Key Themes for President's Advisory Council on Financial Capability (PACFC)

Consistent with our Principles for Recommendations, the PACFC will focus our final recommendations on the three themes listed below. In all three cases, we will take into consideration the particular needs of traditionally underserved populations. In addition, the PACFC believes the themes and recommendations should be promoted nationwide to raise awareness and energize the public, as well as to reinforce and coordinate existing private sector efforts.

Theme I. Financial education should take its rightful place in American schools.

Rationale:

Financial illiteracy is widespread in the United States and Americans, including students, are worse off because of this. In one recent study adults scored a grade of C in financial literacy, while high school students mainly received failing grades (Lusardi, Mitchell, 2009). Low levels of financial literacy appear to be tied to higher rates of being "unbanked," higher levels of indebtedness, lower rates of wealth accumulation, and lower rates of retirement planning (Lusardi, Mitchell, 2009). Eighty-two percent of Americans and eighty-nine percent of teachers think personal finance should be taught to all students at least as early as high school (Visa 2011, Way 2009). In particular, navigating whether and how to pursue higher education and how to finance this investment is critical, but many students appear unprepared to do it. Two million enrolled college students eligible for Pell Grants didn't apply for Federal aid, leaving money on the table (NCES, 2008); two-thirds of students taking private loans didn't exhaust more affordable, flexible Federal aid first (TICAS, 2009); and at a time when student loan debt now exceeds credit card debt in America, student loan defaults are on the rise.

Students need to be provided with effective financial education *before* they enter into financial contracts, yet:

- Only 9 states have formal requirements to assess students' financial literacy (CEE, 2009).
- Less than 20 percent of teachers believe they are adequately prepared to teach personal finance topics (Way, 2009).
- Financial education and debt management programs aimed at students receiving Federal student loans are unevenly administered and rarely evaluated.
- While there are many financial literacy programs aimed at America's students from pre-kindergarten through college and beyond, there is a dearth of research on the effectiveness of these programs and their impact on subsequent behavior.

Theme II. We should build a financially capable workforce and retiree community, which is necessary for a stable and globally competitive economy.

Rationale:

Delivering financial education and access in the workplace – and providing employers with cost-effective models of high-quality financial guidance and related benefits – has the potential to positively impact 138 million Americans (Bureau of Labor Statistics, Employment Situation Summary, May 2011). Encouraging workplace financial education and access can drive positive behavioral change during the life stages at which most adults make critical decisions regarding savings, retirement planning, insurance and other benefits.

- What American adults actually know about personal finance and math is sharply lower than what they think they know. Almost half (48 percent) who gave themselves the highest score math were not able to do two calculations involving interest rates and inflation (FINRA Foundation, 2009).
- The majority of Americans do not have a "rainy day" fund for unanticipated financial emergencies and are not adequately preparing for their children's college education and their own retirement. And more than one in five survey respondents use high-cost, alternative borrowing methods, such as payday loans or pawn shops (FINRA Foundation, 2009).
- Seventy-six percent of Americans say they are stressed about money (American Psychological Association Survey, 2010).
- Over two-thirds of employers say that financial stress contributes to health costs at their company. Fifty-eight percent say that financial "illness" contributes to employee absences at their companies, and 78 percent also agree that employees are less productive at work when worrying about personal financial problems (MetLife Study of Employee Benefits Trends, 2010).
- Employee Assistance Program providers have seen an 88 percent increase in requests for help with financial matters since the economic downturn began (Employee Assistance Society of North America, 2008).

Theme III. Americans should also learn the core concepts of personal finance at the heart of their lives— in their families and in their communities.

Rationale:

Families and the communities in which they live are the core social and economic units of American society -- the key environments within which financial capability can be taught and learned with long-lasting effectiveness. Responsibility for modeling and teaching financial capability begins in the family and extends to the local community of businesses, financial institutions, schools, non-profits, and even places of worship. Parents need to start the conversation (e.g., "talk to your kids about money"), and we need to provide the public, especially low and moderate income families, the learning tools and the financial access to become financially capable.

The financial crisis of 2008, in part, demonstrated the lack of understanding of basic financial management information and skills, which was costly to society and disproportionately impacted America's low- and middle-income earners. Our country loses valuable human capital as Americans who struggle for daily financial survival are unable to pursue higher education or focus their talents on innovation, entrepreneurship and intellectual contributions to the nation's progress.

- Parents are the single greatest influencers of positive financial attitudes and behaviors in their children (Shim, Barber, Card, Xiao, Serido, 2009).
- Even if parents do not model positive financial behaviors in front of their children, they influence positive financial behaviors through their expectations for their children. Also, they influence their children through direct teaching (Shim, et al., 2009).
- In addition, a growing body of research has been coalescing around the notion that young children can grasp rudimentary financial concepts.
- In a recently completed study in the Journal of Children and Poverty, Center for Social Development researchers found that among youth who expected to graduate from a four-year college, those with a savings account in their name were approximately six times more likely to attend college than those with no account.
- "Communities are an important entry point for social change.…" They affect individual and family well-being and their influences are amenable to change (Aspen Institute, 2002).

Citations List

Theme 1:

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Theme 2:

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FINRA Investor Education Foundation, National Survey of the National Financial Capability Study, 2009. (http://www.finrafoundation.org/capability)
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Theme 3:

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