



2008 ANNUAL REPORT TO THE PRESIDENT

of the

**PRESIDENT'S ADVISORY COUNCIL
ON FINANCIAL LITERACY**

January 6, 2009

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

The Honorable Henry Paulson, Jr.
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Mr. President, Secretary Paulson, Members of Congress and fellow citizens:

On January 22, 2008, President George W. Bush signed an Executive Order creating, for the first time, a President's Advisory Council on Financial Literacy. The charge was simple, yet daunting: improve financial literacy among all Americans. After an exciting year of work toward this goal, I believe we have made tremendous progress at laying the groundwork for a comprehensive effort to achieve this goal. I am pleased, on behalf of the Council, to present the first Annual Report to the President, which details the progress we made this year and outlines a series of recommendations for future initiatives that will help the country achieve the level of financial literacy that is imperative in today's global economy.

We believe the market turmoil and credit crisis of 2008 underscore the critical need for improved financial literacy in the United States. While there are many causes to the economic problems facing the country, it is undeniable that a lack of financial literacy is a contributing factor. Far too many Americans entered into home and other loan agreements that they did not understand and ultimately could not afford. More broadly, the lack of basic skills such as how to create and maintain a budget, understand credit, or save for the future are preventing millions of Americans from taking advantage of our vibrant economic system. And tens of millions of our citizens are either unbanked or underserved, which leaves them outside the economic mainstream. Addressing these issues is critical to the future of our nation's economy.

The recommendations in this report focus on improving financial literacy among children of all ages, from pre-school through post-secondary education; supporting and enhancing the increasingly important role of employers in providing financial education to their employees; increasing access to financial services for the unbanked and underserved; undertaking critical research in the area of financial literacy; and increasing public awareness both of the problem and of the many resources available to combat it.

We urge the incoming Administration and the new Congress to consider seriously these recommendations and to work together to implement them. This Council stands ready to partner with the new Administration in any way it can to further the aims outlined in this report. Particularly in these times of economic uncertainty, improving financial literacy must be a national goal that unites us all.

Sincerely,



Charles R. Schwab, Chairman

TABLE OF CONTENTS

Executive Summary.....	4
Chapter I: A Year of Accomplishment.....	9
Chapter II: Enhancing Youth Financial Education.....	15
Chapter III: The Increasing Importance of Financial Literacy in the Workplace.....	24
Chapter IV: Helping the Unbanked and the Underserved.....	30
Chapter V: Defining What It Means to Be “Financially Literate”.....	35
Chapter VI: Helping Americans Understand and Improve Their Own Financial Literacy...	39
Conclusion.....	45
Appendix A: Members of the President’s Advisory Council on Financial Literacy.....	46
Appendix B: Committee Membership.....	47
Appendix C: Acknowledgements.....	48
Endnotes.....	51

DRAFT

Executive Summary

On January 22, 2008, President George W. Bush signed Executive Order 13455, creating the 16-member President's Advisory Council on Financial Literacy. The Council Members represent a diversity of organizations, including corporations, non-profits, faith-based groups, state government agencies, regulatory authorities, and academic institutions. Each member brings extraordinary experience and expertise to the table; most members have spent much of their careers dedicated to the goal of improving financial literacy in this country. In addition to their expertise, all of the Council members bring a willingness to listen to the opinions and input from a variety of sources. The recommendations in this report reflect the enormous amount of feedback from the public that has been received.

The Executive Order creating the Council established, for the first time, that it is “the policy of the federal government to encourage financial literacy among the American people.” The President and the Secretary of the Treasury tasked the Council to work with the public and private sector to help increase financial education efforts for youth in school and for adults in the workplace, increase access to financial services, establish measures of national financial literacy, conduct research on financial knowledge and to help strengthen public and private sector financial education programs.

The Council has embraced these assignments with enthusiasm – our first year of existence has been an extraordinarily busy and productive one. At its first meeting, the Council created five committees to focus on key areas of financial literacy and execute the goals outlined in the President's Executive Order: the Youth Committee, the Workplace Committee, the Outreach Committee, the Research Committee, and the Committee on the Underserved. Through that structure, the Council has been able to address effectively a wide variety of financial literacy issues and put in place a number of programs that are already making a substantial difference for many Americans by giving them the skills needed to participate more fully in our economy.

As the nation plunged into an unprecedented financial and credit crisis that quickly engulfed the entire economic system this year, the creation of the Council could not have come at a more opportune time. While the crisis has many causes, it is undeniable that financial illiteracy is one of the root causes. Far too many Americans signed loan agreements they did not understand. Sadly, far too many Americans do not have the basic financial skills necessary to develop and maintain a budget, to understand credit, to understand investment vehicles, or to take advantage of our banking system. It is essential to provide basic financial education that allows people to better navigate an economic crisis such as this one.

Financial illiteracy is not an issue unique to any one population. It affects everyone – men and women, young and old, across all racial and socio-economic lines. No longer can we stand by and ignore this problem. The economic future of the United States depends on it.

In this report, the Council details its accomplishments during its first year of existence, and makes a series of recommendations for steps that should be taken in the coming year to enhance the state of financial literacy in the United States.

Accomplishments

Among the key accomplishments of the Council in 2008:

1. Launched the first-ever National Financial Literacy Challenge, administered by the Treasury Department, an exam on personal finance issues that was taken by more than 46,000 American high school students in May 2008. A second Challenge was made available to teachers in November 2008, and more than 75,000 students took the exam.
2. Endorsed “Money Math: Lessons for Life,” an easy-to-use, readily available financial literacy curriculum that integrates personal finance concepts into math lessons for middle-school students, which has been downloaded more than 92,000 times from the Council’s website.
3. Created the “President’s Council Financial Literacy Corps,” a partnership with the USA Freedom Corps that provides a centralized resource for information on financial literacy volunteer opportunities across the country
4. Endorsed the launch of the “Community Financial Access Pilot,” an eight-community pilot program that partners community-based organizations, government resources and local financial institutions together to move previously unbanked and underserved individuals into a relationship with a financial institution.
5. Endorsed a “Statement of Principles and Recommendations for the Future of Subprime Lending,” which included three foundational principles: 1) that financial literacy must be at the foundation of all subprime lending; 2) that a key goal of all subprime lending must be to move subprime borrowers to prime borrowers; and 3) that lending products should have straightforward disclosures and be understandable to the consumer.
6. Endorsed the creation of the Workplace Honor Roll program, to honor employers that have innovative and effective programs to provide financial education to employees, and the creation of the Post-Secondary Honor Roll program, to recognize colleges and universities that are providing high-quality financial education to students (while this has been recommended to Treasury, it is still in the implementation stages).
7. Approved Treasury’s consulting on the first-ever national survey of financial capability and literacy of adult consumers.
8. Collaborated with the U.S. Small Business Administration on the establishment of the SBA Office of Entrepreneurial Education.
9. Solicited comments from the public on the best ways to improve financial literacy in the United States and received more than 150 comment letters, with a wide variety of information and suggestions.
10. Hosted or participated in more than a dozen town hall meetings, roundtables, conferences and “listening sessions,” in which one or more Council members met with local community, business, education and non-profit leaders to explore ways to enhance financial literacy in the community.
11. Participated in the first-ever White House Roundtable on Financial Literacy, which brought together nearly 150 government officials, policymakers, business leaders, foundation representatives, philanthropists and faith-based and community leaders in a robust discussion of the most effective means to improve financial literacy.
12. Collaborated with Financial Literacy and Education Commission, which comprises 20 federal agencies that have financial education programs, by appointing a liaison and

alternative liaison to attend Commission meetings and ensure that the lines of communication remain open between the two panels.

As the Council looks ahead to 2009 and the leadership of a new Administration, it proposes a series of recommendations to be undertaken in the new year.

Recommendations

Expand and improve financial education for students from kindergarten through post-secondary education.

Recommendation 1 – The United States Congress or state legislatures should mandate financial education in all schools for students in grades Kindergarten through 12. For those schools without access to curricula, encourage the adoption of “Money Math: Lessons for Life,” a ready-to-use, middle-school curriculum created by the Department of the Treasury and endorsed by the Council.

Recommendation 2 – The United States Department of the Treasury should institutionalize and expand the National Financial Literacy Challenge, with the goal of significantly increasing participation in this personal finance contest for high school students.

Recommendation 3 – The United States Department of the Treasury should implement the Post-Secondary Financial Education Honor Roll program, approved by the full Council in 2008, to encourage best practices in financial education at colleges and universities.

Recommendation 4 – The President should direct the United States Department of the Treasury and the United States Department of Education to take the necessary steps to require college students to take a more comprehensive course in financial literacy (or pass a competency test) than the present entrance and exit counseling requirements, as a condition of receiving Federally funded or Federally guaranteed student loans.

Recommendation 5 – The United States Department of the Treasury should promote the availability of financial education resources for parents, caregivers, and teachers to use with pre-school and early elementary school children.

Support the increasingly important role of employers as providers and conduits of financial education to their employees.

Recommendation 6 – The United States Congress should explore one or more tax incentives to encourage employers to provide financial education in the workplace.

Recommendation 7 – The United States Department of the Treasury should implement the Workplace Financial Education Honor Roll program, approved by the full Council in 2008.

Recommendation 8 – The United States Department of the Treasury should create an Internet-based resource center on the federal government’s financial literacy website,

www.mymoney.gov for human resource professionals and employers that consolidates the best financial education information and resources.

Increase access to financial services for the millions of unbanked and underserved Americans.

Recommendation 9 – The United States Congress should require financial institutions to provide every adult American with access to an electronic, debit card-accessible depository account protected by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

Recommendation 10 – The United States Congress should provide Federal funding for any non-profit organizations working on community-based financial literacy programs and for state and local governments demonstrating leadership in financial education for their residents.

Recommendations 11-12 – Identify and promote a standardized set of skills and behaviors that a financial education program should teach an individual.

Recommendation 11 – The private sector, state and local governments, and nonprofits should adopt the Council’s definitions for “financial literacy” and “financial education,” so that programmatic decisions are based on a common understanding of the terms. The Council adopts the Financial Literacy and Education Commission’s definitions of those two terms. Specifically, the Council defines “financial literacy” as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being” and defines “financial education” as “the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being.”

Recommendation 12 – The United States Department of the Treasury should identify and standardize the specific skills that a person should have upon completion of a comprehensive financial literacy program and explore the creation of a certification program for such programs and for instructors of programs that meet the criteria.

Promote more awareness among Americans of the state of financial literacy generally and of their own financial literacy, and dedicate more resources toward educating Americans how to improve on the results.

Recommendation 13 – Colleges, universities, and other research entities should execute critical research into the state of financial literacy and the most effective measures to increase financial literacy in the United States.

Recommendation 14 – Nonprofits should create and distribute a self-administered “National Financial Check-Up” that would allow Americans to assess their own financial knowledge, and provide links to trustworthy sources of information to fill in any gaps.

Recommendation 15 – The United States Congress should appropriate funds to the United States Department of the Treasury to coordinate active and ongoing media and marketing outreach to promote more widespread knowledge of general financial education concepts among the American people. These efforts should include direct outreach as well as multi-media campaigns.

DRAFT

Chapter I
A Year of Accomplishment

DRAFT

The President's Advisory Council on Financial Literacy convened its first public meeting in Washington on February 13, 2008. Among its first acts was to divide into several Committees, comprised of Council members who bring particular expertise to the Committee subjects. Five Committees were formed: Financial Literacy for Youth, Financial Literacy in the Workplace, Financial Access for the Underserved, Financial Education Research, and Outreach¹. The Council subsequently met by telephone on May 5, 2008; July 29, 2008; and December 4, 2008; and held in-person meetings in Washington, D.C., on June 18, 2008, and October 14, 2008. Committees met, both by phone and in person, on a regular basis.

Initiatives Approved

Over the course of these public meetings, the Council formally approved a number of initiatives:

1. **High School Financial Literacy Exam** – The Council recommended and promoted the first-ever National Financial Literacy Challenge (administered by the Treasury Department), a 35-question exam on personal finance issues that was taken by more than 46,000 American high school students in May 2008. Students achieving scores in the top quartile received a Certificate of Achievement from the Treasury Department, and students answering at least 33 of 35 questions correctly received a medal from the Treasury Department. In addition, the Charles Schwab Foundation offered college scholarships to 10 students from around the country who achieved a perfect score on the exam. While the exam was a success, the average score was 56% -- another indicator that more rigorous financial education is needed in our schools. A second Challenge was made available to teachers in November 2008 and was taken by more than 75,000 students.)
2. **Middle School Curriculum** – The Council endorsed “Money Math: Lessons for Life” an easy-to-use, readily available financial literacy curriculum for middle-school students that has been downloaded more than 159,000 times from the Treasury’s website. In addition, 4,600 copies have been distributed in hard copy. The four-unit, 86-page curriculum uses real-life examples to help teachers integrate personal finance topics into math classes. The Council endorsed Money Math as not only an effective educational resource, but an outstanding example of a public-private partnership. Money Math was written by academics associated with the University of Missouri-St. Louis; produced by the Jump\$tart Coalition, a non-profit organization; funded by Citigroup, a financial services corporation; and distributed by the Treasury Department, an agency of the federal government.

In addition, the Council Chair and Vice-Chair sent a personal letter to more than 14,000 school superintendents around the country, making them aware of Money Math and the National Financial Literacy Challenge and asking that they implement these programs in their school districts.

3. **Financial Literacy Volunteer Corps** – The Council partnered with USA Freedom Corps to create the “President’s Council Financial Literacy Corps.” On the federal government’s volunteer web site (www.volunteer.gov), there is now a centralized

resource for information on financial literacy volunteer opportunities across the country, for use both by individuals and organizations seeking to offer financial education volunteer services and those seeking to receive financial education.

4. **Community Financial Access Pilot** – The Council endorsed the Treasury Department’s launching of the “Community Financial Access Pilot” (CFAP). The eight-community pilot program partners community-based organizations, government resources and local financial institutions together to move previously unbanked and underserved individuals into a relationship with a financial institution and provide relevant financial education to those individuals. Council Member Rev. Robert Lee and his organization, Fresh Ministries, Inc., were partners in one of the pilot cities, Jacksonville, Fla. Each pilot community is developing initiatives using local resource partners to address critical local needs. In Jacksonville, for example, the collaboration includes the City of Jacksonville, community-based organizations, banks, credit unions, regulators, educational institutions, and many others working on comprehensive and sustainable community economic development efforts. The Jacksonville initiative’s planned activities include providing low-cost Second-Chance accounts and related financial education to residents needing a fresh start; increased financial education for youth and adults, especially in predominantly low- and moderate-income neighborhoods; increased savings accounts and new accounts for the unbanked and underbanked; increased credit counseling services and other financial literacy programs; increased coordination among local partners working on financial education and asset development ventures; and new financial services and innovative financial products in some of the local communities. We expect to have data on accounts opened, aggregate account balances, numbers receiving financial education and other key measures for the quarter ending December 31.

In the seven other communities across the country, the Treasury is working with local partners to build similar sustainable approaches that work to meet the financial needs of low- and moderate-income residents. The Treasury Department also shares information about the CFAP and similar initiatives with interested organizations and communities around the country, and has developed a webpage, www.treas.gov/cfap to serve as a resource on this topic.

5. **Statement on Incorporating Financial Literacy into Subprime Lending** – The Council endorsed a “Statement of Principles and Recommendations for the Future of Subprime Lending,” which included three foundational principles: 1) that financial literacy must be at the foundation of all subprime lending; 2) that a key goal of all subprime lending must be to move subprime borrowers to prime borrowers; and 3) that lending products should have straightforward disclosures and be understandable to the consumer. The Council’s statement also outlines specific proposals about the kind of financial education subprime borrowers should receive and the information that should be contained in a simplified disclosure form.

The Council’s recommendations are the result of an effort by the Council’s Committee on the Underserved to explore ways to strengthen the future of subprime lending in the

wake of the housing crisis. Chaired by Council Vice Chairman John Hope Bryant, the Underserved Committee convened an advisory group of regulators, lenders and other experts on May 28, 2008, to discuss ideas about how to improve the subprime lending process. That discussion, and subsequent discussion among Council members, led to the development of the set of recommendations approved by the full Council.

6. **Recognition Program for Employers and Post-Secondary Institutions** – The Council recommended to Treasury the creation of the Workplace Honor Roll program, to honor employers that have innovative and effective programs to provide financial education to employees, and the Post-Secondary Honor Roll program, to recognize colleges and universities that are providing high-quality financial education to students. The Council has approved the criteria by which colleges and universities will be selected.
7. **National Financial Capability and Literacy Research** – The Council recommended that the Treasury Department consult with and support a private-sector research initiative that will examine financial literacy among U.S. adults and how they fare in handling their finances. The survey will be unique in its scale and in its focus on the combined effect of knowledge, skills and attitudes on the behavior of adult consumers in the U.S. Preliminary survey data is expected to be released to researchers and the general public in early 2009. The Financial Industry Regulatory Authority (FINRA) Investor Education Foundation – chaired by Council Member Mary Schapiro – is designing, funding and conducting the survey, with input from Treasury. Survey working group partners include Dartmouth College Professor Annamaria Lusardi and a team from Applied Research and Consulting, the Employee Benefit Research Institute and the American Institute of Certified Public Accountants.
8. **Office of Entrepreneurial Education** – The Council collaborated with the U.S. Small Business Administration on the establishment of the SBA Office of Entrepreneurial Education. The new office offers resources and support for individuals seeking to start a small business.

Public Outreach

Council Members take seriously their role as representatives of the public on this critical issue. Numerous efforts were made during the year to solicit public input and to communicate with the public about the Council's initiatives.

1. Council Members hosted or participated in more than a dozen town hall meetings, "listening sessions," conferences, roundtables and other public events in which one or more Council members met with local community, business, education and non-profit leaders to explore ways to enhance financial literacy in the community. Among the events:
 - a. Roundtable and town hall in Oakland, Calif., featuring Treasury Secretary Henry Paulson, U.S. Treasurer Anna Cabral, Oakland Mayor Don Dellums, Council

Chairman Charles Schwab, Council Vice Chairman John Hope Bryant, and Council Member Don McGrath.

- b. Council Vice Chairman John Hope Bryant made presentations at a variety of events, including the OECD International Conference on Financial Education; the FDIC Forum on the Future of Subprime Lending; a conference of the Georgia Consortium for Financial Literacy; and a roundtable convened by the Federal Reserve Board of Atlanta.
 - c. Council Member Ted Daniels and his organization, the Society for Financial Education and Professional Development, included a Listening Session at the organization's First Annual Financial Literacy Leadership Conference. Several Council Members and Council Executive Director Dan Iannicola, Jr., participated.
 - d. Council Member and Research Committee Chair Dr. Tahira Hira convened a listening session attended by several Council members in Des Moines, Iowa.
 - e. Council Member David Mancl hosted a roundtable discussion in Madison, Wisconsin.
 - f. Council Member Janet Parker hosted a listening session in Birmingham, Alabama.
 - g. Council members participated in a listening session hosted by Rep. Sheila Jackson-Lee in Houston, Texas.
 - h. Council Vice Chairman John Hope Bryant hosted listening sessions in Los Angeles, Calif., and Washington, D.C.
2. Council Members participated in the first-ever White House Roundtable on Financial Literacy, which brought together nearly 150 government officials, policymakers, business leaders, foundation representatives, philanthropists and faith-based and community leaders in a discussion of the most effective means to improve financial literacy.
 3. Council Members participated in a Financial Literacy Roundtable meeting convened by Secretary of Housing and Urban Development (HUD) Steve Preston. The HUD Roundtable focused on the role of financial literacy in underserved communities and strategies to help Americans facing the threat of foreclosure.
 4. The Council agreed that it was important to collaborate with the Financial Literacy and Education Commission, which comprises 20 federal agencies that have financial education programs. The Council named a liaison and alternative liaison to the Commission, at least one of whom attends each Commission meeting to ensure that the lines of communication remain open between the two panels.
 5. The Council solicited comments from the public on the best ways to improve financial literacy in the United States and received more than 150 comment letters, with a wide variety of suggestions about effective strategies and programs. The Council also solicited public comments on two specific initiatives, the Community Financial Access Pilot program and the Workplace Honor Roll Program. Comments from organizations and individuals have been incorporated into the recommendations in this report.

The Council believes that one of its most important responsibilities is this interaction with the public, both through in-person representation at financial literacy events around the country and through the solicitation of public comments on various proposals. While the individual Council members bring their own years of expertise to the table, we acknowledge that there are literally thousands of dedicated organizations and individuals engaged in financial education in communities around the country. The more the Council hears about programs that are effective, the more the panel can use its status to ensure that best practices are shared, that the best programs are supported, and that the American people are made aware of the existence of such programs.

DRAFT

Chapter II
**Enhancing Youth
Financial Education**

DRAFT

By almost any measure, today's schoolchildren are ill-equipped by our education system to understand personal finance and make their way in the modern financial world. Research shows that teens and young adults do not know enough about personal finance. Their rising debt and debt problems, along with their poor inclination to save, substantiate—and, perhaps, are the result of—what the test scores show. Meanwhile, most students still graduate from high school without any formal classroom education in personal finance. Key to improving the financial literacy of all Americans is ensuring that our young people have more exposure, at all stages of their educational journey, to formal financial literacy training. The Council's recommendations in this area are focused on ensuring that financial education becomes a core part of the nation's education policy from early childhood through college.

High School Students Struggle With Basic Financial Skills

Tests of the financial knowledge of teenagers consistently show poor performance. On the 2008 Jump\$tart Survey of Financial Literacy among High School Students, participants got an average of only 48.3% of the test questions correct². Jump\$tart has conducted this research with 12th grade students biennially for a decade, with scores ranging from a high of 57% to this year's low of 48.3%—all within the range of a failing grade³. In the first-ever National Financial Literacy Challenge (described in more detail below), endorsed and promoted by this Council and offered in the spring of 2008, the average score among the more than 46,000 students who took the test was 56%.

Charles Schwab's 2007 Teens & Money Survey finds that teenagers are very optimistic about their chances for financial success and believe themselves to be financially savvy. Nearly three-quarters (73%) believe they will be earning "plenty of money" when they are out on their own. Boys expect to earn about \$173,000, while girls expect to earn more than \$114,000, on average. About 63% of the teens surveyed described themselves as knowledgeable about money management, including saving, budgeting and investing. But when probed for specifics, the teens reveal startling gaps in their knowledge. Only 51% know how to write a check and only 34% can balance a checkbook. Just 26% know how credit card fees work and only 24% know whether a check-cashing service is a good thing or a bad thing to use.⁴

College Students Also Lack Financial Literacy – And It Shows

Data also shows that college students suffer from a lack of financial literacy, and that their behavior, particularly regarding debt, illustrates this. In Jump\$tart's first Survey of Financial Literacy Among College Students, the college students did better than their younger counterparts, but not particularly well, with an average score of 62%. If graded, the average would be a low D.⁵ In a study published in January 2006, four researchers from Texas A & M University-Commerce gave more than 400 first-year students a 20-question test of their personal finance knowledge and found that the average score was 34.8%⁶

This lack of financial knowledge is exposed in the fact that debt—especially credit card debt—among college undergraduates continues to rise. The Project on Student Debt, for example, found that students in the class of 2007 who had student loans had, on average, \$20,098 in debt,

an increase of 6% over the class of 2006.⁷ A survey earlier this year by U.S. PIRG, meanwhile, found that 66% of college students had at least one credit card⁸ and that 25% of all students had paid a credit-card late fee at least once⁹. The same study found that among students who have a card and are responsible for paying for it (as opposed to a card co-signed with or paid by a parent), first-year college students carry credit-card balances of \$1,301, which by senior year had increased to \$2,623.¹⁰ A 2004 survey by Nellie Mae, a student lender, found that 23% of college students had obtained a credit card prior to enrolling in college, and an additional 43% obtained a credit card during their first year in college¹¹. In the Nellie Mae survey, only 21% of respondents said that they paid off their credit card debt in full each month¹². And 24% said that they paid their tuition bill with a credit card¹³.

A 2007 study by Sallie Mae found that more than half of college students accumulated more than \$5,000 in credit card debt while in school, and one-third piled on more than \$10,000 in debt on credit cards. Fewer than one in five (19%) said that they did not acquire any credit-card debt while in college.¹⁴ Credit card debt and student loan debt are two of the factors that make it very difficult for young people to save -- according to the Consumer Federation of America and Wachovia, 62% of 18 to 24 year olds say they are not saving enough or at all.¹⁵ A survey by Harris Interactive, commissioned by KeyBank in 2006, found that only one in five college students consider themselves "very well prepared" for managing their money in college, while 32% consider themselves "not at all" or "not very well prepared." The survey also found that 75% admit to having made mistakes with their money since arriving on campus, including overspending on food and entertainment, and putting too many purchases on their credit cards.¹⁶

The Solution: More Education for Students of All Ages

The Council makes a series of recommendations to ensure that students of all ages, from early childhood through post-secondary education, are exposed to the basics of financial literacy.

Recommendation 1 - The United States Congress or state legislatures should mandate financial education in all schools for students in grades Kindergarten through 12. For those schools without access to curricula, encourage the adoption of "Money Math: Lessons for Life," a ready-to-use, middle-school curriculum created by the Department of the Treasury and endorsed by the Council.

To help ensure that the next generation of consumers is better prepared to make sound money management decisions for themselves and to ensure that they have sufficient financial information before they begin making those first independent financial decisions as young adults, personal finance education must be incorporated into standard K-12 education. Already, several states have taken or are taking steps to make this happen, but we remain concerned by the slow pace of state-by-state adoption of mandatory financial literacy training. The National Council on Economic Education (NCEE) reported in its 2007 Survey of the States that 40 states currently have content standards for personal finance, an increase of 19 states since 1998, but that only 28 states require those standards to be implemented. Only nine states require a course in personal finance to be offered, and just seven states require personal finance courses to be taken. The survey also shows that 17 states require students to take an economics course as a graduation requirement.¹⁷ A similar assessment¹⁸ of state-by-state requirements by the

JumpStart Coalition for Personal Finance shows that only three states require a stand-alone personal finance course and 17 states require that personal finance be incorporated into other coursework.¹⁹ The Council notes that Colorado's legislature approved a bill requiring the development of financial literacy content standards during its 2008 session.

While some argue that money management is a family matter, best learned at home, the reality is that many parents are not willing or able to teach their own kids everything they need to know about finance. Research by Charles Schwab & Co., Inc., shows that teaching children about money is not a priority for many parents. In fact, the research found that while 70% of parents had taught their teens how to do laundry, only 34% had taught their teens how to balance a checkbook and only 29% had taught them about how credit card fees and interest work²⁰. Standards-based financial education in the classroom helps to level the playing field for students whose parents may have faced financial challenges themselves or who may be among the unbanked or under-banked populations, not experienced enough to provide guidance to their own families. Even for those students fortunate enough to receive strong financial guidance from their parents, a thorough and balanced classroom-based curriculum reinforces and expands upon what they have learned at home.

The Council makes the following suggestions with regard to the recommendation for a federal personal finance education requirement:

- The national mandate should amend the No Child Left Behind Act of 2001 to require personal finance education in elementary and secondary education.
- The framework should introduce financial education during elementary school, perhaps as early as kindergarten, and repeat it throughout the school years.
- The national mandate should set minimums and guidelines for states and other educational jurisdictions to establish their own specific requirements. The guidelines should value hands-on, experiential learning and rigorous mandatory testing. The application of state and national standards would help ensure consistent and comprehensive study and would establish a logical progression through the age groups.
- For those schools without access to appropriate curricula, the immediate adoption of "Money Math," the ready-to-use middle school curriculum distributed by the Treasury Department and endorsed by the Council, should be encouraged. The 86-page book is a teacher's guide with lesson plans, reproducible activity pages, and teaching tips. A teacher needs only one copy of Money Math: Lessons for Life to teach several classes of students. No special training is needed. Free to teachers, the curriculum was developed by the Center for Entrepreneurship and Economic Education at the University of Missouri-St. Louis in accordance with national school mathematics standards. The lessons were tested in Missouri schools and received rave reviews. Teachers need not be experts in personal finance to use Money Math in the classroom; questions and answers are clearly provided in the book.

The Council also recommends that research be undertaken in a variety of areas to determine the most effective ways of teaching students the basics of personal finance. Research, for example,

should look at the effectiveness of integrating personal finance concepts into other coursework (such as math and social studies) for younger students and then a capstone class as the high school graduation requirement. It will also be important to use research to determine the best “home” for financial education among established disciplines such as social studies, mathematics or consumer science. Finally, baseline and ongoing research should be conducted to evaluate the effectiveness of financial education. Adjustments to the mandate could be recommended based on information gathered over time.

The mandate would prescribe, require and emphasize minimum levels of training and education for personal finance teachers. The Council is aware that a concern about mandating financial education at the federal level is that teachers are ill-equipped to teach the material. The Council believes, however, that one of the benefits of mandating financial education in the classroom is that teachers of all ages would improve their own financial literacy and make better financial decisions in their own lives. But recognizing the many burdens we place on teachers in our society, the Council is sensitive to the need to make lessons easy for teachers to incorporate into the already-busy school day. The “Money Math: Lessons for Life” curriculum is an example of how a partnership between the private sector, academia, non-profit organizations and the government can produce resource materials that will reduce the burden on teachers. The Council hopes in the future to work to develop model curricula for other age groups for this very reason.

To that end, the mandate should seek to utilize and build upon the significant contributions to financial education already made by the academic, non-profit, business, and government sectors through their expertise, programs, and materials—especially those which correlate to educational standards. The mandate for financial education in the classroom should also value and support parental involvement and, where possible, should explore how best to integrate and encourage financial education in after-school programs, many of which already exist. The goal of the Council is not to impose an unmanageable burden on teachers, superintendents, school districts and communities. There are numerous effective programs already in existence, with resource materials for teachers designed specifically to make it as easy for them as possible. It is the Council’s hope that the many effective programs can be harnessed and brought into the classroom as quickly as possible so as to ensure that millions of American schoolchildren have the knowledge and skills to make informed financial decisions.

Critical Role for the National Financial Literacy Challenge

In April 2008, at the recommendation of the President’s Advisory Council on Financial Literacy and the Youth Committee, the U.S. Treasury Department’s Office of Financial Education launched the National Financial Literacy Challenge, a voluntary competition for high school students that tests their knowledge of personal finance concepts. The Challenge includes provisions to recognize top performers. The program has been enormously successful in its first year of existence, and the Council believes it can play a critical role in incorporating financial education into the lives of the nation’s youth.

Recommendation 2 – The United States Department of the Treasury should institutionalize and expand the National Financial Literacy Challenge, with the goal of significantly increasing participation in this personal finance contest for high-school students.

The Challenge was developed by the U.S. Treasury in consultation with four financial education organizations: the Jump\$tart Coalition for Personal Financial Literacy, Junior Achievement USA, the National Council on Economic Education, and the National Endowment for Financial Education, all of whom are represented on the President's Advisory Council on Financial Literacy. The test was developed with four non-governmental economists: Dr. Annamaria Lusardi, Dartmouth College; Dr. Lewis Mandell, University of Washington; Dr. Sarapage McCorkle, Junior Achievement of Mississippi Valley, Inc.; and Dr. William Walstad, University of Nebraska-Lincoln. The Challenge content is derived from the National Standards in K-12 Personal Finance Education and any classroom curricula or financial education program correlated to these standards would, generally, be sufficient preparation for this test. The exam consists of 35 multiple-choice questions on a variety of personal finance topics. Teachers registered, at no cost, with the Treasury Department, and were given a passcode that allowed them to administer the test online to students during a single class period.

The inaugural Challenge was conducted April 28 through May 16, 2008, during which time 46,369 high school students from across the country participated. A second Challenge was offered from November 3 through December 12, 2008, during which time 70,000 students took the exam. Participation in these first two Challenges, especially given the relatively small amount of marketing (mostly by word-of-mouth) was much higher than originally anticipated. Future Challenges should benefit from additional marketing and promotion, and can build on this initial success to expand participation.

During the first Challenge, more than 11,000 students received certificates from the Department of the Treasury, co-signed by Council Chairman Charles Schwab and Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr., for scoring in the top 25th percentile. In addition, 380 students received medals for answering 33 of the 35 questions correctly. Thirty-five students achieved a perfect score on the exam and 10 of them were selected to represent their geographic region by traveling with their parents to Washington, DC, to receive college scholarships provided by the Charles Schwab Foundation. The Charles Schwab Foundation also provided a grant to the school or institution that provided the winning student with his or her financial education.

Following the first Challenge, Treasury staff conducted a series of focus groups with teachers to find ways to improve the test itself and the test-taking process. A number of recommendations were implemented in advance of the administration of the second edition of the Challenge in the fall of 2008. In addition, the academic developers of the test created 35 additional questions, following the same guidelines as the original group of questions. The two sets of questions were then randomly generated, so that each student in a class was likely to receive a unique test.²¹ This provided an additional level of security to protect the integrity of the test.

During the second edition of the Challenge, in fall 2008, more than 20,000 students received certificates and 362 students received medals. The Charles Schwab Foundation awarded college scholarships to 26 students who achieved perfect scores.

The Council believes that inaugural year of the National Financial Literacy Challenge demonstrated that it has many benefits. It motivates students to learn about personal finance by

honoring outstanding performance on a financial knowledge test and offering the opportunity to earn scholarships. It encourages teachers to teach personal finance by recognizing their students' achievements. It creates an incentive for schools and after-school programs to introduce financial education by making donations—in the winning students' names—to those schools and programs. Finally, it promotes the use of many existing standards-based curricula and programs in preparation for the Challenge test, raises awareness about the importance of financial literacy and the need for financial education in schools, and positions top performers as a positive example.

To build upon this success, the Council recommends institutionalizing the National Financial Literacy Challenge as an annual or semi-annual competition for teens. This would require assigning program administration permanently to the Treasury's Office of Financial Education staff and ensuring a sufficient budget allocation to continue to operate the Challenge. Treasury staff should continue to utilize technology for efficient administration of the test and would need to continually monitor and reassess security measures to ensure the integrity of the Challenge. At the same time, the Council encourages exploration of the need for a paper-based version of the test to ensure that the Challenge is available in underserved communities and schools without sufficient computer access.

The Council also encourages the continued involvement of independent non-profit educational organizations as advisors to the program, as well as the continued involvement of independent academic economists and personal finance practitioners to revise the test and add new questions, as needed, to the mix. Finally, the Council envisions continuing to encourage the voluntary private sector contribution of incentives (e.g., the Charles Schwab Foundation's contribution of scholarships and prizes). Critical to future success will be engaging partners that can enhance promotion on a national level, as well as targeted marketing and outreach efforts to teachers, students, parents, after-school program leaders and others to build awareness of this program and continue to increase its prestige.

Enhancing Financial Literacy on College and University Campuses

Although college students still make up a small percentage of the young adult population, they are likely candidates for accumulating debt and making financial missteps. The college campus is another opportunity to reach these young consumers with quality financial education efforts. Colleges and universities are beginning to take interest in providing financial education to their students and while some of these programs are very effective, the effort, nationwide, is fragmented at best. The recently reauthorized Higher Education Act includes provisions related to financial counseling for college students and their parents. The act also requires loan guaranty agencies to work with higher education institutions to make financial literacy programs available to college students before, during and after the term of enrollment. Reaching college students is particularly important because those students will soon be heading into the workplace and adulthood, where they will be faced with myriad choices of financial services and products, and where mistakes can have more dramatic repercussions (i.e., job loss, poor credit rating, bankruptcy, even homelessness).

Recognizing that our post-secondary institutions represent an opportunity to reach a key population and at a critically important stage of their lives, the Council makes two recommendations related to improving financial education for students at colleges and universities.

Recommendation 3 – The United States Department of the Treasury should implement the Post-Secondary Financial Education Honor Roll program, approved by the full Council in 2008, to encourage best practices in financial education at colleges and universities.

At its July 2008 meeting, the Council approved the concept of a Post-Secondary Honor Roll program. Colleges and universities that have innovative programs to teach their students financial literacy skills could apply for recognition by Treasury and the Council for their efforts. The Council recommends that the details of the application process and subsequent review and decision-making process be finalized in early 2009, and a direct marketing campaign be undertaken to inform post-secondary institutions of this opportunity. The Council has already approved the criteria by which colleges and universities will be selected. The Council sees this program as an opportunity to recognize effective programs that could be held up as models for other institutions.

Recommendation 4 – The President should direct the United States Department of the Treasury and the United States Department of Education to take the necessary steps to require college students to take a more comprehensive course in financial literacy (or pass a competency test) than the present entrance and exit counseling requirements, as a condition of receiving Federally funded or Federally guaranteed student loans.

By connecting the acceptance of a government-backed student loan with mandatory financial education, the Council believes college students can be reached at one of their most “teachable” moments, and that the lessons can have a real-world application.

The Council notes that many colleges and universities offer a variety of financial education programs. Few, however, are required. The Council also notes that the recently reauthorized Higher Education Act includes several provisions related to increasing financial literacy of student borrowers. The entrance and exit counseling requirements for student borrowers have been strengthened. In addition, as part of changes to the Federal Family Education Loan Program, guaranty agencies are required to work with colleges and universities to develop financial education programs. The Council believes these are positive steps, but that more needs to be done. The Council pledges to work in 2009 to assist the Treasury and Education Departments in exploring ways to require additional financial literacy training in the student loan process.

It’s Never Too Early to Start Learning About Money

The Council’s final recommendation in the area of youth financial literacy recognizes that financial education truly must be a lifelong endeavor – and it’s never too early to start. Basic literacy skills, including financial literacy, are the building blocks of development and self-sufficiency, which need to be established in the early years of children’s lives to impact their

future development. Perhaps most importantly, the reality is that young children are an increasingly important part of – and target of advertising by – our retail economy. *Parents Magazine* reported in 2004 that “children ages 4 to 12 shell out an estimated \$35.6 billion of their own cash annually, more than four times what they did a decade ago.”²² The early years are a window of opportunity for young children to develop a foundation for understanding concepts such as caring for others and learning some simple ways to “give back” -- the beginnings of philanthropic thinking. Currently, there are limited resources within the financial literacy arena that integrate everyday routines as learning moments, as well as link the concept of “giving back,” in a developmentally-appropriate manner for young children, their families, and the child-care community.

Recommendation 5 – The United States Department of the Treasury should promote the availability of financial education resources for parents, caregivers and teachers to use with pre-school and early elementary school children.

There are a wide variety of programs available in the marketplace for young children. Among them are Sesame Workshop’s “Financial Literacy the Sesame Way” (pre-school and early elementary age); the Credit Union National Association’s “Thrive by Five” (pre-schoolers); Money Savvy Generation (elementary school); the Money Mammals (pre-school ages 2 and up); the U.S. Mint’s H.I.P. Pocket Change (elementary school); and many others are demonstrating that it can be effective to teach very basic skills to young children, forming the building blocks of more formal financial education in the future.

The Council should develop a plan to assist the Treasury Department in promoting public awareness, focusing particularly on parents and pre-school/early elementary teachers, about effective programs available for early-childhood financial literacy. The Council believes that financial education is a life-long endeavor, and that terminology, skills and behaviors must be learned repeatedly, starting at a very young age.

Chapter III
**The Increasing Importance
of Financial Literacy
in the Workplace**

DRAFT

The lack of a consistent approach to financial education in our schools results in individuals entering the workforce with vastly different knowledge levels about financial issues. Many haven't learned the basics of personal finance, including how to make the most of such benefits as retirement savings plans, health care coverage, and other insurance. That lack of preparation often leads to personal financial problems, stress, and distraction—all of which diminish employees' productivity and their quality of life.

Many workers today simply do not have the skills, knowledge or assistance necessary to meet their financial challenges. Not only is there a moral imperative for our society to provide our citizens with the tools they need to cope, there is also a strong business case for that assistance. When employees are worried about debt and other personal finance issues, they have more difficulty focusing on their jobs. Stress, including personal economic stress, is estimated to cost business as much as \$300 billion a year in lost productivity, increased absenteeism, employee turnover, and increased medical, legal and insurance costs, according to the American Institute of Stress.²³ Financial Literacy Partners, LLC, has calculated that employee financial stress costs businesses \$15,000 per year per affected employee.²⁴ So not only is providing financial education the "right" thing to do, it is also the wise thing to do.

The need for improved financial literacy within the workforce is irrefutable. The national savings rate has been declining for most of the last 35 years²⁵. Research shows that workers stressed by an inability to address financial hazards and challenges are less focused, less productive, are more prone to absenteeism and accumulate higher health care costs. A 2005 report by a group of academics, led by E. Thomas Garman, president of the Personal Finance Employee Education Foundation and professor emeritus at Virginia Tech University, estimated that "30 million workers – one in four – are suffering serious financial distress."²⁶; that nearly half of those who are financially distressed "report that their health is negatively impacted by their financial worries"; and that "30% to 80% of financially distressed workers spend time at their place of employment worrying about personal finances and dealing with financial issues instead of working." In a 2004 paper, Garman and Dr. Jinhee Kim found that nearly 54% of respondents "spent some work time dealing with matters resulting from financial stress."²⁷ Kim and Garman also found that individuals with what they characterized as "high financial stress" (based on their responses to a series of statements about their financial situation) were more frequently absent from work than workers with low or moderate levels of financial stress.²⁸

The situation is exacerbated by the current economic crisis. In 2008, the Society for Human Resource Management (SHRM), the world's largest HR organization, found in a survey of members that the effects of economic stress are real and growing. In the previous 12 months, members had seen a 26 percent increase in employees having their wages garnished by collection agencies; a 39 percent increase in requests for 401(k) plan loans; a 20 percent increase in requests for pay advances; and a 14 percent jump in employees reporting having lost their homes.²⁹

In a series of online polls taken by Harris Interactive for the American Psychological Association over the past year, the number of respondents citing economic worries as their top cause of stress has continued to rise – from 66% in April 2008 to 80% in October 2008. A recent article in *Investor's Business Daily* cited data from two employee-assistance program providers. One,

ComPsych, said that mortgage-related calls to their service doubled in the third quarter of 2008 as compared to the same period in 2007. Another, Ceridian, observed that it had seen “the number of overall calls related to finances rise 50% from a year ago.”³⁰

Employers Are Uniquely Positioned to Fill the Financial Literacy Void

Employers are in a powerful position to change the landscape on financial literacy, for both their own interests and those of the nation. Using the workplace as a financial education classroom is a tremendous opportunity, one that is logical and makes sense:

- As employees reap the financial rewards of working, their motivation to learn how to protect those rewards is high.
- There is a natural link between the place where income is earned and the skills needed to maximize the potential of that income, including through retirement savings vehicles.
- The workplace has many opportunities to provide education as employees experience life events: home purchases, retirement planning, family changes, and health changes.

Employees receiving financial education at work see it as a valuable benefit, one that prompts greater loyalty to their organization, and more commitment to its goals. Providing that education at the workplace—where the nexus between earnings and wise use of those funds is clearest—makes perfect sense. Employers are in a powerful position to change the landscape on financial literacy, for both their own interests and those of the nation.

Workplace education benefits both the employee and the employer. The availability of financial education opportunities can become a valuable benefit that helps attract and retain the best employees. Financially literate employees recognize, for example, that a debt profile can affect such career advancement issues as security clearances and consideration for career opportunities. Employees who are financially healthy are more productive. They are absent less often, spend less time at the workplace dealing with financial crises, and earn higher job performance ratings.

Surveys consistently find that the public feels overwhelmed and intimidated by the volume of financial information in the marketplace. The result is paralysis — inaction, rather than action. However, employees appreciate receiving financial education in the workplace because they view their employer as a trusted source, and because instruction is convenient and accessible. In return, a financially literate workforce is likely to be happier, more focused and productive, and to have learned skills they can apply to their jobs.

The need and demand for that education has been documented. In a 2008 survey of chief financial officers and other senior executives by CFO Research Services and Charles Schwab, 80 percent of respondents said that financial literacy among employees was the most significant challenge they face in getting employees to participate in the company’s 401(k) plan.³¹

In other Charles Schwab research, employees gave their employers solid marks for providing 401(k) education and for encouraging participation. Respondents to the survey also indicated overwhelmingly that they would like other assistance, including access to financial planning experts, seminars on personal finance, and savings and budgeting tools. Younger employees

were particularly interested in how to navigate financial planning for such key life events as purchasing a first home, getting married, and starting a family. Employees of all ages were worried about debt management, including avoiding or resolving credit card debt.

Workplace Financial Education Remains Relatively Rare

Most employers that provide some form of financial education in the workplace focus on the retirement benefits offered to employees, including plan enrollment information and basic advice on choosing mutual funds. Some also offer Employee Assistance Programs (EAP) to employees who seek help meeting a major financial challenge, usually at a time of crisis. These *re-active* programs can be helpful, providing referrals to debt management or financial planning resources in the community.

The current trend, however, is toward employers who are eager to take the next step and be *pro-active*, offering instruction to employees on such issues as debt management, understanding and improving credit scores, preventing bankruptcy, purchasing a home, and basic financial management. IBM announced in March 2007 that it would offer a “multi-million dollar personal finance and education benefit program for all its U.S. employees” that includes seminars and one-on-one, personalized financial counseling provided at no cost to the employee.³² In December 2008, McDonald’s announced a partnership with Visa, Inc. to provide what the company described as “the country’s largest employer-based financial literacy program.”³³ The program, designed to reach more than 500,000 restaurant-level employees, workers will receive a budgeting guide and access to web-based resources, videos and information in both English and Spanish.

Unfortunately, the kinds of programs implemented by IBM and McDonald’s are relatively unusual. A recent report by the New America Foundation examined the current state of workplace financial education. The report cited a December 2007 Gallup study of small and medium-sized independent businesses and found that just 10.5% currently offer financial education to employees, while an additional 8.9% plan to in the future. Nearly 80% offer no financial education to employees and have no plans to do so.³⁴ New America Foundation also found in its study that “lower-income employees, who are most in need of financial education, are least likely to take advantage of their employer’s offerings. This is the crux of the problem with workplace financial education at present, since studies show that it is these lower-paid workers who are likely to gain the most from financial education.”³⁵

Employers must live within a budget to be successful. Within those constraints, employers choose which benefits to offer based on employees’ highest-priority needs and desires. As a result, much of the financial education offered in the workplace is either restricted to retirement planning advice that comes bundled with the plan package, or is part of re-active services available through Employee Assistance Programs. Broadly based and pro-active programs — requiring greater benefits expenses by employers — are the exception, rather than the rule.

To make this kind of action the norm, rather than the exception, employers need more information, encouragement, and resources. The Council’s Workplace Committee conducted research, on-line polls, and surveyed employers and key groups in their communities in order to

identify the best ways to strengthen financial literacy in the workplace. Those efforts resulted in the following recommendations.

Recommendation 6 – The United States Congress should explore one or more tax incentives to encourage employers to provide financial education in the workplace.

While some employers are offering financial education to employees, it is clear that employers need encouragement and financial assistance to implement a comprehensive and freestanding financial education program as part of the benefits package. The federal government, through the tax code, should explore offering employers an incentive for developing and implementing financial education in the workplace, based on priorities set by the government. As financial literacy gains a foothold in America’s education curricula and as a national priority, the need for an incentive may diminish. However, its use during the start-up phase of encouraging financial literacy programs in the workplace would be important.

Recommendation 7 – Establish an annual “Workplace Financial Literacy Honor Roll”

At its July 2008 meeting, the Council adopted the Workplace Committee’s proposal to create an annual award, the Workplace Financial Literacy Honor Roll, and is in the process of implementing the program in partnership with staff at the Department of the Treasury.

The Council believes that employers can benefit from the experience of organizations that have already implemented successful financial literacy programs in the workplace. However, it’s not easy for employers to identify those organizations and use their experience as benchmarks. Employers need a way to gather information on proven ways to introduce financial education programs in the workplace. From their peers, they need to learn the types of programs that should be offered, how to capture the attention and interest of employees, and how to measure success. In addition, those role organizations deserve recognition and positive reinforcement for continuing their initiatives.

Thus, the Council recommends that the Treasury Department implement, maintain and promote the Workplace Financial Education Honor Roll (“Honor Roll”). The Honor Roll would serve two main purposes:

- To recognize organizations with exemplary workplace financial education efforts to enhance employee financial understanding and well-being; and
- To encourage other organizations to implement, support and further develop financial literacy programs in the workplace.

Among other criteria, applicants would be evaluated on the content and appropriateness of their financial education programs; the presentation and marketing of those programs to employees; and their measurable positive results. Invitations to apply for the Honor Roll distinction would be distributed through financial education and literacy organizations, business groups, human resources associations, and other stakeholders. Treasury would also market the Honor Roll

selection process annually, and provide those selected with recognition among the public and their professional peers.

Recommendation 8 – Create an Internet-based resource center on the federal government’s financial literacy web site, www.mymoney.gov, for human resource professionals and employers that consolidates the best financial education information and resources.

Financial education is becoming an increasingly important benefit that human resources professionals can offer. As this trend continues to develop, human resources professionals and their organizations need to know the full range of resources available to them. The Internet is rich with sites providing free information on basic budgeting, personal finance resources, and the best ways to engage employees. For instance, several states, such as Wisconsin, have excellent workplace financial literacy sites. They list local entities that provide financial education and training programs, and information on critical topics like debt and credit management and identity theft. In addition, many non-profit and private organizations offer valuable information. The American Institute of Certified Public Accountants (AICPA), for example, provides free on-site workplace education by volunteer accountants trained in personal finance education. The AICPA Web site (www.360financialliteracy.org) also provides valuable resources detailing information needed by individuals at different points in their lives — an ideal way for human resources professionals to introduce information to employees in a way that is timely and relevant to their life events. Numerous other examples exist. The Internet is so vast, however, that it can be intimidating for human resources professionals seeking best practices in financial education. And the Internet continues to be a magnet for hucksters, fraud schemes and misinformation.

In order to effectively deliver financial literacy information, products, and services, human resource professionals and employers need a “one-stop” resource, a place where relevant information has been synthesized, allowing them to identify available programs and resources that match their individual workplace budgets and educational needs. The federal government should assess and consolidate the best information and resources on workplace financial education programs on one page of the federal government’s financial literacy website, www.mymoney.gov. The site would allow employers to review and understand the options available to them through federal, state and local governments, and non-profit and private organizations. Being able to focus in on the most appropriate resources is the key to giving human resources professionals and employers quick access to the tools they need to design effective financial education programs that are tailored to their own workplaces.

The Council believes that the steps outlined in this chapter will significantly improve the ability and desire of employers to offer robust financial education opportunities to employees. Doing so would benefit both the employee and the employer. The employee can receive information from a trustworthy source that will have a positive effect on his or her life both inside and outside the workplace. The employer should realize significant benefits in terms of increased productivity and employee morale. The Council is not unsympathetic to either the expense or time required of employers to implement such programs, but believes strongly that increasing financial education in the workplace is a critically important piece of the overall puzzle of improving financial literacy in the United States.

Chapter IV
**Helping the Unbanked
and the Underserved**

DRAFT

According to the FDIC's Alliance for Economic Inclusion, there are an estimated 28 million Americans that are "unbanked," and 44.7 million more are "underbanked."³⁶ The Center for Financial Services Innovation puts the number of underbanked at more than 100 million.³⁷ Recent research from TowerGroup echoes that number, finding that "more than 100 million consumers living in the United States today are considered 'unbanked,' 'underbanked,' or credit underserved."³⁸

Without a bank account, it is virtually impossible to get credit, receive federal payments, own property, or take part in virtually any aspect of the nation's economic mainstream. Not having a bank account encourages millions of Americans, particularly in America's inner cities and low-wealth communities, to pay excessive fees for basic "financial services," which all too often are unscrupulous payday lenders, check cashers and other non-traditional financial service providers. The Center for Financial Services Innovation estimates that the underbanked population makes 324 million transactions annually at alternative financial services providers, totaling nearly \$11 billion.³⁹

The lack of a bank account can have a devastating effect. Thousands of Hurricane Katrina victims, and victims of other disasters, were unable to receive payments from the Federal Emergency Management Agency (FEMA) because they did not have a bank account to which funds could be wired. Then-Secretary of the Treasury John Snow, in testimony submitted to the Senate Banking Committee in 2006, observed that "the unbanked pay more for financial transactions and completely miss out on opportunities that most of us take for granted, such as the ability to receive payments electronically for things like Federal benefits. After Hurricane Katrina, we saw numerous instances of unbanked evacuees unable to receive FEMA payments electronically. Instead, many of them had to wait for a paper check to find them."⁴⁰ Because these victims were scattered across the south in the wake of the disaster, FEMA had no way of knowing where to mail checks, causing weeks and sometimes months of delay before victims received the federal assistance.

In 2003, nearly one of every four Americans who was eligible for an Earned Income Tax Credit payment failed to claim it – more than \$9 billion in EITC payments went unclaimed⁴¹. This is a combination of two problems – a lack of financial literacy that limits awareness of this money available to lower-income individuals and a lack of a bank account into which that money could be deposited. Universal access to a bank account would provide a much-needed education point for those citizens and would likely increase the number of Americans who receive payment from this program.

A significant percentage of the unbanked and underbanked are immigrants to the United States. Tens of billions of dollars are wired out of the United States annually by citizens and undocumented immigrants without the transparency, protections and cost savings available through the traditional banking system. A 2004 study by the Pew Hispanic Center found that only 3 percent of U.S.-to-Mexico remittances were completed through a traditional American financial institution.⁴²

Among the reasons that individuals, particularly low-income individuals and minorities, have a distrust of the banking system are an inability to maintain sufficient cash balances to avoid high

monthly fees; the sense that they write too few checks per month to need a checking account; or the worry that they have too little monthly income to justify a savings account. Other research has found that individuals find traditional banks and credit unions intimidating. Perhaps most common is the perception, and often the reality, that financial institutions don't offer products appropriate to this population. Interestingly, research shows that while alternative financial services providers, such as check-cashers, payday lenders and pawnshops are predominantly located in low-income, minority neighborhoods, the vast majority of these neighborhoods also have at least one traditional banking institution. A 2004 study by The Urban Institute of eight different U.S. communities found that the median distance between alternative financial service providers and banks is no more than seven city blocks.⁴³ The study concludes that "contrary to popular perception, consumers do not choose alternative financial services providers because an area lacks mainstream providers."⁴⁴

The TowerGroup argues that traditional financial institutions must focus more attention on creating the right products for financially underserved consumers – given that existing products do not meet the needs of this population nor help institutions win additional market share in this category. The TowerGroup report recommends that institutions make a full-scale evaluation of various segments of the underserved market and address these customers' unique needs, preferences, and economic circumstances.⁴⁵

Recommendation 9 – The United States Congress should require financial institutions to provide every adult American with access to an electronic, debit card-accessible depository account protected by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

Access to a bank account or relationship with a financial institution should be available to every American citizen. It is the first step in financial independence. Providing universal electronic debit access to a bank account under the protection of the FDIC or the NCUA will provide a hand-up instead of a hand-out to the underserved American citizen.

In addition, financial policymakers are becoming increasingly aware of the fact that providing every American with a basic bank account could reduce the cost to and of our government by reducing the burden of printing, handling and mailing physical checks for federal benefits programs, including Social Security. The ease of electronic transfers for federal payments would also likely increase the chances that those federal payments are used by their intended recipients.

In recommending that every American have access to an electronic, debit-card accessible depository account, the Council recognizes that there are legitimate reasons for financial institutions to refuse an individual a bank account, particularly to protect against fraud, money laundering, identity theft and other criminal behavior. Any regulations should be designed with this important factor in mind. The Council recommends working with the American Bankers Association, the Credit Union National Association, other bank trade associations and the regulatory agencies to ensure that appropriate language is included in any legislative or regulatory proposal to make explicit that combating criminal behavior is not compromised.

The Council also recognizes that it may not be necessary to compel legislative action in this area, and Council members are open to efforts by the private sector, particular bank and credit union trade associations, to develop appropriate parameters by which significant expansion of appropriate accounts are accessible to the unbanked. While the Council has private-sector financial institution representation among its members, it does not purport to be involved in product design. However, it was the feeling of the Council during its deliberations that some sort of governmental direction was necessary to prod financial institutions into developing appropriate products for the unbanked and making a concerted effort to lower the numbers of unbanked in the United States.

Finally, the Council, in keeping with this recommendation, urges Congress to continue its exploration of such steps as providing a bank account for every person receiving some sort of government check and providing bank accounts for children at birth. Legislative proposals along these lines have been under consideration for some time and warrant action.

Recommendation 10 – The United States Congress should provide federal funding for any non-profit organizations working on community-based financial literacy programs and for state and local governments demonstrating leadership in financial education for their residents.

Community-based organizations and non-profits have a proven record of effecting change in America in countless areas. They operate effectively below the spans of state and local government, at the lowest and most personal level between people -- mostly at the level of neighborhoods and small communities. The members themselves typically manage the organizations.

There is a critical need for immediate action. There are community-based organizations and non-profits that have the ability to implement financial education programs within their communities immediately and are hampered only by the lack of resources. Community-based and non-profit organizations have demonstrated the ability to accomplish much with modest funding, thank to the benefits of their community- and philanthropic-based structure. However, in these uncertain economic times, many non-profits are facing a difficult time for fundraising.

States and localities could also benefit from a more financially-literate population. Financial education and the resulting economic empowerment can improve the financial well-being of residents, resulting in stronger local and state economies. In addition, state and local real estate and income taxes are directly impacted by financially troubled residents. Real estate foreclosures, in particular, have a direct negative impact on state and local tax revenues. With many state and local governments experiencing severe budget shortfalls, the need is greater than ever.

Sources of federal funding for non-profit organizations working on community-based financial literacy programs should be made available and aggressively promoted. Federal funding should also be made available for state and local governments demonstrating leadership in financial literacy education for their residents.

There are programs across the country that already working, and could benefit from additional support. Bank on San Francisco, for example, is an initiative of the Treasurer of San Francisco, the Federal Reserve Bank of San Francisco, and the non-profit organization EARN. The program has 16 bank and credit union partners that offer a free or low-cost starter account. The program's goal was to bring 10,000 of the estimated 50,000 unbanked households in San Francisco into a relationship with a financial institution. In its first year, beginning in September 2006, the program resulted in more than 11,000 account openings. The program is an example of an effective partnership between local government, financial institutions and non-profit organizations to make real change in the community.

The Council also notes that Treasury began the "First Accounts" program in 2002, which is administered by the Office of Financial Education. The program provides financial resources to develop and implement programs to expand access to financial services for low- and moderate-income individuals who currently do not have an account with an insured depository institution or an insured credit union. The program awarded 15 grants totaling \$8.35 million for projects to expand access to financial institutions for the unbanked. Research indicated that this program was effective.⁴⁶ In recent years, however, the program has not been funded. The Council recommends restoring funding the First Accounts program.

DRAFT

Chapter V
**Defining What It Means
To Be “Financially Literate”**

DRAFT

In order to advise effectively the President and the Secretary on means to establish effective measures of national financial literacy, the Council believes in developing a standard understanding of the competencies, skills and behaviors that participants must exhibit to be identified as “financially literate.” These skills and behaviors would comprise what the Council believes are necessary for individuals to take control of their financial futures. Additionally, the educational programs that identify themselves as financial literacy programs must ensure that participants in their programs are developing competencies, acquiring skills and exhibiting behaviors necessary to make informed financial decisions.

Currently, the term “financial literacy” is being used to describe financial education programs without taking into consideration exactly what the program’s goal is, what particular skills the participants will learn, or if participants will emerge from the program with the ability to take control of their financial future. A review of the current literature clearly shows that, on one hand, there are National Standards⁴⁷ for both K-12 and adult financial literacy education⁴⁸ intended to provide guidance, benchmarks and the best practices to improve the overall quality of financial literacy education materials. At the same time, programs focusing on a single aspect of financial literacy, while very important, are also often referred to as “financial literacy programs,” though they are not, by design, comprehensive outside of their specialized topic.

The lack of consistent definitions has hindered research as well. Many of the studies references elsewhere in this report, which attempt to measure levels of financial literacy or changes in the level of financial literacy among Americans (adults and youth), use different definitions, making comparison difficult. Some studies, for example, use the definition developed by the Jump\$tart Coalition: “the ability to use knowledge and skills to manage one’s financial resources effectively for lifetime financial security.” More than 30 separate items are used to measure financial literacy in this definition. Other research, however, uses far fewer items, sometimes covering only a narrow range of topics, to determine if Americans are “financially literate.”

While these various studies all make important contributions to our understanding of the state of financial literacy generally, they underscore the fact that not everyone is measuring the same thing, even though the same terminology is being used. The Council thus believes that it is important that we determine and recommend a standard measure of what is to be expected from a financial education program if it is to be labeled a “financial literacy program.” Currently, the educators, researchers and policymakers are using the term “financial literacy” without any agreement on the phrase’s definition, and these varying definitions hinder policy development.

The Council seeks to articulate what a participant must acquire from a financial education program to “have the skills necessary to take control of his or her financial future” before it is identified as a “financial literacy” program. Similarly, the Council believes research generally will be enhanced if a survey instrument measures whether participants “have the skills necessary to take control of his or her financial future” before it claims to measure a level of change in financial literacy. Such an articulation will ensure consistent measurement of the quality and effectiveness of financial educational programs, achievements of participants (i.e., students, employees), and measurement for the level and trends in financial literacy.

Recommendation 11 – The private sector, state and local governments, and nonprofits should adopt the Council’s definitions for “financial literacy” and “financial education,” so that programmatic decisions are based on a common understanding of the terms. The Council adopts the Financial Literacy and Education Commission’s definitions of those two terms. Specifically, the Council defines “financial literacy” as “the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being” and defines “financial education” as “the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being.”

By adopting these definitions, it is the Council’s hope that the financial literacy community can coalesce around these definitions and standardize the language so that policymakers, the public, the media and others know what is being discussed when these terms are used. Researchers should keep these definitions in mind when designing survey instruments and, in particular, when reporting on results. Surveys that measure knowledge in more specific areas, such as understanding of investing, or retirement savings, or credit cards, should state clearly what they are measuring and avoid claiming that the results measure “financial literacy.”

Recommendation 12 – The United States Department of the Treasury should identify and standardize the specific skills that a person should have upon completion of a comprehensive financial literacy program and explore the creation of a certification program for such programs and for instructors of programs that meet the criteria.

The Council asserts that any individual completing a “comprehensive financial literacy program” should have an understanding of the following skills and concepts:

- the capital market system and financial institutions;
- the participant’s household’s cash flow situation, and how to develop and maintain positive cash flow;
- how to develop a spending plan that is consistent with their resources and priorities
- the reasons for having an emergency fund and how to establish an emergency fund;
- the fundamentals of credit granting, including how to evaluate, select, and manage credit, and how to maintain good credit rating;
- the process of deciding when to rent and when to buy a home, and the process of home ownership;
- the process of identifying various financial risks, including development of a risk management strategy to decide which risks they should take on and which should be transferred to an insurance provider;
- how to identify and protect themselves from identity theft and various financial frauds, and what to know and do if they think they have been victimized;
- basic investment products, the relationship between risk and return, and the what, when and why of choosing the best investments at the right time in their life;
- how to evaluate and take advantage of employee benefits and tax-advantaged savings accounts;

- the various components of retirement planning, and how to develop an appropriate plan for a secure retirement; and
- how to develop a plan to assure financial security in the case of unexpected loss of income (disability or death) for those who depend on their earning power, and to assure the smooth transfer of assets to appropriate heirs.

Every program that meets these standards should be tailored to its target audience, taking into account language, literacy level, culture, age and experience.

As the financial literacy community moves toward more formal definitions and standardization of terms and curriculum, a Treasury-sponsored certification program could be effective in giving Americans confidence that the instructor and the program are providing appropriate information, and give instructors the confidence that they can teach the material. It is recommended that the Council work with Treasury staff to explore how such a certification program could be created, managed, and implemented.

DRAFT

Chapter VI
**Helping Americans
Understand and Improve
Their Own Financial Literacy**

DRAFT

Considerable high-quality research into various aspects of financial literacy has been undertaken in the last decade. Research generally, however, has been piecemeal, focusing on specific issues, but a broad-based comprehensive assessment of the state of financial literacy has been lacking.

Some broader studies have been undertaken. In August 2007, the Networks Financial Institute, based at Indiana State University, found that just 28% of U.S. adults view their personal financial knowledge as “very good” or “excellent.”⁴⁹ An April 2007 study for the National Foundation for Credit Counseling examined behaviors and specific knowledge to assess the state of financial literacy. The study, for example, found that 29% of respondents could say what the interest rate was on the credit card they use most often, even when given wide ranges (less than 10%, 10-15%, 15-20% or more than 20%) of options.⁵⁰

A 2003 survey for Bankrate.com sought to create a benchmark grade for Americans’ financial literacy by testing whether to what extent respondents had taken a series of 12 steps “basic to financial well-being,” such as paying bills on time, paying more than the minimum payment on credit cards, contributing to a retirement account, keeping an emergency fund, and checking their credit score. The survey found that Americans scored 67 points out of 100 – a grade of “D.”⁵¹ Also in 2003, the National Association of Securities Dealers conducted a survey on Investor Literacy, testing respondents on 10 basic questions about investing. A large majority, 79%, knew the definition of a stock, but just 51% could define a junk bond, and only 21% correctly defined a “no-load” mutual fund.⁵²

Given that there is need for more comprehensive research, the Council makes the following recommendation.

Recommendation 13 – Colleges, universities, and other research entities should execute critical research into the state of financial literacy and the most effective measures to increase financial literacy in the United States.

A comprehensive survey of the current state of financial literacy in the United States would provide definitive information for the Council to use in making future recommendations to the President. It would also provide a useful baseline from which policymakers and school administrators could determine where the educational needs are the greatest, and inform deliverers of financial education how best to direct their resources. The Financial Industry Regulatory Authority’s FINRA Investor Education Foundation is already planning a major National Financial Capability survey, which has been endorsed by the Council and hopes to achieve these goals. Survey working group partners include Dartmouth College Professor Annamaria Lusardi and a team from Applied Research and Consulting, the Employee Benefit Research Institute and the American Institute of Certified Public Accountants.

The Council recommends that other research entities also conduct research, focusing on the following questions:

- What is necessary to create a consistent, sustainable, financial literacy infrastructure and employers to find the right source?
- The benefits of some type of certification that a person has to have in order to teach financial literacy courses.
- What financial literacy statistics should be developed to measure competencies and skills that are necessary for a person to take control of their financial future?
- What are the barriers to having financial education be a required subject in public schools, who should require it, and how can the barriers be overcome?
- If we increased financial literacy education how will it affect individual household and national economic stability?
- What role should tax policy play in affecting financial behavior, and what impacts do fiscal and monetary policies have on consumers?
- What is the “return on investment” (ROI) on the time and resources that an employer invests in increasing financial literacy among its employees, from the perspective of both employers and employees?
- What impact does financial education have on student loan default rates, student retention, and college graduation rates?

The list of questions is by no means exhaustive. Rather, these are topics in which the Council has a particular interest for quality data.

In addition to supporting comprehensive research into the state of financial literacy, the Council also seeks to provide ways for Americans to assess their own financial knowledge.

Recommendation 14 – Nonprofits should create and distribute a self-administered “National Financial Check-Up” that would allow Americans to assess their own financial knowledge, and provide links to trustworthy sources of information to fill in any gaps.

One of the challenges facing financial educators is the sense that Americans tend to over-estimate their financial expertise. There are few tools available for individuals to assess their own financial capability. Overwhelming amounts of information and advice are available. The Council believes creating an easy place for individuals to assess their financial knowledge and connecting that to trustworthy sources of information and help would allow Americans to better address their specific needs.

Self-assessment tools help people determine the current state of their physical health, nutritional habits, and dozens of other conditions. These tools also are simple to understand, use and learn from. They boil down complex concepts into easy tests that people self-administer in privacy. The best ones refer users to resources to help them learn more about the topics covered in the test. Even if someone isn’t thinking about taking a check-up, a simple, eye-catching quiz often propels individuals easily into positive action and self-awareness.

The Internet is littered with tools for individuals to measure how much credit they should carry, how large a mortgage they can afford, how much their savings will compound over time, and countless other calculators and tools. But there are few options for individuals to assess their

understanding of these concepts and tools, or to get a comprehensive overview of their financial skills.

Americans are inundated with financial information and overwhelmed into inaction. They don't even know where to start when it comes to learning about their own financial situation because there is too much to absorb. The desire for privacy prevents many from seeking outside help, especially when their financial situation is deteriorating. Americans need a simple way to give themselves a check-up on their financial knowledge and personal financial situation. If they find themselves with low scores and the need to learn more, they need to know where to go to get unbiased and reliable information about basic financial topics to improve their financial situation and capability.

The President's Council supports an effort to create the "Financial Check-Up" by enlisting expert input to create a simple, self-administered test of baseline financial knowledge, skills and/or attributes critical to basic financial capability. Further, the instrument should be validated using the results of the baseline national financial capability and literacy survey previously mentioned. The check-up should use easily-understood vocabulary at the eight grade reading level and should be short – preferably not more than 10 questions. It should assess an individual's abilities across a variety of basic financial skills, such as:

- Budgeting
- Evaluating the capability to afford a purchase, and, subsequently, evaluating the best way to fund that purchase
- Building an emergency fund
- Understanding how credit works (including your FICO score)
- Understanding how credit cards work
- Understanding how interest compounds over time (tie into savings concept)
- Understanding the basic concepts of a mortgage
- Understanding basic insurance needs and products
- Awareness and understanding of what programs/benefits are available to you through your employer or membership organizations
- Having a retirement plan
- Understanding investment vehicles

The check-up should be accompanied by an affiliated information database, so if people do not score well on the check-up, there is somewhere they can go to self-tutor themselves. The database should be universally accessible (i.e., both Internet- and paper-based). Every component of the financial check-up should be linked to noncommercial, objective resources that provide basic information to consumers.

The check-up should also develop a compelling and recognizable brand/identity, including, for example, language such as "brought to you by The President's Advisory Council on Financial Literacy." The program should have an aggressive promotion and distribution program to support it, with the goal of quickly increasing knowledge and use of the program. Federal funds may be needed to support this effort. Among the elements of such a program:

- Integrate the check-up into “teachable moments” and “obvious trigger.”
- Place the check-up on mymoney.gov where consumers can self-administer the test, receive their score, and be referred to additional noncommercial informational resources
- “Give Yourself a Check-Up” messaging
- “Tell a friend” social marketing

Finally, there must be measurement of the effectiveness of the program. It will be necessary to develop a statistically-significant method to collect scores and measure improvement over time.

Such a program, supported by a comprehensive marketing and outreach effort, could be among the most important actions taken to enhance financial literacy in the United States. The Council’s final recommendation is closely linked to this.

Recommendation 15 – The United States Congress should appropriate funds to the United States Department of the Treasury to coordinate active and ongoing media and marketing outreach to promote more widespread knowledge of general financial education concepts among the American people. These efforts should include direct outreach as well as multi-media campaigns.

The reality of this report is that many of the recommendations of the Council need federal funding in order to achieve the scale and public awareness necessary to be effective. Promotion of initiatives such as the National Financial Literacy Challenge and the National Financial Check-Up need government human and financial resources to complement those from the private and non-profit sectors. Active and ongoing engagement with national, regional, local and trade media is a key outreach strategy to promote knowledge and awareness of financial education concepts, strategies and resources. Electronic and print media stories and public service announcements about financial education can reach a significant portion of the American population. Media exposure can help generate awareness of important financial education concepts and inspire individual Americans to learn more about those concepts and implement them in their lives.

Indeed, despite the best efforts of many organizations, only a fraction of Americans are exposed to financial education curricula in grades K-16. As adults, the “financial education” they receive is often limited to 401(k) plan information; solicitations from financial institutions, mutual fund companies and financial planners; and late-night “get rich quick” infomercials.

However, on any given day, 81 percent of American adults consume news via television, newspapers, radio and/or the internet⁵³, and 44 percent read newsmagazines “sometimes” or “regularly.”⁵⁴ Media consumption is a repetitive activity with the potential to reach the same people multiple times with information.

While noncommercial, objective financial education resources, guides, tips and checklists are readily available, many adults simply don’t know where to turn to begin. Others choose to hide themselves from accessing a body of knowledge they perceive to be difficult and intimidating, or they just don’t want to be told that they can’t buy the things they want. When so many Americans interact with media on a daily and weekly basis, information and messages delivered

through media will help consumers become aware of basic personal finance concepts and where to go for more information. Media often illustrate their reporting with stories about real people and their families, which also may inspire consumers to take the first step towards financial capability when they can relate to role models in media stories.

In recommending that the governmental human and financial resources be appropriated for this purpose, the Council makes the following specific suggestions:

- Create a dedicated U.S. Financial Literacy Office of Public Affairs to:
 - Oversee media and marketing strategy
 - Develop messaging/talking points and train spokespeople as appropriate
 - Develop and maintain media contact lists
 - Coordinate media outreach among key personnel in other governmental departments and agencies
 - Coordinate and direct media outreach among President’s Advisory Council members and promote the work of the Council
 - Develop a targeted outreach strategy to the top 100 U.S. media outlets to encourage them and to provide the tools for them to develop (or deepen) their focus on personal finance.
 - Develop marketing messages and campaigns
 - Work interactively with nonprofit and commercial financial education organizations
 - Track and measure overall media marketing efforts and effectiveness

- Designate dedicated Public Affairs Officers in key departments and agencies (e.g., Treasury and other members of the Financial Literacy and Education Commission (FLEC)) to:
 - Pitch media stories on relevant aspects of financial capability based on their respective agencies
 - Integrate financial capability into agencies’ Web sites, programs, speeches, etc.
 - Develop and implement appropriate marketing and outreach activities to support overall marketing initiatives of the central Financial Literacy Office of Public Affairs
 - Reinforce their role as a integral part of the greater campaign coordinated by the central Financial Literacy Office of Public Affairs (or Treasury, or FLEC, or other agency as appropriate) – it is important to allow appropriate autonomy at the “local” level while leveraging the benefits of the umbrella effort

- Develop and launch a federal government public service communications campaign
 - Develop guidelines, such as a recommended individual savings rate, that provide individual Americans with the information they need to set appropriate financial goals and then communicate those guidelines via a broad-based public service communications campaign.
 - Public service communications campaign should encourage Americans to set financial goals, live within a budget, build savings and participate fully in financial education opportunities available to them.
 - The campaign should encourage Americans to get more information at the federal government’s financial literacy web site, www.mymoney.gov.

Conclusion

It is the view of the Council that Treasury should implement these recommendations as soon as possible. The current economic crisis underscores the need for financial literacy. Misunderstanding and uncertainty has left public confidence in our financial system at its lowest point in decades. Providing financial education in our schools, our communities, and our workplaces is critical to restoring that confidence, improving our economy and maintaining America's competitive advantage in the world. The Council pledges to work with the new administration and the 111th Congress to implement these recommendations in 2009.

DRAFT

Appendix A

Members of the President's Advisory Council on Financial Literacy

- Charles R. Schwab, Chairman and Founder, The Charles Schwab Corporation, San Francisco, California – *Chairman*
- John Hope Bryant, CEO and Founder, Operation HOPE, Los Angeles, California – *Vice Chairman*
- Ted Beck, President and CEO, National Endowment for Financial Education (NEFE), Greenwood Village, Colorado
- Ted Daniels, President and CEO, Society for Financial Education and Professional Development, Arlington, Virginia
- Vice Admiral Cutler Dawson, President and CEO, Navy Federal Credit Union, Vienna, Virginia
- Robert Duvall, President and CEO, National Council on Economic Education (NCEE), New York, New York
- Dr. Tahira Hira, Professor and Executive Assistant to the President, Iowa State University, Ames, Iowa
- Jack Kosakowski, Executive Vice President and COO of Junior Achievement USA, Colorado Springs, Colorado
- Sharon Lechter, CEO and Founder, Lechter Development Group and Vice President, Childhelp, Paradise Valley, Arizona
- Reverend Dr. Robert Lee, Chairman and CEO, Fresh Ministries, Jacksonville, Florida
- Laura Levine, Executive Director, Jump\$tart Coalition for Personal Finance, Washington, D.C.
- David Mancl, Director, Office of Financial Literacy, Wisconsin Department of Financial Institutions, Madison, Wisconsin
- Don McGrath, Chairman, BancWest Corporation, San Francisco, California
- Janet Parker, Chair, Society for Human Resources Management (SHRM) and Executive Vice President, Human Resources, Regions Financial Corporation, Birmingham, Alabama
- Ignacio Salazar, President and CEO, SER-Jobs for Progress National, Inc., Irving, Texas
- Mary Schapiro, CEO, Financial Industry Regulatory Authority (FINRA), Washington, DC
- Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education, Department of the Treasury, Washington, D.C. – *Executive Director*

Appendix B

Committee Membership

Committee on Outreach

Ted Beck, *Chair*
 John Hope Bryant
 Sharon Lechter
 Rev. Dr. Robert Lee
 Laura Levine

Committee on Research

Dr. Tahira Hira, *Chair*
 Robert Duvall
 Don McGrath
 Mary Schapiro

Committee on the Underserved

John Hope Bryant, *Chair*
 Sharon Lechter
 Rev. Dr. Robert Lee
 Ignacio Salazar

Committee on Workplace Financial Education

Janet Parker, *Chair*
 Cutler Dawson
 Dr. Tahira Hira
 David Mancl
 Ignacio Salazar
 Mary Schapiro
 Charles Schwab

Committee on Youth Financial Education

Laura Levine, *Chair*
 Ted Beck
 Ted Daniels
 Robert Duvall
 Jack Kosakowski
 David Mancl

Liaison to the Financial Literacy and Education Commission

Cutler Dawson, *Liaison*
 Ted Daniels, *Alternate Liaison*

Acknowledgements

The Members of the President's Advisory Council wish to thank the following individuals for their contributions to this report and support of the Council's efforts:

M.J. Alhabeeb, University of Massachusetts Amherst
Paul Atkins, Securities and Exchange Commission
Steve Bartlett, Financial Services Roundtable
Sandy Baruah, U.S. Small Business Administration
John Bienko, U.S. Small Business Administration
Sandra Braunstein, Federal Reserve
Justin Bynum, FreshMinistries
Marilyn Canfield, National Endowment for Financial Education
Jovita Caranza, U.S. Small Business Administration
Neal Carlton, Office of the Treasurer of the United States
Richard Carrion, Banco Popular
Sarah Carter, Office of the Treasurer of the United States
David Casserly, Jump\$tart Coalition
William Cheeks, Jump\$tart Coalition
Julie Cram, White House Office of Public Liaison
John Dalton, Housing Policy Council
Rachael Doff, Operation HOPE, Inc.
Dara Duguay, Citigroup
Barbara Flowers, University of Missouri-St. Louis
Lisa Fogarty, Federal Reserve Bank of Atlanta
James Forney, Iowa Credit Union Review Board
Jonathan Fox, Ohio State University
John Gannon, FINRA
Joseph Goetz, University of Georgia
William Gustafson, Texas Tech University
Mary Hagerty, Operation HOPE, Inc.
Sherman Hanna, Ohio State University
Celia Hayhoe, Virginia Tech University
Michael Heid, Wells Fargo Mortgage
Cara Heiden, Wells Fargo Mortgage
Jay Hein, White House Office of Faith-Based and Community Initiatives
Robert Herencia, Banco Popular
Jeanne Hogarth, Federal Reserve Board
Barry Jackson, White House Office of Strategic Initiatives and External Affairs
Sharon Jones, Office of the Council Vice Chairman
Christine Kieffer, FINRA
Elizabeth Kiss, Purdue University
Karrol Kitt, University of Texas at Austin
Frances Lawrence, Louisiana State University
Quentin Lawson, National Alliance of Black School Educators
Anisha Lewis, National Alliance of Black School Educators

H. Randy Lively, Jump\$tart Coalition
Dennis Lockhart, Federal Reserve Bank of Atlanta
Dawn Lockhart, Family Foundations
James Lockhart III, Office of Federal Housing Enterprise Oversight
Bill Longbrake, Washington Mutual
Katie Loovis, USA Freedom Corps
Jean Lown, Utah State University
Annamaria Lusardi, Dartmouth College
Angela Lyons, University of Illinois at Urbana-Champaign
Lewis Mandell, State University of New York at Buffalo
Shazia Manus, Greater Iowa Credit Union
Sarapage McCorkle, Junior Achievement of Mississippi Valley, Inc.
Edye McCown, FreshMinistries
Bobbie McCrackin, Federal Reserve Bank of Atlanta
Christina McWilson, Office of Rep. Sheila Jackson Lee
Jedd Medefind, White House Office of Faith-Based and Community Initiatives
Neil Milner, Jump\$tart Coalition
Robert Mooney, Federal Deposit Insurance Corporation
Charles Moran, State University of New York, Cobleskill
Brent A. Neiser, National Endowment for Financial Education
Barbara O'Neill, Rutgers University
Lance Palmer, University of Georgia
Debra Pankow, North Dakota State University
Jonathan Pepper, Bureau of the Public Debt
Anoop Prakash, Department of Housing and Urban Development
Aimee Prawitz, Northern Illinois University
Jena Roscoe, Operation HOPE, Inc.
Michael Rupured, University of Georgia
Sean Rushton, U.S. Small Business Administration
Joanne Russell, Office of the Council Vice Chairman
Desiree Sayle, USA Freedom Corps
Holly Schick, U.S. Small Business Administration
Jane Schuchardt, U.S. Department of Agriculture
Nancy Schwartzmiller, Georgia Consortium for Personal Financial Literacy
Patricia A. Seamon, National Endowment for Financial Education
Deanna Sharpe, University of Missouri-Columbia
Marlene Stum, University of Minnesota
Mary Suiter, Federal Reserve Bank of St. Louis
Michael Townsend, Charles Schwab
Ken Wade, NeighborWorks
William Walstad, University of Nebraska-Lincoln
Robert Weagley, University of Missouri
Anne Whatley, Iowa Credit Union League
Barry Wides, Office of the Comptroller of the Currency
Molly Wilkinson, U.S. Small Business Administration
Jing Xiao, University of Rhode Island

The Council also offers thanks to two special advisors, Treasurer of the United States Anna Escobedo Cabral and Carrie Schwab-Pomerantz, whose dedication and commitment to the cause of improving financial literacy is an inspiration.

The Council also thanks the following leaders of federal agencies and Members of Congress for their support and counsel:

Secretary of the Treasury Henry Paulson, Jr.
Secretary of Housing and Urban Development Steven Preston
Federal Reserve Chairman Ben Bernanke
Federal Deposit Insurance Corporation Chair Sheila Bair
Comptroller of the Currency John Dugan
Director of Thrift Supervision John Reich
Representative Ruben Hinojosa, D-Texas
Representative Judy Biggert, R-Illinois
Representative Diane Watson, D-California
Representative Sheila Jackson Lee, D-Texas

Finally, Council members wish to express their deep gratitude to the staff of the Office of Financial Education at the Department of the Treasury, whose patience, dedication and enthusiasm have been essential to the Council's success:

Dan Iannicola, Jr., Deputy Assistant Secretary
Peter Barrett
Edwin Bodensiek
Dubis Correal
Alise DeLeon
Justin Grove
Sonia Klukas
Thomas Kurek
Judy Ochs
Grant Overlock
Louisa Quittman
William Sullivan
Naomi Venon

Notes

¹ Committee membership is listed in Appendix B.

² JumpStart Coalition for Personal Finance, “Financial Literacy Still Declining among High School Seniors, JumpStart Coalition’s 2008 Survey Show,” press release, April 9, 2008, <http://www.jumpstart.org/fileuptemp/2008%20JumpStart%20Release%20Final.doc>.

³ JumpStart Coalition for Personal Finance first ran the survey in 1997, where test-takers achieved an average score of 57%.

⁴ Charles Schwab 2007 Teens & Money Survey, <http://www.aboutschwab.com/community/financial-literacy/teens-and-money.html>

⁵ JumpStart Coalition for Personal Finance “Financial Literacy Still Declining...”, April 9, 2008.

⁶ Manton, Edgar J., Donald E. English, Stephen Avard, and Janet Walker, “What College Freshmen Admit to Not Knowing about Personal Finance,” *Journal of College Teaching & Learning*, Vol. 3, No., 1, January 2006, p. 43.

⁷ The Project on Student Debt, “Student Debt and the Class of 2007,” October 2008, p. 1.

<http://projectonstudentdebt.org/files/pub/classof2007.pdf>. See also, Pilon, Mary, “A Bachelor’s in Borrowing,” *The Wall Street Journal*, November 25, 2008.

⁸ U.S. Public Interest Research Group Education Fund, “The Campus Credit Card Trap: A Survey of College Students and Credit Card Marketing,” March 2008, p. 5.

<http://www.uspirg.org/uploads/ym/ir/ymirZbG5OLxH2NPUxOENdA/correctedthecampuscreditcardtrapmar08all.pdf>. See also Pugh, Tony, “College students’ credit-card debt spurs concern,” McClatchy Newspapers, August 11, 2008. <http://www.mcclatchydc.com/152/story/46745.html>

⁹ “The Campus Credit Card Trap,” p. 6.

¹⁰ “The Campus Credit Card Trap,” p. 6.

¹¹ “Undergraduate Students and Credit Cards in 2004,” Nellie Mae, June 2005, p. 4.

http://www.nelliemae.com/pdf/ccstudy_2005.pdf

¹² Id., p. 2.

¹³ Id., p. 2.

¹⁴ Sallie Mae, “Sallie Mae Launches New ‘Be Debt Smart’ Campaign to Educate Students, Parents and Graduates on Managing Debt and Understanding Credit,” February 14, 2007. <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/02-14-2007/0004527577&EDATE=>

¹⁵ Consumer Federation of America and Wachovia, “More Than Half of Americans Say They Are Not Saving Adequately,” press release, December 10, 2007, p. 4.

http://www.consumerfed.org/pdfs/CFA_Wachovia_Savings_Press_Release_12_10_07.pdf

¹⁶ Harris Interactive, “One-Third of College Upperclassmen Admit Being Financially Unprepared as Freshmen,” October 23, 2006. <http://www.harrisinteractive.com/news/printerfriend/index.asp?NewsID=1108>

¹⁷ National Council on Economic Education, “Survey of the States: Economic, Personal Finance and Entrepreneurship Education in Our Nation’s Schools in 2007.”

http://www.ncee.net/about/survey2007/NCEESurvey2007.pdf?bcsi_scan_C360565D39A1225E=0&bcsi_scan_file_name=NCEESurvey2007.pdf

¹⁸ JumpStart Coalition for Personal Finance, “State Financial Education Requirements: An Interactive Map.”

http://www.jumpstart.org/state_legislation/index.cfm

¹⁹ Differences between the NCEE and JumpStart data may be attributed to differing definitions of a “requirement” and the point in time when the data was collected.

²⁰ “Charles Schwab 2008 Parents and Money Survey Findings,” p. 3.

http://www.aboutschwab.com/media/pdf/2008_Schwab_Parents_and_Money_Survey_Factsheet.pdf

²¹ The questions were paired, such that for each of the 35 questions, a student would receive either Question A or Question B. For each student, the number of questions from column A and from column B were randomly generated.

²² Magnarelli, Margaret, “Teaching Kids About Money: How Corporations Turn Our Kids Into Consumers,” *Parents*, March 1, 2004.

<http://www.parents.com/parents/printableStory.jsp?storyid=/templatedata/parents/story/data/5586.xml>

²³ American Institute of Stress, <http://www.stress.org/topic-workplace.htm>

²⁴ Financial Literacy Partners, LLC, “Employee Financial Stress Is Costing Your Company a Bundle,” p. 2.

http://www.finlitinc.com/images/Employee_Financial_Stress_is_Costing_Your_Company_A_Bundle.pdf

- ²⁵ According to the Bureau of Economic Analysis, the last year for which net saving as a percentage of gross national income exceeded 10% was 1973. In 2007, the rate was 1.7%.
- ²⁶ Garman, E. Thomas, et al., “Financial Distress Among American Workers,” Personal Finance Employee Education Foundation, March 23, 2005, p. 3. <http://www.personalfinancefoundation.org/features/feature-3full.pdf>
- ²⁷ Kim, Jinhee and E. Thomas Garman, “Financial Stress, Pay Satisfaction and Workplace Performance.” *Compensation and Benefits Review*, January/February 2004, p. 71.
- ²⁸ Id., p. 72.
- ²⁹ Society for Human Resource Management, Weekly Online Survey, January 8, 2008. http://www.shrm.org/hrresources/surveys_published/bydate/1Are%20your%20employees%20managing%20their%20finances%20well_.ppt
- ³⁰ Womack, Brian, “When Credit Traumas Have Workers Down in the Dumps,” *Investor’s Business Daily*, November 30, 2008.
- ³¹ CFO Research Services and Charles Schwab, “A Shared Benefit: Employer Views on the Value of 401(k) Plans,” p. 7. http://www.aboutschwab.com/media/pdf/cfo_research_schwab_whitepaper.pdf
- ³² “IBM Delivers Financial Education and Planning for All U.S. Employees,” company press release, March 8, 2007. <http://www-03.ibm.com/press/us/en/pressrelease/21197.wss>
- ³³ “McDonald’s USA and Visa Inc. Launch America’s Largest Employer-Based Financial Literacy Program,” company press release, December 4, 2008. <http://www.marketwatch.com/news/story/McDonaldsR-USA-Visa-Inc-Launch/story.aspx?guid=%7B055187DD-8F18-46BA-B712-64E84A48F8A5%7D>
- ³⁴ Mandell, Lewis, “Financial Education in the Workplace: Motivations, Methods and Barriers,” New America Foundation, November 2008, p. 5. <http://www.newamerica.net/files/Financial%20Education%20in%20the%20Workplace.pdf>
- ³⁵ Id., p. 36.
- ³⁶ Alliance for Economic Inclusion, <http://www.fdic.gov/consumers/community/AEI/overview.html>
- ³⁷ Center for Financial Services Innovation, “The CSFI Underbanked Consumer Study,” June 8, 2008. http://www.cfsinnovation.com/research-paper-detail.php?article_id=330366
- ³⁸ TowerGroup, “As U.S. ‘Unbanked’ Population Grows, Financial Institutions Must Develop New Approaches,” JumpStart Coalition for Personal Finance, July 30, 2008.
- ³⁹ Center for Financial Services Innovation, “Highlights from the Inaugural Underbanked Financial Services Forum,” p. 2. http://www.cfsinnovation.com/document/highlights_underbanked_forum.pdf
- ⁴⁰ Testimony of Secretary John W. Snow, U.S. Senate Committee on Banking, Housing and Urban Affairs, May 23, 2006. <http://www.treas.gov/press/releases/js4279.htm>
- ⁴¹ See e.g., Lohmer, Josh, “Growing a Middle Class,” *State Legislatures Magazine*, National Conference of State Legislatures. http://www.ncsl.org/programs/pubs/slmag/2006/06SLOctNov06_MiddleClass.htm
- ⁴² Orozco, Manual, “The Remittance Marketplace: Prices, Policies and Financial Institutions,” Pew Hispanic Center, June 7, 2004, p. 1. <http://pewhispanic.org/files/reports/28.pdf>
- ⁴³ The Urban Institute, “Analysis of Alternative Financial Services Providers,” p. 3. http://www.urban.org/UploadedPDF/410935_AltFinServProviders.pdf
- ⁴⁴ Id., p. 4.
- ⁴⁵ TowerGroup, “As U.S. ‘Unbanked’ Population Grows, Financial Institutions Must Develop New Approaches,” press release, July 30, 2008.
- ⁴⁶ See, for example, “First Accounts: A U.S. Treasury Program to Expand Access to Financial Institutions,” a study of the results of a grant awarded to the Center for Economic Progress for an unbanked initiative in Chicago, which concludes that the program resulted in “significant account usage and impact on financial behavior.” http://www.chicagofed.org/community_development/files/02_2006_first_accounts.pdf
- ⁴⁷ E.g., the JumpStart Coalition’s *National Standards in K-12 Personal Finance Education*. Available at <http://www.jumpstart.org/guide.html>
- ⁴⁸ E.g., Institute for Financial Literacy’s *National Standards for Adult Financial Literacy Education*. Available at http://www.financiallit.org/resources/pdf/21.2.1_NationalStandards&Benchmarks_SecondEdFinal.pdf
- ⁴⁹ Godsted, David and Martha Henn McCormick, “National Adult Financial Literacy Overview,” Networks Financial Institute at Indiana State University, August 2007, p. 3. http://www.networksfinancialinstitute.org/Documents/2007-NFI-05_AdultFL.pdf
- ⁵⁰ National Foundation for Credit Counseling, “Financial Literacy Survey Summary Report,” p. 4. http://www.nfcc.org/NFCC_SummaryReport_ToplineFinal.pdf

⁵¹ Bankrate.com, “Americans on the brink of financial literacy,” March 16, 2003.

<http://www.bankrate.com/brm/news/financial-literacy/grade-home.asp>

⁵² Applied Research and Consulting, LLC, “NASD Investor Literacy Survey

⁵³ Pew Research Center, “2008 Biennial News Consumption Survey,” p. 7. <http://people-press.org/reports/pdf/444.pdf>

⁵⁴ Id., p. 19.

DRAFT