

President's Advisory Council on Financial Literacy



*2008 Annual Report
to the President
Executive Summary*

Members of the President's Advisory Council on Financial Literacy

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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

Dr. 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, President, Junior Achievement USA, Colorado Springs, Colorado

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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

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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

United States Department of the Treasury Office of Financial Education

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Letter from the Chairman

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

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.

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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.

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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.

