President's Advisory Council on Financial Capability
Youth Subcommittee
April 9, 2012

Subcommittee Members: Amy Rosen (Chair), Ted Beck, Sherry Salway Black, John Bryant, Samuel Jackson, Beth Kobliner, John Rogers (ex-officio), and Carrie Schwab-Pomerantz

Updates

National Financial Capability Challenge:
The Treasury Department's National Financial Capability Challenge is currently underway. This Challenge encourages high school educators to teach youth about financial capability matters, and rewards high performing students and their schools. The Challenge runs through Friday, April 13, so there is still time for educators to register to offer the challenge at **www.challenge.treas.gov**.

K-12 Standards and Curricula:
The Youth Committee continues to work with several districts to encourage strategies that will encourage curricula relating to Financial Capabilities be incorporated throughout core classes in K-12. Innovative approaches are being investigated in several cities including Chicago, Newark and Baltimore along with innovative teacher trainings being piloted in several states including Vermont.

Next steps:

Student Loans: The Youth Subcommittee will continue to work with US Department of Education in looking for strategies to promote the new "pay-as-you-earn" strategies and to ensure their effective administration.

K-12 Curricula: The Youth subcommittee is actively looking at strategies to incentivize the development of curricula that can fulfill the learning objectives of both the English-Language Arts and Math Common Core Standards.

Research: The Youth Subcommittee is going to partner with the Research subcommittee to support quantitative investigations linking behavioral change with knowledge gain.

Recommendations

Money as You Grow

The President's Advisory Council on Financial Capability (PACFC) recommends that the President encourage federal agencies, through Executive Order, to promote and utilize *Money as You Grow* as one tool to improve the financial capability of America's youth.

Background and Rationale:
There is a clear need to improve the financial capability of America's youth. Research has shown that parents[1] strongly influence children's financial behaviors,[2] and that communities play a vital

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[1] Shim, Soyeon, and Joyce Serido. (2011). *Young Adults' Financial Capability: APLUS Arizona Pathways to Life Success for University Students Wave 2*. Take Charge America Institute for Consumer Financial Education and Research.

role[3] in helping to shape families' decisions. So far, there has been no federal effort to distill the plethora of existing standards and curricula into a cohesive set of age-appropriate guidelines geared toward children and families.

For 16 months the PACFC Youth Subcommittee studied the core concepts that every child and his or her family need to know to be financially fluent, culling a multitude of standards, curricula, and guidelines such as the Financial Literacy and Education Commission's Core Competencies, the Common Core State Standards for Mathematics from the National Governors Association, the Council for Economic Education's Financial Fitness for Life, Network for Teaching Entrepreneurship's Your Financial Future, Jump$tart Coalition's National Standards, and the National Endowment for Financial Education's High School Financial Planning Program. Several dozen academic research studies were used for guidance, and more than 100 community leaders nationwide provided valuable feedback.

The end result is *Money as You Grow*, an interactive tool that presents 20 financial milestones for children from preschool age to young adults. Written in easy-to-understand language, these lesson and activities can be used by families and the local community of businesses, financial institutions, schools, nonprofits, and even places of worship to talk to kids about money. A variety of steps can be taken to improve financial capability among children, such as:

- *Recommend and promote* Money as You Grow *on MyMoney.gov, the Consumer Financial Protection Bureau's website (cfpb.gov), and websites of other federal agencies.*

- *Create consistent, ongoing awareness for* Money as You Grow, adopting strategies similar to those the Administration has already employed for anti-bullying efforts and MyPlate, which could include distribution to principals, guidance counselors and libraries nationwide.

- *Expand partnerships.* In addition to existing efforts with the American Savings Education Council, the PACFC could partner with other nonprofit organizations to provide financial capability tools and information for children and families.

- *Develop a set of standards for measuring success* and report annually on the effectiveness of these teaching tools and awareness campaigns.

This short list of possible ways to improve Americans' financial capability using *Money as You Grow* is not exhaustive; it is meant to be a starting point for a national strategy to teach children about money.

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[2] Hira, Tahira K. "Childhood Consumer Experience and the Financial Literacy of College Students in Malaysia." *Family & Consumer Sciences Research Journal* 38.4 (2010): 455-467.

[3] Kubisch, Anne C., et al. (2002). *Voices from the Field II: Reflections on Comprehensive Community Change*. The Aspen Institute. Roundtable on Comprehensive Community Initiatives for Children and Families.

Roth at Birth

The Council recommends that the Department of the Treasury evaluate the merit of the Roth at Birth concept, intended to encourage families to begin early savings for their children, and consider whether legislation to give effect to such a concept would be advisable. This recommendation will need to be evaluated within the context of sound tax, retirement, and budget policies in order to promote the purpose in a cost-effective, equitable, efficient, and otherwise appropriate manner in accordance with those policies.

<u>Background and Rationale:</u>

Research shows that children can build financial capability and knowledge when given the opportunity to have their own savings account, that such children are more upwardly mobile, and that children with accounts in their own name are about seven times more likely to attend college than those lacking accounts. Simple math proves the power of the time value of money -- the earlier one starts saving, the higher the account balance in retirement, even when those early deposits are modest.

The Roth at Birth concept would make available a savings vehicle for young Americans to amass savings for important financial life events: college, first-home purchase and retirement. It is a voluntary financial product available nationwide that could easily be created by a simple modification to the earned income rules of existing Roth IRAs: allowing children, who generally lack earned income, to use their parents' earned income limits and contribution limits to make contributions. Current law actually allows non-wage-earning spouses to contribute to Roths despite not having earned income; the Roth at Birth concept would simply extend this exception to dependent children. This modification to existing law would not require direct government outlays, but the impact on revenues would need to be carefully evaluated.

The proposal would not expand the current-law limits on Roth IRA contributions or change the current-law income eligibility rules for Roth IRAs. It would in effect permit parents – including wage-earning individuals and non-wage-earning spouses – who are otherwise eligible under current law to make Roth IRA contributions to share some of all of their permissible contributions (not including any catch-up contribution for those age 50 or older) with their dependent children even if the children had no earned income. Thus, for example, if each of two spouses were eligible to make up to $5,000 a year in contributions to a Roth IRA (for a total of $10,000 in family Roth IRA contributions), they would be able to make up to an annual aggregate of $10,000 of Roth IRA contributions to the IRAs of their dependent children if no child’s account received more than $5,000 of IRA contributions. If, for example, the two parents made $1,000 Roth IRA contributions to each of their three dependent non-wage-earning children’s accounts, the parents would be able to make up to $7,000 in total contributions to their own IRAs (because $3,000 of their $10,000 combined contribution limit would have been shared with their children).

No child would be permitted to have total contributions exceeding $5,000 per year made to the child’s IRA account or accounts, including both contributions based on the child’s earned income (if any) and Roth at Birth contributions (which, as noted, would be based on the parents’ earned income). By retaining the current-law earned income limits, the Roth at Birth concept would help lower-income households, who, recent experiments show, save modest though meaningful amounts if offered the opportunity. This type of account, with its long time horizon and withdrawal restrictions, may appeal to lower-income and underbanked Americans, whose contributions would also trigger the federal Savers Credit. Preliminary conversations with financial services providers indicate strong interest in a Roth at Birth product: They see the potential of this low-risk method to build customer relationships as early as birth while engaging the entire circle of a child’s parents and relatives; moreover, contributions to qualifying low-income families would likely trigger CRA credit as well.

Recent surveys show that most Americans, including most young Americans, lack financial knowledge and skills, which leads to poor financial outcomes later in life. The Roth at Birth would offer a chance to set generations of children on a different, and more prosperous, path in the years ahead.

For a more detailed review of the Roth at Birth concept, see the December 16, 2012 Discussion Paper by Ted Beck, NEFE, and Ray Boshara, Federal Reserve Bank of St. Louis.

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