

**President's Advisory Council on Financial Capability
Public Meeting
Department of the Treasury – Cash Room
April 16, 2012 10:00 am – 12:00 pm**

Meeting Minutes

Council Members Present:

John Rogers, Jr., Chair
Roland A. Arteaga, Member
Janie Barrera, Member
Ted Beck, Member
Sherry Salway Black, Member
John Hope Bryant, Member
Samuel T. Jackson, Member
Richard Ketchum, Member
Beth Kobliner, Member
Marc Morial, Member
Amy Rosen, Member
Carrie Schwab-Pomerantz
Eldar Shafir, Member
Kenneth Wade, Member
Melissa Koide, Executive Director of PACFC, U.S. Department of the Treasury

Panel Members:

- Annamaria Lusardi, Denit Trust Distinguished Scholar in Economics and Accountancy, George Washington University School of Business
- John Lynch, Ted Andersen Professor of Free Enterprise, Leeds School of Business, University of Colorado Boulder, and the Director of the Center for Research on Consumer Financial Decision Making
- Richard Thaler, Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics, University of Chicago, Booth School of Business

Also Present:

- Cyrus Amir-Mokri, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury
- Alison T. Borland, Vice President, Retirement Strategy and Product Development by Aon Hewitt
- Karen Gross, U.S. Department of Education

Introduction, Announcements, and Items of Interest

The Meeting of the President's Advisory Council on Financial Capability (the "Council") convened at 10:00 AM on July 16, 2012. Cyrus Amir-Mokri, Assistant Secretary for Financial Institutions, U.S. Department of the Treasury welcomed the Council members and delivered introductory remarks. Assistant Secretary Amir-Mokri discussed the role of research, technology, and approaches to financial education in advancing American financial capability and as a means to addressing the growing opportunity gap within the United States. Following

Assistant Secretary Amir-Mokri, John Rogers, Jr., Chairman, CEO, and Chief Investment Officer of Ariel Investments and Chair of the Council, called to order the meeting and welcomed the Board's newest member to the Council, Marc Morial, the former mayor of New Orleans and the current President and CEO of the National Urban League. Chairman Rogers then introduced Alison T. Borland, Vice President, Retirement Strategy and Product Development by Aon Hewitt to give her presentation.

Ms. Borland revealed findings from a recent study sponsored by the Ariel Education Initiative and Aon Hewitt, in addition to several partner organizations. Ms. Borland discussed the implications of this research, which uncovered the relationship between race and ethnicity and 401(k) behaviors. The results showed that African-American and Hispanic retirement savings continue to significantly lag when compared to other demographics. It also suggested that the economic downturn has exacerbated these differentials and disproportionately impacted minorities. On the other hand, Asian employees showed strongest savings behaviors. Throughout her presentation and at its conclusion, Ms. Borland addressed questions from Chairman Rogers, Member John Hope Bryant, Founder, Chairman, and CEO of Operation HOPE, Vice Chair of the Council Amy Rosen, President and CEO, Network for Teaching Entrepreneurship, Member Beth Kobliner, Personal Finance Journalist, Executive Director of PACFC Melissa Koide, Member Carrie Schwab-Pomerantz, President, The Charles Schwab Foundation, and Karen Gross, U.S. Department of Education.

Executive Director Koide introduced the Chair of the Research and Evaluation Subcommittee Ted Beck, President and CEO, National Endowment for Financial Education, to offer some opening remarks prior to the panel discussion. Mr. Beck thanked his fellow Subcommittee members and spoke about the subcommittee's focus on promoting effective research and measurements in order to help all Americans make informed financial decisions. The Subcommittee recommended that standards be established for programs to provide benchmarks moving forward. Member Beck noted that the Subcommittee has also worked closely with the Financial Literacy and Education Commission (FLEC) to help the Commission develop its research priorities and has strongly supported the involvement of the United States in the Programme for International Student Assessment (PISA) study.

Panel Discussion

Executive Director Koide introduced the meeting's three featured panelists – Annamaria Lusardi, John Lynch, and Richard Thaler.

Annamaria Lusardi, Denit Trust Distinguished Scholar in Economics and Accountancy at George Washington University School of Business began the discussion. Professor Lusardi spoke about the different approaches to financial capability, what we have learned thus far, and what more can be done. Professor Lusardi stated that individuals are at the heart of making complex and intricate financial decisions and consequently, data and data collection about them is critically important. Professor Lusardi highlighted that we know there is a mismatch between what people know and what they think they know and that certain groups are most vulnerable to financial scams. Professor Lusardi noted that there are at least three places where financial education should exist – in the school, the workplace, and the community. Professor Lusardi

closed by emphasizing that financial literacy is an essential skill and ignoring its benefits can have a significant cost in the future.

Next, John Lynch, Ted Andersen Professor of Free Enterprise, Leeds School of Business, University of Colorado Boulder, and the Director of the Center for Research on Consumer Financial Decision Making, spoke about “Just in Time Financial Education,” which focuses on the consumer psychology aspect of financial capability. Professor Lynch explained that information people learn today tends to decay over time and revealed that people do not map the context in which they learn these concepts to later situations in their lives. Therefore, Professor Lynch proposes that providing help and education closer to the time of action is perhaps more helpful in making wise financial decisions. Professor Lynch discussed the role of consideration sets and the importance of making sure that financial education is provided just prior to significant financial decisions and not too late.

Lastly, Richard Thaler, Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics, University of Chicago, Booth School of Business, focused his presentation on “Smart Disclosure.” Professor Thaler highlighted that financial education is important and should be incorporated into high school curricula, but that these actions are not the solution in themselves. Professor Thaler advocated that electronic disclosures of data and information can help consumers make good financial choices and will make consumers “smarter” through aggregate data processed by these choice engines.

Executive Director Koide initiated the panel’s “Question and Answer Session” with a question directed to the three panelists. She noted that all three academics talked about very different approaches to financial education. Taking this into account, she asked where policymakers and the federal government should go from here. Professor Thaler responded that he advocates for more experiments and randomized trials in order to make a justification as to what the best next steps are. Professor Lusardi agreed with this statement and added that with respect to the different approaches, many of them are complements to each other and should be utilized in tandem. Professor Lynch noted two elements of Smart Disclosure that are important to its effectiveness – individuals being able to upload data and individuals being able to know what the features are of the products in the product space. He stated that in order for this to work, there needs to be required disclosure of the actual feature of the financial product.

Vice Chair Rosen asked Professor Thaler about the role of government and Smart Disclosure in the education sector. Professor Thaler highlighted the Administration’s effort to issue pre-populated financial aid forms and reiterated that in order to move forward with Smart Disclosure initiatives, we need to have access to raw data.

Mr. Morial contributed his thoughts on the need for more research, additional exploration, and experimentation as well as the importance of focusing on technology, specifically mobile adoption. Mr. Morial emphasized the necessity to start the process of financial education earlier in an individual’s life. He proposed to Chairman Rogers that one of the Council’s focuses should be to come up with a set of short-term recommendations and some action steps, while at the same time thinking of this area of research in the long-term.

Ms. Schwab-Pomerantz asked Professor Thaler and Professor Lynch to speak more about their claims that financial literacy does not stick with individuals over time and thus, the effectiveness of educating youth. Professor Lynch stressed the weak connection between knowledge and behavior and the fallacy in the intuition that starting financial education at a young age has clear educational and behavioral benefits. At this time, the evidence is not overly apparent. Professor Thaler noted that certain types of educational concepts learned in youth stick while others do not. Specifically, he noted that formulas do not stick but principles and rules of thumb do.

Chairman Rogers followed-up on Professor Thaler's response. Professor Lynch used the example of the new food plate in contrast to the traditional food pyramid as a means to helping people know how to act in a way that sticks.

Member Eldar Shafir, Princeton University, suggested a way to frame the narrative of all three approaches working together. He noted that once you have designed the choice engine and gathered the downstream advice, people who have been educated will allow those engines to do better than if they had not been.

Member Richard Ketchum, Chairman and CEO, the Financial Industry Regulatory Authority (FINRA), asked Professor Thaler and Professor Lynch how consumers can process the levels of complexity cited in their financial education models. Professor Thaler responded with a two part approach – create a class of simple products and then release the data. He emphasized the value of transparency.

Ms. Kobliner asked the panelists to speak a bit more about the steps that come before engaging in Smart Disclosure or choice engine engagement, especially if people have already made financial decisions. Professor Thaler noted that there is no simple answer to this but the choice engine in itself would serve as a means to making good decisions. Professor Lynch emphasized timing and that an individual would obtain assistance before engaging in a significant financial transaction. Professor Lusardi added that you have to be able to ask the right questions.

Bob Solomon echoed Professor Thaler in that choice engines need to be transparent. Ms. Gross commented that marrying public data sets with either private intervention or government across agencies is a really important idea.

Mr. Bryant proposed a question to the panel, which Professor Thaler addressed by describing “Just in Time Financial Education” in further detail. Professor Thaler reiterated that through the “Just in Time” approach to financial education, which provides the user with the right tools it needs at the moment of a financial decision. Vice Chair Rosen proposed a final question to Professor Thaler regarding in the nature of school curriculum and financial education. Professor Thaler revealed that he is all in favor of children learning compound interest but he worries that five years later, they will remember little of the content.

Chairman Rogers and Executive Director Koide thanked the panel, and the Council proceeded with Subcommittee updates.

Subcommittee Reports

Subcommittee on Underserved and Community Empowerment

Member Bryant, Chair of the Subcommittee on Underserved and Community Empowerment, commended Artie Arteaga, President and CEO, The Defense Credit Union Council, for his MyMoneyAppUp recommendation which was adopted by Treasury and Samuel Jackson, Founder, Chairman and CEO, Operation HOPE, for his idea of “Know Before You Apply,” which is tied to higher education and student loans. Mr. Bryant also recognized Sherry Black, Director, Partnership for Tribal Government, for her contributions regarding with tribal areas and Janie Barrera, Founder and CEO, ACCION Texas Inc., for her work with the Federal Reserve and minority small businesses. He noted that through coordinating with the Partnership Committee, a local financial literacy resource guide has been approved and is available on the Internet. Bryant advised that 100 plus local financial literacy councils are now in place around the nation. He noted that his goal is to double that number and expand to 200 local councils before the Committee issues its final report.

Youth Subcommittee

Vice Chair of the Council and Chair of the Youth Subcommittee Rosen noted that the Youth Subcommittee is looking deeply at how it can be more effective in helping young people make better judgments when they are applying for student loans and focusing on how innovation and technology can help advance this area. Second, the Subcommittee is honing in on the Common Core issues and is talking to experts specifically about making financial education more accessible to students through the Common Core in Math and English/Language ARts. Ms. Kobliner added an update on the Money as You Grow Working Group. To date, more than a quarter of a million people have visited the Money as You Grow site and the goal is to attract one million families total by year end. The initiative has received quite a bit of media attention and the CFPB is currently considering ways to test Money as You Grow.

Partnership Subcommittee

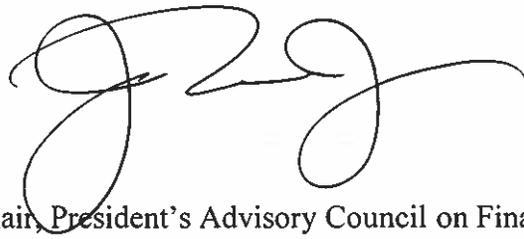
Member Schwab-Pomerantz, Chair of the Partnerships Subcommittee, provided an update on three areas they have been working on over the last year. She acknowledged the success of the Council guide as noted by Mr. Bryant earlier. The other two areas have been rooted in workplace financial education. First, the Subcommittee’s recommendation to direct federal agencies to provide financial education to its own employees is continuing to move forward. Secondly, the Subcommittee is focused on improving the financial capability in the private sector and helped with the White House Summit and its white paper. She concluded by thanking all Committee members who have been involved with this endeavor.

Executive Director Koide asked Chairman Rogers for any final thoughts or comments. Chairman Rogers concluded the session.

Adjournment

The meeting adjourned at 12:10 P.M.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to read 'JR' followed by a long horizontal flourish.

John Rogers, Jr., Chair, President's Advisory Council on Financial Capability