactions with FLEC, we are working to eliminate duplication in general by interacting with private funders such as the Financial Industry Regulatory Authority Investor Education Foundation and the National Endowment for Financial Education.

The FLEC Research and Evaluation Working Group, headed by SSA staff, is working with Treasury to develop a research resource clearinghouse that would include a coordinated database of financial literacy research initiatives sponsored by FLEC member agencies. This working group is also recommending the establishment of a group of research experts that would facilitate interactions among FLEC agencies and the research community.

The FLEC Communication and Outreach Working Group, also headed by SSA staff, is developing a monthly newsletter, a repository for archiving and updating financial literacy related information from the FLEC agencies, and a FLEC directory with relevant contact information.

Conducting ongoing reviews of research projects is also an important part of our program management goal to reduce duplication. Program and grants management staff review quarterly reports to ensure we achieve our objectives. All research project applications must include a statement that describes all relevant projects and funding the researchers receive from any source (public or private). This is a useful tool for identifying any funding overlap for research projects and eliminating duplication of effort.

SSA, in conjunction with the three FLRC centers, uses an expert Panel of Outside Scholars to comment on current research projects and suggest areas for future work. This panel of third party experts is very diverse – they are practitioners, non-profit organization and government policymakers, and academics specializing in different disciplines. Having such a diverse panel significantly widens the reach of available consultative expertise and access to knowledge about existing research activities and cutting edge initiatives. Receiving timely input from experts in the field on an ongoing basis reduces the likelihood of duplication of effort and fosters the development of innovative projects.

4. Please describe your top three recommendations on how we can improve the FLEC.

Based on our participation in the FLEC, our top recommendations for improvement are:

- Establish a research resource clearinghouse to support the development of effective programs based on research and evaluation. The clearinghouse would provide metrics to measure program impact, information about useful data sources and relevant research findings, and describe active Federal research programs. The clearinghouse resources would improve program development and coordinate research activities.
- Improve outreach to achieve the FLEC objectives of coordinating financial education efforts throughout the Federal Government, supporting the private sector in providing financial literacy programs, and encouraging the synchronization of efforts between the public and private sectors.
- Establish a research network to support interactions between the government and the research community on financial literacy research and program development. These interactions would provide Federal agencies an opportunity to get valuable research insights that could improve the effectiveness of Federal financial literacy programs. A research network would also allow FLEC agencies to communicate high priority research topics directly to the research community to encourage new work and partnerships.

Coordinating Federal financial literacy activities and research across the Federal Government is a key FLEC objective. Our significant involvement in FLEC working groups has given us the opportunity to make these recommendations. As we note in our responses above, we are currently working with Treasury to implement these recommendations.

**Post-Hearing Questions for the Record
Submitted to Ms. Barbara Roper
From Senator Daniel K. Akaka**

**“The Federal Government’s Role in Empowering
Americans to Make Informed Financial Decisions”
July 15, 2010**

1. Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act Conference Report commissions a U.S. Government Accountability Office (GAO) study on mutual fund advertising and efforts to promote informed financial decisions.

As you noted in your testimony, the Consumer Federation of America (CFA) has conducted a prior study on mutual fund purchase practices. How can GAO build on CFA’s findings to produce relevant and effective post-study recommendations for developing sound regulations and policy?

CFA’s study on Mutual Fund Purchase Practices (available on the CFA website [here](#)) included a survey question regarding written information sources investors rely on in selecting mutual funds. Although the survey found that investors do very little independent research regarding the funds they purchase, the survey findings did not support the conventional wisdom that many investors simply select funds from advertisements. Strong majorities (71-75 percent) in all three purchase categories – direct purchasers, purchasers through professionals, and workplace purchasers – said ads were either not very or not at all influential on their purchase decision. Only six percent in each category indicated advertisements were either somewhat or very important to their purchase decision. In conducting its study, the GAO could provide valuable insight to this question of how mutual fund advertisements relate to other information sources in providing the total mix of information investors consider when making a fund selection.

Although investors indicate that they do not rely heavily on mutual fund ads in making their purchase decisions, it is nonetheless important that mutual fund advertisements not present information in ways that are misleading or will promote misunderstanding among mutual fund investors. This is particularly true since investors cannot be relied on to carefully read other disclosure documents that might prevent the misleading information in a more even-handed fashion. Only among direct purchasers did a majority (55%) rate the fund prospectus as at least somewhat important to their purchase decision. Fund summaries, ranking services, and magazine articles were read by even fewer investors. The GAO study could evaluate the degree to which mutual fund ads present information – particularly with regard to such factors as past performance and risks – in ways that either promote or detract from investors’ understanding of these important issues.

The study found that investors did disappointingly little to research the funds they purchase, and gave relatively little consideration to factors financial experts view as vitally important. For example, virtually all financial experts consider a fund’s risks and its expenses to be among the most important factors for investors to consider when selecting a mutual fund. They typically

identify the volatility of a fund's past returns as one of the best measures of risk. But on the CFA survey, just under a third of current mutual fund investors (32 percent) considered expenses to be very important when making their most recent mutual fund purchase, the same number considered volatility to be very important, and just under four in ten (39 percent) considered the fund's risks very important. Approximately one-third of investors (31 percent) did not consider a fund's risks even somewhat important. More than a third (35 percent) did not consider the volatility of its past returns even somewhat important. And four in ten (41 percent) did not consider a fund's expenses even somewhat important. Investors gave higher priority to the reputation of the fund company or fund manager and to the fund's past performance compared with that of other funds, factors most financial experts consider to be somewhat less important.

The GAO study could look at whether fund advertisements promote understanding (or misunderstanding) of these key factors. Further, it could seek to identify whether there are certain practices that are particularly noteworthy, either because they present the desired information in a particularly clear and straightforward fashion or because they are most likely to undermine informed decision-making by mutual fund investors.

Ultimately, however, the clear message of the CFA mutual fund study is that investors are extremely reliant on investment professionals for recommendations and advice. For that reason, we believe the most important thing Congress and the SEC can do to promote better mutual fund investor decision-making is to improve regulation of these financial professionals, in particular by imposing a fiduciary duty on all personalized investment advice and securities recommendations.

2. I am interested in the decision of CFA to revise its policy position with regard to consumer disclosures. According to your written statement, CFA's position now holds that abbreviated yet effective disclosure documents may in fact be more effective at conveying the most important information to consumers when compared to long-form prospectuses.

What information must an abbreviated disclosure document contain for it to effectively promote sound financial decisions?

As I noted above, CFA's study on Mutual Fund Purchase Practices was designed to look at how closely investors follow commonly recommended practices in purchasing mutual funds. What we found was that, while there is virtually unanimous agreement among experts on the factors investors should consider and the information sources they should consult, mutual fund investors' actual purchase practices did not remotely resemble those recommended by experts. Among other things, when we asked the entire survey sample about their preferred sources of information, assuming the documents were readily available, a briefer summary document was viewed most favorably, rated as being of great interest by 23 percent and as of some or great interest by 46 percent. The prospectus followed, considered of great interest by 20 percent and of some or great interest by 35 percent. The prospectus's negatives, however, were very high. More than four in ten (41 percent) rated the prospectus as of little or no interest, compared with just 26 percent for the briefer fund summary document.

Based on these and other findings, CFA has concluded that a well designed summary document could be beneficial in promoting informed investment decision-making. Before I respond to your question about the appropriate content for such a document, I'd like to mention two other factors that are essential if such a document is to effectively promote sound financial decisions – timing and presentation. An abbreviated disclosure document can only promote sound financial decisions if investors actually receive it at a time when it can be incorporated into their purchase decision and in a form that is readily accessible to them. Point of sale is already too late. Disclosure documents should be delivered at the point of recommendation, something email delivery makes both possible and affordable as it has not been in the past. Although we believe email delivery (including delivery of a link to an online document) is beneficial, we are strongly opposed to industry suggestions that the Commission adopt an “access equals delivery” approach in this area. Nothing in our survey or past experience suggests that average retail investors – left to their own devices – will actively seek out this information on the Internet so long as it is made available to them. On the contrary, our research supports the conclusion that we must make it as easy as possible for investors to obtain and use the information we believe they should factor into their purchase decision.

We believe the most important information for investors to understand in purchasing a mutual fund relates to cost, investment strategy, and risks. In each case, however, the information must be presented in a way that promotes investor understanding. For example, we believe investors need comparative cost information – e.g., how much more or less they would pay over certain periods compared with category averages – in order to truly understand the importance of fees. Similarly, a technical discussion of investment strategy is likely to be of limited benefit to a typical investor. Instead, such discussions should be framed of the type of investment goal (income, long-term growth, capital preservation) for which the fund is or is not appropriate. By the same token, discussions of risk should not consist of a boilerplate listing of types of risk the fund may be exposed to. Instead, it should be framed in terms of the risk to principle, risk to income, risk to long-term growth. If performance information is included, it should at a minimum include some measure of the relative volatility of past performance as an added indication of risk.

Ultimately, however, we do not believe even the best designed abbreviated disclosure document can be expected to displace recommendations as the most valued source of information among investors. This is yet one more reason why we believe the appropriate regulation of investment professionals is of paramount importance.

