UNITED STATES OF AMERICA

PRESIDENT'S ADVISORY COUNCIL ON
FINANCIAL CAPABILITY

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MEETING

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MONDAY, JULY 16, 2012

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The Advisory Council met in the Cash Room in the Department of the Treasury, 1500 Pennsylvania Avenue, N.W., Washington, D.C., at 10:00 a.m., John W. Rogers, Jr., Chairman, presiding.

PRESENT:

JOHN W. ROGERS, JR., Council Chairman, CEO, and Chief Investment Officer, Ariel Investments
AMY ROSEN, Council Vice Chair, President and CEO, Network for Teaching Entrepreneurship
ROLAND A. ARTEAGA, President and CEO, The Defense Credit Union Council
JANIE BARRERA, Founder and CEO, ACCION Texas Inc.
TED BECK, President and CEO, National Endowment for Financial Education
SHERRY SALWAY BLACK, Director, Partnership for Tribal Government
JOHN HOPE BRYANT, Founder, Chairman and CEO, Operation HOPE
SAMUEL T. JACKSON, Founder, Chairman and CEO, Economic Empowerment Initiative, Inc.
RICHARD KETCHUM, Chairman and CEO, the Financial Industry Regulatory Authority (FINRA)

PRESENT(Cont'd):

BETH KOBLINER, Personal Finance Journalist
MARC H. MORIAL, National Urban League
CARRIE SCHWAB-POMERANTZ, President, The Charles Schwab Foundation
ELDAR SHAFIR, Princeton University
KENNETH WADE, Senior Community Affairs Executive, Bank of America

PANEL MEMBERS:

ANNAMARIA LUSARDI, Denit Trust Distinguished Scholar in Economics and Accountancy, George Washington 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, Aon Hewitt
KAREN GROSS, U.S. Department of Education
MELISSA KOIDE, U.S. Department of the Treasury, Executive Director of PACFC

C-O-N-T-E-N-T-S

C-O-N-T-E-N-T-S

P-R-O-C-E-E-D-I-N-G-S

(10:06 a.m.)

MS. QUITTMAN: We're going to try to get started, if everyone can take their seats. We realize that there are people still coming in, but we're going to try to get started to stay on schedule.

Good morning. Welcome to the Treasury Department. I'm just going to briefly get us started here. I'm Louisa Quittman in the Office of Financial Education, and I have a very great honor this morning of introducing our Assistant Secretary for Financial Institutions, Cyrus Amir-Mokri.

As Assistant Secretary for Financial Institutions Mr. Amir-Mokri is responsible for developing and coordinating Treasury's policies on issues affecting financial institutions. Prior to joining Treasury last year he served as senior counsel to the Chairman of the Commodity Futures Trading Commission where he was the agency's

Deputy Representative to the Financial Stability Oversight Council.

Prior to joining the government, Mr. Amir-Mokri was partner at the law firm of Skadden, Arps, Slate, Meagher & Flom. His practice focused on complex securities and anti-trust litigation. He's also clerked for Honorable Bruce M. Selya of the U.S. Court of Appeals for the First Circuit. And Mr. Amir-Mokri received a JD from the University of Chicago, a Ph.D. in history at the University of Chicago, and an AB in Biochemistry from Harvard College, but none of that tells you what a great leader he has been to our office and the work that we're doing here in financial capability, so certainly appreciate you being with us this morning, Cyrus.

MR. AMIR-MOKRI: Thanks very much, Louisa. Can everyone hear me? Okay. How about now? Great. Thanks very much, Louisa, that's very kind. And good morning, everyone, and welcome to the Treasury Department.

I want to thank you all for joining us for the seventh meeting of the President's Advisory Council on Financial Capability. And as always, I want to give special thanks to the members of the Council for their dedication, hard work, and enthusiasm. Thank you all.

At the outset, just quickly before -- a couple of thoughts for today. I'd like to briefly mention one important item. The Council, as you all know, has been interested in the role of technology in promoting financial capability. Recently, we at Treasury launched the My Money AppUp challenge in partnership with two non-profit organizations, the D2D Fund and the Center for Financial Services Innovation.

The concept behind this mobile apps challenge was a recommendation by the Council. The challenge engages the public to send us ideas and mobile app designs that will enhance financial capability. And I encourage everyone to go to the website as this is a challenge, MyMoneyAppUp.challenge.gov for more information. It's a very exciting thing that we are very proud of and we thank again the Council for all the thought it put into thinking about technology issues. And we certainly appreciate that. So, we look forward to broad public participation.

Now, let me offer a few thoughts about today's agenda, which is focused on financial capability research. The field of financial literacy is sometimes criticized for spending substantial resources on programs with insufficient regard to whether those programs actually yield the desired improvement in financial capability.

Without passing judgment on the effectiveness of any particular program, I think we would all agree that research should be an integral part of our financial capability strategy. And I think today's agenda further underscores this orientation.

Research is important to all phases of our efforts to develop policy on financial capability. And this research starts with our attempts to define the problems we are trying to solve. Research can and should help us to identify the particular issues or situations that need our focus, and it also can help us set policy priorities.

For example, research can identify the populations on which to concentrate our efforts, the life situations and financial decisions that are most relevant for developing financial capability, and the particular skills that our citizens need to face the important financial decisions that they make during their lives.

It is by virtue of important research such as FINRA's 2009 National Survey on Financial Capability in the United States and Treasury's involvement in that work that we know that too often there's a gap between individuals' perceptions of financial knowledge and the reality behind it. Thirty-seven percent of respondents in the survey rated their financial aptitude as being high, but when presented with basic questions measuring their understanding of things like interest rates, inflation, risk diversification less than one-third were able to answer all the questions correctly.

When the subjects of bond prices and mortgages were added, the proportion of those able to answer all questions correctly dropped to less than 10 percent. The survey report also highlights that young individuals display much lower financial literacy than older individuals. For example, twice as many individuals aged 18 to 29 failed to correctly answer a question about inflation when compared to individuals over age 30.

From research done a decade ago by the Senate Banking Committee we also know that the fastest growing sector of bankruptcy filers had been individuals under the age of

25. So, my point here is that this kind of research explains why, for example, the President's Advisory Council on Financial Capability has chosen to focus its efforts on financial education in our schools. We look forward, I should add, to FINRA's 2012 survey.

Research also has given us valuable insights about savings habits, which is another area of the Council's work, focusing on retiree communities of today and tomorrow.

A recent retirement survey reveals that 60 percent of Generation Y respondents, that's between ages 18 to 27, note that they have saved nothing for retirement, while only 33 percent of Generation X, and 38 percent of baby boomers have contributed to accounts.

Not only does research help us to identify the subject matter that should be our policy focus, it can also help us to determine the measures that should be taken to address the problems. For example, research reveals that simple financial numeracy is very important and it may be a sufficient measure in some cases, a measure to be taken. Generally, though, it appears that those who lack financial numeracy skills are less likely to plan for retirement and to accumulate retirement wealth.

A 2010 National Endowment for Financial Education study of college students found, moreover, that students from states where a financial education course was required had the highest reported financial knowledge, and were more likely to display positive financial behavior. Specifically, compared to other students these young adults were more likely to save, less likely to make late credit card payments, less likely to be compulsive buyers, and more likely to be willing to take average financial risk. From these research findings, policy makers might consider instituting more financial education courses in schools.

In other contexts, though, financial numeracy may not be sufficient. Sometimes information is too inaccessible and the impact of the financial decision too remote. In such circumstances, policy goals could be promoted by other enabling tools.

For example, a 2007 paper by the Vanguard Center for Retirement Research found that where new employees were automatically signed up in employer supported pension plans, 86 percent stayed in the plan even when they had the option to withdraw. By contrast, when new employees were informed about the corporate pension plan and simply invited to join, so opt in, only 45 percent did so. Thus, to encourage savings, for example, sometimes opt out policies may work better than opt in policies without compromising individual choice.

Of course, it is also important to appreciate the limits of behavioral approaches. With reference to this retirement savings example, the fact that more persons stay in the savings program does not necessarily imply that those individuals will make good financial decisions in other aspects of their lives. We should not mistake program successes with financial capability.

This is a possible interpretation of research which shows that while automatic enrollments for employer-based retirement plans result in increased employee participation, these individuals save less money that they would if they enrolled voluntarily. Therefore, in analyzing measures that we could take to promote financial capability, we must remain mindful of the complexity and variety of the challenges and situations that we face. Often, we will have to look to incorporating a combination of approaches and best practices in order to further our financial capability goals.

This fact implies, moreover, that research criteria for success and program evaluation should become part and parcel of implementing measures to enhance financial capability. We should continue to ask whether the steps we are taking are actually working to improve financial capability. We should look to develop objective tracking methods to remain cognizant of whether our desired outcomes and targets are being met.

Although there is substantial research in some areas as to what measures are effective in promoting financial capability, we are in need in research in other areas, too. Of particular interest and significance is research around the impact of technology. Not only do all of our lives increasingly revolve around technology, our younger generations have lived in a world where the vehicles of learning, social communication, business interaction, and idea generation are increasingly technology-driven. We may not be able to deliver financial capability if we overlook the impact and promise of technology.

Let me cite a few examples. Consider the potential impact of mobile technology as a means for improving financial literacy and capability, just to pick up on my very initial comment today. There are currently 6.1 billion mobile phone subscriptions in the world with 953 million of them being smartphone subscriptions. It is projected that within five years more than half of mobile phone users will be using smartphones. With this proliferation in personal technological devices, global mobile traffic is growing at rapid speeds and currently comprises about 10 percent of all global internet traffic.

Mobile use is directly affecting consumer behavior and financial choices. Today mobile devices are accounting for 8 percent of e-Commerce within the United States, and are helping to accelerate revenues in the market.

Along with mobile device usage, new technology platforms are attempting to aggregate data and services in innovative consumer-friendly ways to improve financial capability. For instance, a new financial capability tool has been created to allow individuals to make purchases with a dedicated credit card, deposit checks using their smartphone, setting up direct deposits, earn interest, paying bills, transferring money and withdrawing cash from ATMs. This application can also help individuals to categorize transactions, understand spending in real time, and make all their activities searchable.

Likewise, other applications are being developed to help individuals manage their spending and achieve their financial goals by, for example, allowing customers to check their spending against preset budgets or providing daily balance alerts and warnings when monthly spending limits are about to be surpassed. Whether, how, and to what extent these new vehicles will help improve financial capability will be an important area for further study.

And now to today's program. I want to make special mention of the panelists who have joined us today. John Lynch, Annamaria Lusardi, and Dick Thaler are among the country's most dynamic thought leaders and experts in behavioral economics, financial education, and consumer psychology. Additionally, we're pleased to be joined by Alison Borland of Aon Hewitt who will provide insight into research sponsored by the corporate sector. We appreciate all of you taking the time to be here with us this morning.

And again to the Council, thank you for all your efforts. The President and the Secretary of the Treasury are very interested in the important work you are doing. Your work on financial capability concerns nothing less than the fundamental issues of human dignity and social mobility.

Today in the United States many of us are thinking about whether our society continues sufficiently to support the opportunity for individuals to make better lives for themselves. Improved financial capability will allow for better financial decisions which, in turn, will allow individuals to enjoy improved financial flexibility. In this way, I believe, financial capability can become an important tool to avoid, if not reduce, any opportunity gap that may exist. It is my privilege now to turn it over to the Chairman of the President's Advisory Council, John Rogers.

CHAIRMAN ROGERS: Thank you very much. Thanks for those opening remarks.

(Applause.)

MEMBER BRYANT: Mr. Chairman, before you formally conclude the meeting B- start the meeting, seeing as though he would never say this about himself, he had to read those prepared remarks but I just wanted to say, Mr. Chairman, he's been here at every meeting we've had, the Assistant Secretary. The fact that he is Assistant Secretary for Financial Institutions I think is a big deal, and if he was not paying attention to this issue I'm not sure how much traction we'd get in really trying to drive this into the real economy. He believes in this. He's gone to dinner on these issues, lunches, weekends, he's a quiet soldier, but Cyrus is somebody who deserves enormous kudos and thanks for all he's done.

(Applause.)

CHAIRMAN ROGERS: Thank you. Thank you, John and Treasury has been terrific to work with, and under your leadership we really appreciate that. Thank you.

I officially call the 7th meeting of the President's Advisory Council on Financial Capability to order. I'd like to welcome everyone and thank everyone for being here again. I'd like to thank all of our

Council members who have worked so extraordinarily hard since our last meeting. People worked hard not only in their individual committee meetings but, of course, we had the extraordinarily successful White House Summit where I know the vast majority of you were there, helped work on it and putting it together along with Bob Solomon and his team, and Ellen Chube and her support.

I also wanted to thank not only Treasury that was so terrific with putting that event together, we also had the Domestic Policy Council that worked really hard under Cecilia Munoz's leadership, and Racquel Russell. We also have to thank Arne Duncan, Education Secretary, for his hard work and his team's work, Valerie Jarrett from the Administration, Gene Sperling and Richard Cordray, you know, just a terrific group of people who came to the White House, as well as all the special guests, and speakers, and others that came from the outside to make that day very, very memorable. Hopefully, we'll have a chance to do something else like that to celebrate the end of our task force and bring all the right people together again.

I'd also like to welcome our newest Board member, the head of the National Urban League, Marc Morial. Welcome, Marc.

(Applause.)

CHAIRMAN ROGERS: I think I've known Marc -- I know him longer than everyone here in the room, I think going on 50 years. Our fathers were friends, and so it's been nice, and I've been on the Chicago Urban League Board for 30 years, so it's great to have the Urban League represented here on this important subject. So, thank you, Marc.

With that I'd like to introduce also an important friend from Chicago, Alison T. Borland. She's the Vice President, Retirement Strategy and Product Development, Aon Hewitt. She's here to give us insight into the findings from recent research that we've actually worked together on, Ariel, and Aon Hewitt and many other groups that she'll talk about, but it's terrific that we have sort of a good Chicago connection here with Professor Thaler coming up, and Alison, so we're also pleased again to have that special Chicago connection. So, I'd like to turn it over to Alison to take over from here.

MS. BORLAND: Thanks. Thanks very much, John, and thanks to all of you for allowing me to --

COURT REPORTER: Would you activate your microphone?

MS. BORLAND: Is that better? Okay. Thank you for having me. It is an honor to be here. And as John said, I'm here to talk about some recent important research that we conducted in partnership with Ariel Investments, as well as a number of other organizations. It sheds light on some issues related to financial literacy and financial security in a new way, and I would say this has been sort of a journey over the past several years.

This study started really more than three years ago when we anticipated or hypothesized that looking at savings and investing behaviors not only by pay, by age, by service, but also by race and ethnicity which shed light on some underlying behaviors that are often masked when you look at data in the aggregate across millions of participants.

So, back at the end of 2007, brilliantly selected date, we went out and gathered data. We invited 500 large organizations to participate in our study. The good news was 58 agreed to participate. The bad news was roughly 440 declined. But that gave us a subset of almost 3 million participants from which to start. So, that data was launched a few years ago, sort of amazing research, nothing had ever been done like it, and it did shed light on some significant disparities by race and ethnicity.

One of the biggest questions that came out of that study was well, that's all fine and good at the end of 2007, what next? What happens after 2008, after 2009? What happened with the data?

Unfortunately, the race and ethnicity code, that data element is not something that's generally reported or stored on recordkeeping systems, so it's not data that's easy to measure on an ongoing basis. So, at the end of 2010 we went back out, gathered data this time across 60 large organizations, about 2-1/2 million 401(k) eligible plan participants to look at that data again and understand what had happened.

Basically, the news was not good. At the highest level, disparities across racial and ethnic groups still remained. Behaviors across the board declined. In other words, participants between '07 and 2010 made decisions that would ultimately hurt their financial security. Even when adjusting for age, for tenure, for pay disparities prevailed. Overall, the Asian population exhibited the strongest financially secure behaviors, followed by whites, then with a gap between the white population and the African American and Hispanic population.

You can see the actual numbers here. So, at the highest level if we think about overall participation, so who's in the plan versus who's not in the plan, there are disparities across the different groups. The white population at 79, African American at 68, Hispanic at 66, and the Asian population at 80 percent. Overall, these numbers actually are about the same as they were at 2007. Although some participants did decline to participate and move out of the plan, automatic enrollment has had a significant impact in sweeping more participants into the programs. So, net-net participation remained roughly the same.

When we think about those

employees or workers who are participating and we look at their savings rates, they did decline across the board. Now, some of that was because of declines in actual savings rates by individuals, some of it was due to the impact of automatic enrollment. So, auto enrollment has its good side and its bad side. The good side is it gets more participants into the plan and saving, the bad side is more than half of organizations select an initial savings rate of 3 percent or less. So even though more participants are getting into the plan, they're saving at low rates and those rates tend to be very sticky. Participants are not increasing them over time. So, absent an initiative by the employer to either raise rates over time or start at a higher rate, automatic enrollment is actually keeping savings rates lower. And that's true across all racial and ethnic groups.

When we think about loan usage, this was one of probably the most surprising findings of the initial study. Loans and hardship withdrawals are dramatically higher for minorities, so at the end of 2010 you see 26 percent of the white population had a loan outstanding, 49 percent of the African American population, 40 percent of the Hispanic population, and 22 percent of the Asian population. If loans are repaid it's actually not a problem, doesn't truly undermine financial security, but more than 60 percent of participants who terminate employment with a loan outstanding default on that loan. It's treated as a distribution and tax penalties are due. So, over time loans do actually put a lot of financial security at risk.

Hardship withdrawals, as well. You can see the disparities there. Significant disparities remain. African American and Hispanic participants had greater increases in rates of hardship withdrawals. We often get the question about what are the reasons, is it abuse of the system or is due to real need? Our data shows that half of these hardship withdrawals are due to prevent eviction or foreclosure. So, it's very difficult to argue that that's not due to real need. The next two reasons are for education or medical bills. So, it doesn't appear that the hardship withdrawal provision is being abused, but it does mean that there are some issues related to long-term financial security that should and can be addressed.

When you add up all of those behaviors in the aggregate and you look at the account balances, not surprisingly even within similar pay components or pay buckets, we do see significant disparities across the accumulated account balances of racial and ethnic groups, and you can see the data here. All of the details and many more numbers are available in the actual study itself, which you can find on our website, or the website of Ariel Investments.

CHAIRMAN ROGERS: Alison, one quick question on this.

MS. BORLAND: Sure.

CHAIRMAN ROGERS: What percentage of the population would be participants making under $30,000 or under $60,000, because I assume that's a huge portion of them. And then could you just read the data, because I think everybody here doesn't have a book in front of them.

MS. BORLAND: Sure, absolutely. So, there are actually significant measurable populations across all of these demographic groups, so any groups that had a small number of participants were set aside. I will say that across 2-1/2 million participants we did have a very large sample size in all of these. The biggest buckets were actually 30 to 60,000, and 60 to 90,000. I would tell you there are significant differences across each individual organization depending on their demographics. And one of the most fascinating results of the study is while these are aggregate results across all organizations, each organization did receive a specific report for their own individual organization, and the results varied dramatically across all of the behaviors based on the demographics, and also based on the initiatives that have been undertaken by that specific employer.

MEMBER BRYANT: When you say "demographics," did you also include age?

MS. BORLAND: We do. We do, so we measured age, tenure, gender, compensation, and race and ethnicity. We performed a regression analysis to hold all of the other variables constant so that we could measure with all other things being equal what the impact is. So, we do have that regression analysis. These results are not regressed. An example is within the area of loans, African American participants all other things being equal were twice as likely, exactly 100 percent more likely to have a loan outstanding. And for hardship withdrawals the number was over 200 percent more likely.

Now, a limitation of the study is the fact that we are limited to what's stored on the recordkeeping system so, for example, things like education background, marital status, number of dependents, other factors are not included since that data is not generally available.

MEMBER BRYANT: Question. You might have just answered it but let me ask it anyway. Is there any way to find out, to get underneath -- first of all, incredible work. Is there any way to get underneath the data to figure out whether there's a history of investment accounts in that family? The reason I ask is my own goddaughter came to work at my office. I assumed she had confidence in what she was doing. She finally said that no one in her family ever had a business card. Nobody in her family ever worked at a white collar job. Nobody in her family had ever had anything other than hourly pay. So, this was like being in Mars for her. Because she was my goddaughter I assumed she had known these things, and my assumptions were all incorrect. So, this was a different culture for her that she had to get used to. So, the question I ask is -- I mean, the data in and of itself is amazing, but is there any way reasonably to get to the next level of finding out if there's a history in that family?

MS. BORLAND: Yes, that's a great question. With respect to the recordkeeping system data, of course there's not. One of the other initiatives that we launched this year is we conducted an actual survey of 19,000 employees. Now, that was only across three different organizations and we haven't yet published that research, but we were trying to get at some of the underlying differences that may help explain some of this.

I know Ariel has actually done about a decade's worth of research in partnership with Schwab and others.

MEMBER BRYANT: Ariel-Schwab report.

MS. BORLAND: Yes, that's right, that gets at some of the perceptions. This data is focused specifically on the behaviors.

MEMBER BRYANT: Got it, okay.

MS. BORLAND: Yes.

MEMBER BRYANT: Thank you.

MS. KOIDE: I think that Annamaria Lusardi's research gets at the question you're asking, John. She'll be speaking later on the panel.

MEMBER BRYANT: Okay, thank you.

MS. BORLAND: So, some of the recommendations that came out of the study across the board, number one, know your participants. So, while this data is available on many payroll systems, it's not something that's shared and reported on an ongoing basis. And if a plan sponsor does want to know and understand, and improve the financial security of their workers it's helpful to look at behavior across a number of different areas.

The second, use automation to its full potential. We talked about it's great for getting participation up. It has also actually significantly increased diversification across participants including minorities. However, savings rates remain too low. So automation: use it well.

The third, loans and withdrawals. We are not suggesting that loans be eliminated. We do have research that demonstrates participation rates will go down, but there's a lot that plan sponsors can do to avoid loan abuse, and also to ease repayment. The majority of plans today require repayment within 60 days or the loan is defaulted versus allowing participants to repay it over time. Also, we’ve discussed ideas about an extension of loan repayment upon involuntary termination, which will require some legislation in order to enact that.

Investment advisory services, and support and communication, offering a lot of help can make a difference, so accessing participants where they are, where they want to be met. For example, your discussion about technology is highly relevant. We are seeing a lot of innovation in providing not just access to information, but also help, and guidance, and advice through mobile devices and other technology.

Now, one of the most interesting processes in this study were the discussions with plan sponsors about whether or not to actually participate in the study. We said, you know, about 50, 60 organizations participated, hundreds didn't. The benefits are there. Right? So, plan sponsors can improve the financial security of their workers. They can receive credit for being committed to overall financial security and for caring about their employers.

By looking at it through a racial and ethnic lens, they can view themselves, or they can receive recognition as an employer committed to diversity inclusion. However, the barriers are very real. It takes time, it takes effort, it takes work to provide the data needed. And with many of these plan sponsors, there is significant sensitivity and apprehension about looking at data through this lens, looking at it by race and ethnicity because of potential litigation risk, because of the questions of if -- what if someone finds this data and we haven't done enough about it?

There aren't enough clear answers about how to address the problem, so if there aren't clear answers and I look at it and find a problem, what am I supposed to do, and who is going to hold me accountable for doing that? So, in order to remedy some of those, increasing the public discussion about the topic, providing encouragement to plan sponsors that there's not risk associated with sharing this data, with talking about this data, and making it easier for the decisions to take place. When meeting one-on-one with these plan sponsors who participated in the study, even those who - plan sponsors who have 90 percent A++ checkmarks across the board, when we say why don't -- are you willing to talk to the press about this, are you willing to share your story in a case study so others can learn from it, the answer is generally no, thank you. So, there's a lot of opportunities for improvement here in things that we can do.

So, with that, thank you so much for your time, and I can answer any other questions or wrap-up.

MEMBER ROSEN: Can I -- I'm sorry, I just was going to ask; can we post this on either Treasury or the White House website, or someplace where we can actually send other employers to it so they can just see it, and get access to it quickly?

MS. BORLAND: We would be delighted to share it, yes.

MEMBER ROSEN: Great.

MEMBER KOBLINER: Just a quick question. When you were saying that the savings rates are lower with automatic enrollment, as compared to what? Because if those people wouldn't have saved at all, are we comparing zero to - could you explain that a little more?

MS. BORLAND: Good question. So, what we did is we cut the data, so we looked at all participants who were eligible for automatic enrollment, so they were hired when automatic enrollment was in place regardless of whether or not they stuck with the defaults, or they increased their savings rates to something else. We took that group and we compared it to the group that was hired before the implementation of automatic enrollment who were not subject to automatic enrollment and the differences were significant. So, that's the comparison that was done, and that data is in the report.

MEMBER KOBLINER: Thank you.

MS. KOIDE: Auto-escalation. Did any of the firms in your program have auto-escalation, and do you have any cites based on especially the hardship uses, what the implications could be of efforts to actually increase the savings rates?

MS. BORLAND: We have. We have looked at auto-escalation in many, many different ways. The good news is it's very, very sticky. In other words, once you start automatically escalating participants they stay there, they don't opt out. Granted it's only been in place for most organizations for a number of years, so we don't know what happens when they're escalated from 17 to 18.

MS. KOIDE: It's not in your data yet, though.

MS. BORLAND: So, the data is -- we didn't do a special cut looking just at escalation, but we did track escalation in these organizations. And I think the number, I don't remember offhand, it was about 40 percent who offered automatic escalation. Now, one just idea is right now a lot of organizations are stopping at 10 percent because of the Safe Harbor guidance; in other words, in order to achieve the Safe Harbor you can't escalate higher than 10 percent, so regardless of whether or not employers use the Safe Harbor, they're using that as a signal, and it won't escalate above 10; although many employers recognize their participants need to be up at 15 percent or higher over time. So, that's an opportunity to improve.

CHAIRMAN ROGERS: Carrie.

MEMBER SCHWAB-POMERANTZ: Yes, I just first of all want to say congratulations, Alison and John, on this research. I have to say it's tremendous. And just a little point, I wanted to let you know that in the workplace strategy which we're overseeing, and you'll hear a little bit more later, but we are incorporating this study into that as a reference guide. And also want to let you know, a lot of your recommendations in there have been incorporated in what we're considering a best in class workplace financial education program, so want to let you know it's also been used as a reference. So, thank you.

MS. BORLAND: Thank you very much, appreciate that.

MS. GROSS: Can I just ask a question about the next study, whether you're including educational degree attainment levels so that there could be cross-correlations between savings and types of degrees or certificates that participants have?

MS. BORLAND: That's a great question. That's something that we're not planning to try to gather across 60 organizations. We have spoken to a number of individual organizations who are interested in sharing that data to enable us to look at it at least organization by organization, and do a study there. But we're still in conversations with them about their willingness to share that with us. But some organizations do actually, of course, track that on their systems so it's shareable.

CHAIRMAN ROGERS: And, anecdotally, I would just note, you know, I'm on the McDonald's Board, and we started working on this, I don't know, seven, eight years ago, and it came back that, for example, restaurant managers, same education level, same job description, same compensation level, the people of color had half as much saved in their retirement plan as the majority. And they never thought about it until we raised the question. You know, we've talked about in the past, McDonald's has worked really hard over the last seven years to get there to be parity in the participation and it's worked beautifully as they've worked with their minority affinity groups, and have done some robust culturally sensitive education around it. But, really, the education issue was not the issue. It was really, again, people of color culturally not being as comfortable being involved with the markets and participating fully.

The other thing was interesting, as I brought it up there, but like all of us, we're all on lots of non-profit boards, university boards, college, hospitals, corporate boards and every time I've brought it up no one had ever thought about this issue. And the only person that we ran across years ago that did seem to care was Hewitt, and they have been way ahead of the curve relative to all the others of thinking about this issue in a thoughtful way. And I think it's profoundly important, and morally important, but it's also consistent with the mandate that President Obama has asked us to study with all of us here, the Treasury and our Task Force and Department of Education.

And, finally, I would say it's more timely than ever because we all know, you read about it all the time in state governments and other places where people are getting rid of pension plans, and putting in defined contribution plans. And I have to say, every time I hear conversations of people doing that, it's very, very rare that someone has also married that with a robust financial literacy program, and one that's sensitive to women and people of color.

MEMBER BRYANT: Mr. Chairman, when you said that you're on -- not the McDonald's board, corporate board, but when you're on the non-profit board and you -- the non-profit board, or university boards, whatever, minority-facing institutions and you've raised this, and you've sort of got a blank stare on the other side or no response, how did you raise it? I mean, I'm just really interested in how did you frame that to them? Would you frame it as just -- was it the pension conversation, was it the financial education conversation? What had they not thought about before?

CHAIRMAN ROGERS: Well, if you're on the comp committee or you're on the investment committee, or on the finance committee, you'll get information about what's going on in the defined contribution plan, so if you're on a hospital board it's just a natural question to say well, you know, we have a lot of minority nurses, and others who work in various places within the hospital. Have you thought about looking to see about how effectively they're participating in their defined contribution plan? So, being on the right committee gives you the opportunity to ask those questions and shine a light on it. And then once you do, most progressive institutions will start to try to find ways to address the problem. But it's just amazing that it just hasn't been something that is the top of mind for most CFOs or heads of Human Resources. Any other last questions?

Okay. Well, I'd really like to thank Aon Hewitt and Alison for your --

MS. BORLAND: Thank you.

CHAIRMAN ROGERS: - all the hard work which is so vitally important for all of us.

MS. BORLAND: Thank you for having me.

(Applause.)

MS. KOIDE: A great conversation, I'm sure we could keep going, too. But it is time -- we're running a few minutes behind, to turn to preparing ourselves for the next discussion with the panel, "Focus on Financial Capability Research. What else do we need to know?" But before we launch into that, we'd actually like to invite Ted back to offer a few opening remarks for that discussion. Ted, that's a great idea. Do you want to come on up, Dick, Annamaria, John.

MEMBER BECK: Thank you, Melissa. I chair the Research and Evaluation Subcommittee, and I'd like to thank my fellow committee members, Rick Ketchum, Ken Wade, and Eldar Shafir for helping put -- to get today's program together.

As we all know, one of the goals of the Council is to help all Americans make informed financial decisions that are beneficial to them throughout their lives. And as Cyrus said in his earlier comments, effective research and measurement is critical to that exercise. So, our efforts over the last couple of years have been really focused on that. And we have our full report in the book, and also in the interim report that was published earlier this year that you could read at your leisure, but I'd like to just touch on a few highlights.

First of all, we have recommended that standards be established for programs and research so we can have benchmarks going forward. I'd also like to recognize FINRA once again for their outstanding effort in funding the National Capability Study. This gives us a great bench line.

Some other things we've done is we've worked closely with FLEC, the Financial Literacy Education Commission, to help them develop their research priorities so that we can have some agreement on where some focus should be going forward.

Also, we as a Council strongly supported the involvement of the United States in the PISA study which looks at what 15-year olds are doing, and what their capability is across the country. That is a great exercise and the continuation of our involvement of that I think will be much appreciated.

We also looked at building core competencies. This is an effort the Treasury has undertaken, so we actually have done quite a bit in the research area. There are things that we think will be very positive, but maybe the most positive event that's happened in the last couple of years around this agenda is that we have been able to attract truly outstanding members of the academic community to do work in this area. And we're very fortunate to have them with us today.

If you look at the work that our panelists have done, as well as the work done by organizations like Aon Hewitt, we are learning a great deal more about how to make our efforts more effective and efficient going forward. So, fortunately, we have the group with us, and Melissa Koide is going to be the moderator, and I'll turn it back to you.

MS. KOIDE: All right. And to save time, I'm going to do very quick introductions of our panelists. We're going to hear from each of them, and then we will open it up for questions from the President's Advisory Council.

We're first going to hear from Annamaria Lusardi. She is the Denit Trust

Distinguished Scholar at the George Washington University School of Business. Previously, she was the Joel Z. and Susan Hyatt Professor of Economics at Dartmouth where she taught for 20 years. She's also taught at Princeton University, the University of Chicago, both the Policy School and the Business School, as well as Columbia Business School. She is now the Director of the Financial Literacy Center, a joint center with the Rand Corporation and the Wharton School which was created in part from funding from the Social Security Administration. She's also the Academic Director of the Global Center for Financial Literacy and she holds a Ph.D. in Economics from Princeton University. So, everybody knows there are full bios in your briefing books.

We're then next going to hear from a different perspective, a complementary but different perspective. John Lynch is the Ted Andersen Professor of Free Enterprise at the Leeds School of Business, University of

Colorado Boulder, and the Director of the Center for Research on Consumers Financial Decision Making.

John received his BA in Economics and his Master’s in Psychology, as well as his Ph.D. in Psychology from the University of Illinois at Urbana-Champaign. He was a member of the faculty at the University of Florida, and from 1996 through 2009 he was the Roy Bostock Professor of Marketing at the Fuqua School of Business at Duke University.

John is past president of the Association for Consumer Research, past associate editor for the Journal of Consumer Research, and past associate editor and co-editor for the Journal of Consumer Psychology.

And then we're going to hear from Richard Thaler of the University of Chicago. I'm sure many of us in the room have read his book "Nudge." He is the co-author of that book with Cass Sunstein, a global bestseller I have noted. Dick is a member of the American

Academy of Arts and Sciences, and the co-Director with Robert Shiller of the National Bureau of Economic Research Project on Behavioral Economics. He has served as vice president of the American Economics Association, and was elected a fellow of the American Finance Association.

Before joining the University of Chicago faculty in 1995, Dick taught at the University of Rochester and Cornell. He received a Bachelor's degree from Case Western Reserve University, and a Master's degree and Ph.D. from the University of Rochester.

And we are so pleased here at Treasury to have all three of these scholars share their points of view and their research for this important discussion. Thank you. Anna, you want to start us off?

PROF. LUSARDI: Thank you. Thank you very much, Melissa, thank you, Ted, and thank you to the President's Council, too, for inviting me to be here today to speak.

What I was asked to do is to speak about the different approaches to financial capability to discuss what we have learned so far, and also what more can be done, and what more can we learn as we go ahead. And I’ll try to articulate this point in my presentation.

If I had to be given just one slide I would just give this initial slide which basically says the world has changed. We need new skills, and financial literacy is one of them. What it also says is as we move to a world of individual responsibility, it means that we are going from a system which has centralized decisions to a system of decentralized decisions where people are now in charge. And it's up to them to make those decisions.

And this is, in essence, what the financial literacy approach recognizes. The financial literacy approach really puts the individual at the center. It recognizes the individual is the decision maker, and as a result has to make the decision and pay also the cost of those decisions. But it also recognizes that people are different, and that's why one size doesn't fit all. And we need to keep this into consideration as we think of policy. It also recognizes that decisions are complex and interrelated. And to paraphrase what you said at the beginning, this is where potentially regulation or rules might not work as effectively; the reason why people might not be able to save well for retirement is because they have problems in their mortgages, or in paying credit cards. And those interrelations are very hard to capture while it is the individual who can understand and take care of those interrelations better once they are well equipped to make those decisions.

Clearly, as we look at financial literacy and the fact that people are in charge of making those decisions, data and data collection becomes critically important.

So, I'm going to come back in a moment at what I think are two really fundamental data sets that we have now gained to better understand decision making. They want to echo, as well, the importance of adding in addition to quantitative data also qualitative data. Once we want to understand financial decision we need to go to that granular analysis. And to go back to what, for example, John Bryant was asking before, to understand some of this behavior we really need to have a much deeper understanding and get information that sometimes is not available in some of our data. And that's why qualitative work can be so important, and also why multi-disciplinary approach can be so important. And this is actually one area in which, of course, financial literacy and behavioral economics can work very well together, and we have learned so much certainly from the behavioral economics research, as well.

Let me come back and stress what I

believe has been one critical important source of data, and why we were able to make progress in research in the past few years. I want to echo what people before me have said speaking about the financial capability study.

Before 2009, we did not have the capacity to understand, for example, how people were making the decisions, and who do they turn to, for example, for financial decisions? And now we have that data. This is a really rich data set that I think has equipped us to really make advances in this field. It's critically important.

I'm really honored to sit on the panel which has designed this question. I'm very happy to tell you that we are almost ready to go to the field, and pretty soon we will have not just data in 2009, but data in 2012, and how important this is.

I also want to mention what Ted has mentioned already, which is the new data that we will have soon available is the 2012

PISA data. This is going to tell us how 15-year olds in so many countries know about financial literacy. And I want to read actually what PISA is trying to measure. This is not the financial literacy module, by the way. This is what PISA actually tries to assess when every three years it measures knowledge of 15-year old students.

As the slide says, it measures whether students are well prepared for future challenges, can they analyze, reason and communicate effectively? Do they have the capacity to continue learning throughout life? In other words, it assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skill for full participation in society. Let me repeat it, full participation in society.

This is a great definition of financial literacy, and that's why this topic was added together with math, science, and reading. To go back to the first slide, financial literacy is an essential skill. We need it to participate in society, and this is why even before countries have added financial literacy in the school, PISA is already measuring how much the young know. And as you probably are aware, we are in for disappointing results.

So, what are the results of financial literacy? What are the results of being able to use this work? Because of the FINRA Financial Capability Study, now we know so much more about financial literacy and financial capability. And, for example, I want to echo what was mentioned before. For example, we know what are the vulnerable groups. This is critically important for policy. We also know there is a mismatch between what people know and what they think they know, and this actually can be conducive to scam, in particular, among the elderly.

We also know that the people who actually rely on advice are those who have some financial knowledge. So, financial advice is not a substitute for financial literacy. It is a complement, and to ask your question, how much do the peers matter? They matter a great, great deal. When you ask people what's the source of information they use, they disproportionately say family and friends. And the lower education you have, and the lower financial literacy you have, the more you mention that.

This is a strength and a weakness, because if you are surrounded by people that know as little as you know, then you might not actually be able to really acquire financial knowledge. And I think data and research can really help us understand a little more how we can design programs that really take into consideration the different need and circumstances. And some unobservable, we really need to go that deep into our research.

We also have uncovered from that data set a lot of behavior that I think policy makers have to be vigilant about. So, one of the things, for example, that impressed me about that data when we looked at it is their reliance on high-cost of method of borrowing. How many people have used high-cost method of borrowing? So much of our policy are focused on assets, and asset building, but actually we should also pay attention to the liability side of the balance sheet; in other words, not just to look at asset but look at the balance sheet. Problem might be brewing in the liability side, and this might affect your financial security in the long run, as well.

So, what does research say about where financial literacy can be effective? There are at least three places where we can do, and in my view we should do, financial education: the school, the workplace, and the community. This is where people are, this is where it is possible to reach people, and we shouldn't miss an opportunity to really be able to provide financial literacy. If I had to choose one, I think it's critically important that we empower the current generation to this new world, so financial literacy is very, very important in the school.

I also cannot resist telling you about our latest initiative, which is a Museum of Financial Literacy. This is just launched in Italy last April, and as people go to museum to learn about art and history, now you can go to museum to also know finance and the history of finance. There are 27 centuries of History here because in Italy we take a long run view.

(Laughter.)

PROF. LUSARDI: What does research recommend? To go back to the previous slide, people are different. We need to recognize those differences to be effective. We need to make it relevant and cover what people care about, and we need to make it simple. Complexity can be, certainly, a big barrier.

And where is research most needed? I really think, and I know there will be more questions about this, but I think it's critically important to know what works, so more research has to be done about what works. And we need, also, to reduce the search cost.

Each individual is now in charge of this decision. At the George Washington School of Business last week we hosted an event together with the White House and the Department of Education where we heard that the Department of Education is going to release so much data that will actually allow students and parents to make really better decisions about where to go to college, so data is available. And if we make it easily available, we can actually empower people to make better decisions. And we really need to prevent, as well, preventive measures so that we avoid potentially other crises ahead.

If I had to make a comparison to another field, I think financial literacy should be similar to health. The way in which we have made progress, for example in cancer, is really to do more research to understand and do more trial, and we have understood that prevention is less expensive and less painful than treating illness when they happen.

So, to wrap up, financial literacy is an essential skill. Just to echo PISA, it's essential for full participation in society, and ignoring it can really have cost. I know that when we think of financial education, financial education can be expensive, but the alternative can be even more expensive. Thank you.

CHAIRMAN ROGERS: Thank you very much.

(Applause.)

CHAIRMAN ROGERS: Were we planning to do the questions at the end?

MS. KOIDE: Yes.

CHAIRMAN ROGERS: Okay, great. And we know we're a little bit behind but what we're going to do is ask that the Committee reports get shortened at the end because we have our distinguished guests who have flown in from all around the country, so we want to make sure they don't get short shrift. So, I want to make sure that you guys know your work is so important to us. Thank you.

PROF. LYNCH: Okay. So, thank you so much for inviting me. So, I also in addition to thanking this august group, I'd also like to thank the National Endowment for Financial Education, which has funded some research that I will refer to elliptically in my remarks. And I'll say that the opinions expressed are my own.

So, I'm going to attempt to give remarks that straddle issues that Anna talked about, and that Dick will talk about. So, I'm going to talk about Just In Time Financial Education in the form of financial decision support systems, which I think actually tie in well with the remarks that Cyrus made at the beginning about talking about using technology.

So, I think I'm the only psychologist on the panel, and as a psychologist from work that I have done and work in my field, I would say that one can attempt to help consumers make better financial decisions by providing help upstream, financial capability, for example, in the classroom, et cetera, hoping that that will pan out in later decisions, or more downstream, closer in point in time to when the decision is made.

My own personal point of view based on my research and my survey of the literature is that downstream is more effective in terms of the bang for the buck. And I'm going to attempt to suggest to you that we should -- ways in which we could try to help consumers foster their financial capability by providing downstream help where the key variable we're trying to work on is what we in marketing call the consideration set.

So, I'm a marketing professor. I've been studying consumer psychology for 33 years. The single most important thing to understand, if you want to understand the decision, the actual outcome of a decision that a consumer makes is what's actively considered. That's called the consideration set, so we'll talk about that. And then I will close my remarks talking about use of technology to nudge consumer's consideration sets in what I think is a blend of providing Just In Time Financial Education along with decision support, so that's what my agenda is.

So, I'm going to very, very briefly say what the problems are with financial education. I'm going to -- I would argue that much of it, if you just look at the impact on the actual behavior, it's too far upstream from the decisions it's intended to change.

So, empirically what happens is that there may be an impact when somebody first learns something, but like everything else it decays with time. So, I think that providing help closer in time is helpful.

The other problem with providing things so far upstream is that people do not map the context that they learned the concept to the instantiation later in their lives. There's a lot of research in my field in cognitive psychology that shows people are bad at making a mapping from the same basic deep structure problem and seeing it in a different guise. If those are too far separated in time, or there's not work to make the connection, then it doesn't happen. So, for those reasons I think those are reasons that I favor moving farther downstream. So, I would say that financial literacy is a better information remedy, but the question we should be asking is what is the half-life of that.

Now, I think one of the things

that we're supposed to be talking about in this panel is the role of these different kinds of help. And we alluded earlier to nudges, and I'm going to talk about Just In Time Financial Education.

And the point that Anna made that I would agree with is that nudged-type solutions help when people are relatively homogenous in their needs. And the nudge that you can choose is better than what the average person would choose for himself or herself. But when things are more heterogeneous, then people need to be more involved, in which case they need to know something. So, I would argue that in those cases Just In Time Financial Education can play a role.

There's a new wave of default research that's sort of anti-default that is supporting "active choice." And I would argue that what's missing from the active choice line is that for certain of these decisions that are very rare, people need additional decision support to help them with the active choice, and they need to have a little education wrapped around it.

I'm going to illustrate the concept of what I'm talking about by talking about a particular application in the mortgage domain. I'll talk about a mortgage recommender system. But before I get to that, I want to lift up this idea of the consideration set. And what I see others doing to try to help consumers make better financial decisions, this has not been the focus. But in my field of consumer decision making, the single most important thing to understand what a person chooses is what's considered.

You're going to wonder why I'm wasting your valuable time to make these two points, but these are the most profound points about understanding what people actually decide. In order to choose an option, it has to be considered. Most of the time you don't choose something that's good for you, it's because you didn't consider it, not because you looked at it and found it lacking. And the second most important point to understand is most of the time to choose a given option, you have to fail to consider something else that you like better. And I would argue most of the time people do choose what they B- the overwhelming majority of the time the choice that people actually make is not what they would choose if they searched more exhaustively. So, understanding the contents of their consideration sets and what they consider is the key variable to understand their decisions.

There's a famous, famous paper in marketing that shows that across many, many consumer goods domains, understanding which alternatives are and are not included in the consideration set explains 78 percent of the explainable variance in the actual outcome of the choice. And knowing what they think about those options they consider explains only the residual 22 percent of the explainable variance. So, therefore, the consideration set is the key thing, and a lot of what we work on is more on the second part, which I will say the second order, and has smaller effects.

So, what I'm going to talk about is whether technology aided by regulation that will be consistent with, I think, Dick's remarks can help consumers by nudging them to consider safe alternatives, and make consideration of unsafe options less likely.

So, I'm going to say just really briefly, I have been working on a project with a team that I think is in the spirit of what Cyrus described. It's a team that has Susan Woodward, who is the former Chief Economist of HUD, and the former Chief Economist of the SEC, along with Dan Goldstein, a Behavioral Economist who is very expert in conveying risk information to people, and a marketing expert in decision support systems. We're working together with Fannie Mae on this. And I'll just give you the really brief idea of this recommender system.

The idea is -- if what Anna needs and what I need might be different, you have to -- in this recommender system we first ask questions that elicit personal circumstances that would affect your risks, including how much you plan to borrow, what you plan to put down, what your credit scores are, and a few other detail about how long you plan to live there, et cetera. Then we use Fannie Mae database to give Just In Time B- give you person-specific risk feedback that says if you borrow that amount on a 30-year fixed mortgage, based on historical data, others who gave answers like you over the last five years defaulted at this rate. And, by the way, that puts you in the most risky bucket, or middle bucket in terms of your risk.

In addition we tell you, you know, if you borrow that same amount as a 30-year =--- sorry, if you borrowed $100,000 less as a

30-year fixed here's how your risk goes down. And, by the way, if you took that original amount and took it out as an ARM here's how your risk goes up. So, we give you a little bit of person-specific feedback about these risks so it's not so remote. It's not about other people, it's about you. And immediately thereafter we ask you some -- using some methods that are very popular in marketing, we measure your preferences over features of mortgages. And that procedure gets the signal and filters out the noise from your thoughts about this.

Then it allows us to actually build a model. For example, I could have a model for Anna that would sort every mortgage that's available in America from the best to the worst not for anybody, but for her in particular given the answers she just gave there in step three.

The final piece of this, is we -- so, we give you the contact information on those, and we say, you know, that the terms may change by the time you talk to them, but give these guys a call and ask about the mortgages that are there at the top.

Now, the last piece of this is shopping advice, because you can expect that a seller might try to make an end run, and I called about this mortgage, but they're going to try to sell me another mortgage where they make more money. Since we're talking about racial and ethnic issues, Susan Woodward's research has shown that if you search on a zero closing cost loan, that not only do brokers charge -- are able to elicit far smaller fees but also demographic differences disappear; whereas, when loans are opaque and you're shopping over both an interest rate and points people are confused, and the market is more opaque.

The last piece about this is to say that we think that help should be provided early, not late, so right now it happens there's a disclosure regime where you get the disclosures that count at the end of the whole process when it's too late. The real mistake is buying the wrong house, so the idea is that tools like this would be available to help people make decisions about what kind of house they're going to buy in the first place, and then finance it.

And I'd just say in closing that basically the advantage of approaches of like this is that it changes the consideration set, which as I said is where the real action is in the options that are chosen. It allows you to deal with heterogeneity. It's consistent with Anna's points, it reduces costs of shopping, search, and matching if people need different things, and provides financial education wrapped in, but it's Just In Time. In addition to helping the individual, it also facilitates competition. Thanks very much.

(Applause.)

MS. KOIDE: Thanks, John. Dick.

PROF. THALER: Okay, thank you very much. Before I start I just want to make one quick comment about automatic enrollment that both Cyrus and Alison mentioned. So, this has been in the press a little bit. There's nothing new about this finding. In the very first paper that Brigitte Madrian published on the very first implementation of automatic enrollment it was pointed out that at that firm they automatically enrolled people at 3 percent, and before they did that some people saved at 6.

We've also known since then what the solution is, so one 10-second of horn tooting. If we implement auto-escalation, or as Benartzi and I have called it, Save More Tomorrow, that fixes this problem. The 3 percent automatic enrollment rate is a historical accident of a number that was inadvertently mentioned, so here's a small brag. The U.S. saving rate right now is 4 percent, 17 basis points of that is Save More

Tomorrow. So, if more companies do -- this is a very new thing, so we can fix that problem. Okay, let's move on to -- I'm going to talk about what the Administration is calling Smart Disclosure.

Let me quickly say what my take is on financial education. It's a good thing. Certainly, we should be able to incorporate this into high school curricula, especially in the math curriculum. It's almost certainly also not the solution to any of the problems that caused the financial crisis, nor is it the solution going forward. So, what else can we do?

I go around telling everybody the solution to most things is to make doing the right thing easy, and that will be my theme. So, two strategies to make it easy. One is to create a category of easy products. So, if there are unsophisticated consumers, in my world there would be a category of products that are identical, and for which the term Bby making products identical it makes it trivial to shop. It's like shopping for gasoline. You just look at one number, and that summarizes the price. Think of this as similar to having a standard form lease. Okay, so that's one solution. I'm not going to say more about that.

So, that's a solution for one segment of the market. What are we going to do with everybody else? We don't want to discourage innovation. Here's another possibly controversial statement. I believe plain English disclosure is simply impossible. Try explaining how your iPhone works in plain English. No one has tried to do that; instead they sell iPhones because it doesn't need a manual. So, we don't need better disclosure, we need easier to use products.

So, here's a little stunt we've ran using an organization that Eldar and I are involved with called ideas42. I was at a conference, a White House conference a couple of months ago on this topic. We sent the 300 participants an email right before the conference telling them that we were oversold and they better confirm. And, by the way, here's information about the lunch. We've defaulted you into a healthy lunch. This is the description of it, it's pretty gross. Even if you're a vegan you wouldn't want to eat this; nevertheless, 80 percent of the people failed to opt out of this lunch. We then had two pages of fine print, at the end of which click here if you want a free prize, and 1 percent of the people clicked through, so so much for traditional disclosure, even to a highly sophisticated audience.

So, what are we going to do instead? Here's a model that I've told to lots of people, and I've never heard anyone object to. The government has some data. They release it. The private sector figures out a way to use it. Consumers are happy, firms make money, jobs are created. Right? This sounds wonderful. Am I making this up? Think of GPS. This was initially a DOD initiative. They sent up satellites. Then this is now -- so then they released the data. This is now a $100 billion a year business, and we all find our way better.

Another example is the National Weather Service. They used to just issue forecasts, now they issue the raw data that go into the forecasts. This allows the private sector to give highly specific forecasts, so if you own an orchard and you want to know what the risk of freezing is, you can get that information. You can find out when the next bus is going to come because cities who always had that data put it up into the cloud. So, if we release the data, the apps will come, similar to what Cyrus was mentioning.

So, here's my pitch. Since we can't do plain English disclosure, let's supplement it with electronic disclosure. So, a principle I advocate is that consumers should know before they buy anything how much they're going to pay, and if this is a product they regularly use, like a smartphone or a credit card, they should know how much they use it. They should have that in machine readable downloadable form.

Now, what would they do with that? With one click they would upload it to something that I called a choice engine. You can think of the recommender systems that John was talking about as a special case of a choice engine. Something that would be completely familiar to everybody here is a website like Expedia. That's a choice engine. You want to get the flight from Chicago to Washington, you go to one of those sites and it lists everything. It's not perfect. Why isn't it not perfect? Because we don't have smart disclosure yet. The FAA is trying to get the airlines to release all of the fees as well as the fares. The fees are now hidden, so try to find out how much it will cost you to take a very heavy bag, that will be hidden. So, we want this in the financial sector.

Now, let's think about how this would work for mortgages. For a non-easy mortgage in my world what would happen to us when you get an offer of a mortgage you would get a file. Think of a -- get a memory stick. Now, what would you do with that memory stick? You plug it into your laptop. If you don't have a laptop you go to the library, you go to somebody that will help you. The choice engine, mortgagehelper.com, will read that file which will have all the fine print. It will red flag the six things you absolutely don't want in that mortgage, and will help you search knowing your credit score which will also be in the file for other mortgages that might be better suited to your needs.

So, what are we trying to do with this? We're trying to, in the language of our book "Nudge," we're trying to turn humans into "econs." We're trying to make consumers smarter. More substantially, we’re trying to create a marketplace that rewards high quality and low prices over obfuscation and deception. Where will we see push back on this? We will see it from the firms that are profiting through obfuscation and deception. The firms that are giving good value for the money will support this, the ones that are winning market share through trickery will fight this tooth and nail. We have to fight them.

In the limit I think this eliminates the need for many, if not all, forms of the usual sort of whack-a-mole regulation. The reason is we shouldn't care as much about what fees financial service companies charge if they're all transparent. The fees that drive people crazy are the ones that surprise them.

So, what else are we going to get? We're going to get a whole new industry. We're going to get the choice engine industry, and we can B- you know, I mentioned GPS is a $100 billion a year industry that the government created literally out of thin air. We can -- data.gov has put hundreds of data sets out there. I don't think we've done as good a job as we can about publicizing what's out there, and we certainly haven't done as good a job as we can about putting more data sets out there. If we put them out there, the apps will come and we'll have better decision making.

So, here's one example. If you go to a grocery store and you belong to their shopper's club, they know what you buy. In my world, the rule would be if the firm is collecting data on what you buy, you should own your own data. Now, what good would that do you? Suppose you have a kid that has a peanut allergy. You upload all your shopping from the grocery store, and nopeanuts.com will redline all the stuff you should either stop buying or at least stop feeding to that kid.

So, some quick caveats. We have to worry about compliance costs. I think in many cases we will lower compliance costs, particularly for mortgages. I think any attempt at plain English disclosure is going to be very costly. It will be much cheaper to do it with electronic disclosure. We have to be worried about preventing innovation. When someone invents the iPhone and you can download a song, we don't want to make that illegal because we don't have a line of code that includes download the song. And we have to worry about the business model of the choice engines. Those business models at least need to be transparent, and probably monitored, possibly audited.

There's some chance the market will monitor itself. There are choice engines like Kayak that are aggregators of other choice engines, and in some ways they will serve as the monitor.

So, make it easy.

(Applause.)

MS. KOIDE: Thank you all three,

fantastic insights and really bold ideas for what we need to do around American's financial decision making. I'm going to kick us off with the first question, and then we'll open it up to the President's Advisory Council members to add on. But we heard both complementary big ideas, yet quite distinct strategies for addressing American's financial capabilities.

Annamaria, you emphasized strategies to improve American's financial literacy. John, you talk about nudges, product recommenders, Just In Time financial approaches to overcoming psychological biases. And, Dick, you suggest a very new approach to giving consumers access to their data to help them make informed decisions.

These are different. They call for substantial resources. If we are to embrace these and really charge ahead with them, I mean, we're talking engagement from government, we're talking about potentially new industries being created in the case of the choice engines. Where we do we policy makers, the federal government, go from here? Are we embracing all of these ideas? Do we have more research needs that we need to be addressing first? Where do we go from here as policy makers?

PROF. THALER: Well, first of all, I had a column in the New York Times a week ago where I advocated more experiments, and more randomized trials. And I think we should be doing that with everything.

As far as smart disclosure, I honestly believe that although this is a new initiative and will create some costs, its long-term going to save a lot of money, create a lot of jobs, and create a lot of business. And I think there's no excuse for not doing it, and we just have to stop listening to the sectors of the economy that this will hurt, and those are sectors of the economy that are hurting American consumers.

PROF. LUSARDI: I want to echo what

Dick said about the importance of doing experiment and doing more work. Everybody wants to know what works, but nobody is willing to pay for it. So, since this is a public good, maybe this is really where the government should do more work and promote this rigorous evaluation and these experiments so we really know a lot more.

And I want to echo that these are different approaches, but there are a lot of complementarities, as well. I feel that for people to really make decisions in the way in which we want to do with the smart disclosure, I think still people need to have some basic skills. You know, there need to be those who really use spreadsheets to make decision, and we can try to make it simple, but there are also people who don't have the computer or are not making decisions that way. And that's why I think providing some of the basic skills might actually help in these other ways. And that's why we also really need it to start with the school. If we miss that opportunity, it's going to be very hard to reach people afterwards.

PROF. LYNCH: I would just say like in Dick's comments, there were two kinds of --- two elements of smart disclosure. One was me being able to upload my data, and the other is being able to actually know what the features are of the products in the product space.

For the kind of thing that I'm talking about to work it's got to be the case that there's required disclosure of the actual feature of the financial product. If it's possible to shroud certain attributes, just like Dick's thing with the baggage fees, then it doesn't work as well. So, I think the key regulatory thing is require the disclosure of those elements; make a case for why it's inappropriate to disclose the actual terms of some financial product. And when that's the case, then these technologies can apply.

Before working in this area, I've

done a fair amount of work in online retailing stuff where these same technologies come into play. And the big issue is that nobody wants to disclose a feature on which my product is inferior, so in this realm to make a transparent world of the sort that Dick is describing, I think that regulation to require disclosure of those features will enable all the other good things to happen.

MS. KOIDE: Thank you. John, Cyrus, before we B--

CHAIRMAN ROGERS: I want to make sure the other panel, I mean, our other --

MS. KOIDE: Everybody, yes.

CHAIRMAN ROGERS: Yes, everyone on -- the Council might have a question or two. Yes?

MEMBER ROSEN: Thanks. I have sort of a question and a comment for you, Dick, which is -- two, actually. One is, and it relates back to the first question that was asked to the panel, which is what role can the government play? And I was thinking about, you know, there's an issue when kids get their financial aid packages, and they're not standardized, and they have to make quick decisions about them. And the Education Departments are all sort of working on what they called the standardized financial aid shopping list, which makes total sense, that you have to have the information. But when I hear about -- and I, too, am a fan of Lean Startup, and experimentation, and when I hear you talk about smart disclosure and choice engines, et cetera, I just think about why can't -- rather than spending a year or two to develop this piece of paper that's going to be sent to everybody, why can't we use the government information we have, and put it out there for experimentation and get somebody interested? I think it would take a Reid Hoffman about five minutes to develop the architecture for a choice engine for that kind of thing, and put it out, and just experiment with it.

PROF. THALER: So, two comments on that. One, let me say about the student loan thing, one of the proud accomplishments of the Administration is soon I am promised when students fill out their financial aid form it will be pre-populated with the necessary data because the government has that data. It's tax forms, so that's precisely the effort that we're trying to do all over government.

The second thing is, as John suggested, we can't do anything unless we have the raw data. So, yes, we could -- John and his team could produce a very good mortgage choice engine or recommender system that will be completely useless if you can't have access to the details of the mortgage in an electronic form. That's the step that we need to take. And rather than think about what things should go into a certain box, put everything onto the file and then let John and 50 competitors compete about what form of a box that would offer.

MEMBER ROSEN: Right.

CHAIRMAN ROGERS: Any other questions? Marc?

MEMBER MORIAL: Yes. Let me just say how honored I am to be able to be here and listen to the presentation. Thank you, Mr. Chairman. And just a couple of observations.

To the question of sort of where does this start? I think this Commission should aggressively offer recommendations to the nation, to the government, to the private sector. And I think those recommendations entail things that can be done now, and things that are going to require research, and additional exploration, and experimentation, because one thing you said that is so clear is that this is a new environment where the individual has to be far more sophisticated, educated, and on guard in order to make all of the correct decisions about the financial instruments they use from mortgages, to credit cards, to leases, to retirement accounts, to how you deal with your paycheck. And I think we have a sense of urgency to sort of say to the public things are different, times have changed, and here are some recommendations. Here are some steps that can be taken, indeed, in the short run.

The second thing is, is while I believe very strongly that leverage of technology, and the use and the development of information online is so important, it is very critical to recognize that in many underserved communities access to broadband is not necessarily there on a home computer, or a land device, but that mobile adoption is surging amongst young people so that what we really need to think about is -- because what you said about the stick made me think about this, how it's great if you have a computer at home, but if you don't have it, and you just have one of these, it may not be as useful, so that we need to really think about that.

And the third thing is really B- and this is part of -- those of us that are in this sort of hands-on business, John, Ken, many of you, we're in the housing counseling business big time, is the necessity of what we need to do as a nation to start this process of financial education a whole lot earlier. How do we integrate it and inculcate it into the education of our young people inside the schools, inside the communities, inside parents?

I don't have the answer to that, but I do know just instinctively that when you start something when kids are young and early, it's going to stick because it's not a revelation when you're in your mid-20s to think about these kinds of things. And young people, because they're buying these phones, young people because in underserved communities are working when they're teenagers if they can, are making financial decisions independent of parents, independent of structures. So, it's just a few observations but really, Mr. Chairman, I know I'm new to the Commission, but I think one of our charges has to be to come up with a set of short-term recommendations and some action steps that we can take to move this ball in this changing environment while at the same time thinking about what is long-term.

PROF. THALER: Just one 10-second comment. The memory stick, don't take that too literally. I mean, the data would be available and everything could be done on a smartphone.

CHAIRMAN ROGERS: Time for a couple of quick ones? So, if we can make these really quick because we have four, and I want to make sure the Commission gets to answer everyone, so let's go right around the table.

MS. KOIDE: Let's just have people say the questions, and then we can have them answered, go down the line.

MEMBER SCHWAB-POMERANTZ: Well, I work for Charles Schwab and Company and you definitely inspired me to think how can our industry come together and have more disclosure. And, Rick, that's something for you and I to think about and talk about.

So, Dick and John, you both in your presentations, you didn't talk much about it, and it kind of builds on what Marc was saying, that financial literacy doesn't stick, or it doesn't work. And, of course, a lot of us in this room are not only thinking -- I mean, we're thinking about financial literacy access and behavioral change in different ways, so I just wanted you to comment more on that, what can we learn from that? Are we wasting our time, basically, with the kids and so forth?

PROF. LYNCH: So, the quick answer is that the empirical research shows dramatically weak effects. So, like everybody has the same insight that the world has changed and so, therefore, we need to be more sophisticated, but the empirical evidence shows dramatically weak effects. It's weak in the first place, in transmitting the information in the first place, the knowledge. But then the second thing is that it's very weak in the connection of the knowledge to the behavior. And part of the thing is that it's separated. And even though we all have that intuition that if you teach a kid at a young age, it will be like riding a bicycle. The evidence does not support that.

So, I think one of the things that's a challenge on this is it's possible that it works better than the evidence seems to suggest, but we're not collecting the right data in the research. So, often the studies don't report enough of the details to be able to aggregate and figure out what's working. And the other thing is that, one of the things that these guys were thinking about over at NEFE is the possibility that education works cumulatively, and that what happens in a given classroom didn't work, but maybe over B- that requires data sets of an entirely different type that collects longitudinal sorts of things that would allow the estimation of that. So, that's the kind of investigation that doesn't exist right now, but the base right now doesn't show very good effects at all.

PROF. THALER: Very quick. How many people in the room remember what a cosine is?

(Laughter.)

PROF. THALER: It's a ratio of something to something. All right? So, you all took that. So, that's the kind of education that doesn't stick. The kind of education that might stick are simple rules of thumb, like you should be saving 10 percent of your income toward retirement, or something like that. So formulas, no; principles, rules of thumb, yes.

CHAIRMAN ROGERS: I'm sorry, to follow-up on that, Professor, sort of like the thing Warren Buffet always says, you know, "Be greedy when others are fearful, and fearful when others are greedy." Is that the kind of education that is more memorable for people who understand they have some basic values of how to think about making the right decisions?

PROF. LYNCH: Here's an analogy to the same thing in the food domain. So, there's a lot of effort to try to have like the food pyramid. Then there was a new food pyramid. It never took at all, and then the team suggested this approach of fill up half your plate with fruits and vegetables. So, that explains 90 percent of the variance in the thing that is the more complicated thing, but people actually remember that one, and they can actually act on that one. Whereas, things that are hard to act on are going to be forgotten in a decade.

MEMBER SHAFIR: Yes, thank you. I was going to propose the perspective where these three very different views come together into a very clear narrative for me. And I've always been concerned that financial education largely doesn't work as much as we would like it to work because once we educate our students we throw them into an environment that just doesn't allow what they know to thrive. It's uncooperative, it's unfriendly, it's dishonest, and it's easy to fail.

The way I hear you describe things to me seems to me a beautiful idea, which is if we take the student who has learned financial literacy and put them in a world that provides downstream advice and choice engines, that's when we might find that the things they learned allow them to do things better. And from your perspective, I think once you've designed the choice engine and the downstream advice, I think people who have been educated will clearly allow those engines to do better than if they hadn't been. So, I think that might be a way to think about a narrative that takes -- goes from the left to right and creates a more friendly environment.

CHAIRMAN ROGERS: Two more, I

think.

MEMBER KETCHUM: I'll wait to last, Mr. Chairman. Go ahead. Somebody else? Terrific presentations. Just a question, forgive my securities regulation bias, but from the standpoint as you move, John and Dick, your theories which I think are terrific from increasing the amount of information available, opening it up from the standpoint of private entrepreneurs to be able to play with it. When you multiply the complexity, let's say with respect to investment and financial products, what basic steps beyond -- from the standpoint of identifying the correct information to be universally available, and how to get about it in a way that human beings can deal with it. Is it a matter of looking for simple, an ETF and mutual funds products and segregating them from complex ones? Can it -- how would you start the process when you're talking about tiers of complexity rather than single product issues?

PROF. THALER: So, the approach I'm suggesting is first create a class of very simple products that are all exactly the same, so any unsophisticated consumer that lacks online access has an easy way of shopping. That ought to be part one. Part two is release the data and then let stuff happen. You know, this should go into your domain, as well. Why were mortgage-backed securities opaque? Why are they still opaque? Why couldn't every investor know every slice of every mortgage? To talk about the scandal of the week, the whole LIBOR manipulation was because it was based on non-observable transactions. If LIBOR were based on transactions you could see, then that manipulation would have been impossible.

MEMBER KOBLINER: I think it was really interesting to hear about the smart disclosure and the choice engines, but my question is, how do you sort of take a step before that when you're looking at say, for example, Annamaria was pointing out how the liability side is so important, so the average household has $7,000 in credit card debt. So, with your model you can sort of say okay, you know how much you have, and then you plug in your variables and you get the best low rate credit card which is probably only 13 percent rather than 16 percent. My question is how do you -- in your model where do you start with gee, maybe we shouldn't have $7,000 on average for a household credit card debt level. How does that play into this?

PROF. THALER: So, one quick answer to that would be a choice engine could help you pick a credit card that will have a higher minimum payment rather than one that if you pay this you'll be in debt for three lifetimes. But there's no simple answer to that.

PROF. LYNCH: And the other key issue on that is the timing of it. So, one of the things with our work is the idea that you'd get this help before you've actually locked into a house you can't afford, so you would influence the house choice.

PROF. LUSARDI: You have to be able to ask the right question, as well. So, I think it's important for you to know that, as well.

CHAIRMAN ROGERS: Bob, you had a question?

MR. SOLOMON: I think Professor Thaler said something that really worked well for me. On the choice engines themselves, there's no guarantee that they're going to be very -- the relevance --

(Background noise.)

MR. SOLOMON: -- credit report and all sorts of private industry -- just for example, private industry freecreditreport.com, and it's a scam to charge money to get what's otherwise available free. So, choice engines are subject to a lot of information. If they're not transparent they can -- I think just getting the most advertising for the --

PROF. THALER: Agree.

CHAIRMAN ROGERS: Last, quick ones?

MS. GROSS: I just wanted to make a quick observation with the caution that was just given, that you make very good observations about using existing public data sets and information that the government has available to create other products that can inform decision making. So, the marrying of public data sets with either private intervention or government across agencies doing a better job of using their data sets is a really important one. So, I just wanted to thank you for that insight because I think those are things that we can do that are not high cost to the government, and I just wanted to thank you for those observations.

CHAIRMAN ROGERS: Thank you.

MEMBER BRYANT: So, point, question. Carrie, I'm not sure that I heard that financial education is not working, no different than kids don't want to graduate from high school. They want to be successful. Let me ask a question. Let me come at this a different way. I'm going to build on something you said, Mr. Chairman, earlier about the Buffet comment.

At Operation HOPE, we -- I was listening to what you -- tried to blend all what you're saying here, left brain, right brain a little bit. We moved credit scores 120 points in 18 months to two years. The first thing we do is approve them day one. Subject to the resolutions there are primary denial factors. And we found their aspirations get them to the end goal. They didn't want the mortgage, they want to become a homeowner.

Are we talking about the same thing here? By the way, those loans perform. But we moved the credit score, but we didn't focus on the credit score, we didn't focus on the tactical issue. We focused on the -- we approved them day one, then we backed into the loan approval by finding out why they'd be declined, and then we worked on those things together. Is this a blending of -- go ahead.

PROF. THALER: I think this is exactly Just In Time. That's what we mean by Just In Time, you're taking a group that needs some help and sort of holding their hand one step at a time, and giving them exactly the tool they need at that moment. And if Anna succeeds and we create a new breed of highly educated young people 10 years from now that will be great, but in the meantime we have to do stuff like what you're talking about.

CHAIRMAN ROGERS: Last word?

MEMBER ROSEN: Yes, thanks, Mr. Chairman. I mean, just to wrap on that, I think that the notion of -- you know, we've all read the data around financial education being ineffective, and we've spent a lot of time on this. And one of the -- and not to tout the Councils, but to tout Beth Kobliner, I mean, one of the attempts of the document that she really produced and we adopted, Money as You Grow, was to get to the next level of sort of just basic concepts of what kids should know. Where there seems to be a huge hunger for that from schools, from parents, et cetera, I mean, so much that that tool itself is just with very little support has gone viral, which is interesting because people really want to know that. And the deep concern that there is not a dearth of financial education curriculums in schools, so much of what I think has been included in the studies is not being able to make any assumptions about what is the high quality, and what's not quality, and what's effective. And I just think it's important that we take that apart.

And there are so many, and John mentioned one, different kinds of approaches to financial education, but I think the biggest thing that you mentioned, Dick, that is something that we're sort of doing a deep dive on, and I couldn't tell if you were kind of dismissing it or thinking it was an important thing or not.

PROF. LYNCH: I'm sure it was the latter.

MEMBER ROSEN: As always my wont to take on an expert, is on the Common Core alignment, because the vast majority of financial education programs in this country have historically been added, electives, not core to learning. So, if one actually says should kids know what -- how to calculate compound interest before they take on a student loan debt, one could argue that -- and going to the underserved and the financial -- if we don't teach them to add, they're never going to be able to make that judgment one way or another. So, I hope what I was hearing was that that's an opportunity to put it into the mainline, or if it's not, is main -- and when I say mainline I'm really talking about integrating it into what the core concepts, what you're trying to have kids master as concepts, not just financial aid, but learning itself.

PROF. THALER: I'm all for kids learning compound interest. My warning is that five years later they will remember as much about that as they do about cosines.

MEMBER ROSEN: See, now that's exactly what I thought you were saying about cosines, so my argument is that it's not that we should have every kid in America memorize the formula for fixing compound interest.

PROF. THALER: Then we completely agree.

MEMBER ROSEN: Okay. Because it's such an easy concept to actually calculate if you know how to -- you know what a fraction means. Okay.

CHAIRMAN ROGERS: I think we need to move on to the Committee reports that Melissa is going to introduce. And we want to first of all thank everybody --

(Applause.)

MS. KOIDE: Thank you, all.

CHAIRMAN ROGERS: I wish we could have spent the whole -- another couple of hours on this because it's so powerful and important.

MS. KOIDE: And I think it was worth, we all agree, going over to have the conversation that we've had, but that does mean that we need to condense our Subcommittee reports so that we can get you out of here for lunch on time.

So, we're going to start with John Bryant. He was going to give us a quick report out on the Subcommittee on Underserved and Community Empowerment.

MEMBER BRYANT: Good afternoon, Mr. Chairman and the Council. I have a crisp report for you. That was a great job, Ted Beck. I want to commend you, that was a great job.

(Applause.)

MEMBER BRYANT: So, first and foremost, let me thank the Council members. Eldar, who was also helpful with today's initiative, Samuel Jackson next to me, Ted Beck, Carrie Schwab-Pomerantz, Sherry Black, Marc Morial, honored to have you with us, my friend. You have your conference coming up in a couple of weeks, by the way. I'm trying to give you a commercial, Marc. You're not paying attention. You have your - oh, your National Urban League Conference coming up in a couple of weeks with the President speaking, and we're honored to be with you. Ken Wade, Janie Barrera, Artie Arteaga.

I want to commend Artie Arteaga whose recommendation from the former Committee on the Underserved, the MyMoneyAppUp was -- that recommendation was adopted by the Treasury Department, and has been moved on. Artie, that's correct. Right? Yes. And I want to commend you there, and that sort of pivots or speaks to a lot of what was said this morning about the power and the future of mobile banking, mobile money, et cetera. And Artie has probably a half dozen pilots that are ongoing that should be showing fruit. They're already showing fruit, one of which is with 20 credit unions, as I understand, in 15 states, but we should have some very specific results on that by the time that we issue our final report to the President at the end of the year.

MEMBER ARTEAGA: Along those lines though, John, let me certainly commend Samuel who brought that particular recommendation to our Subcommittee. And I think it was timely and it was launched this past month. I applaud Samuel for the hard work.

MEMBER BRYANT: Bravo. And Samuel gets two pieces of love because he was also -- he also led our -- two pieces of love, you don't normally hear that at the Treasury Department, but whatever. This is the Underserved Community and Community

Empowerment Committee report. We are a little cooler.

I want to also commend Samuel for his work with the last Subcommittee -- last Council meeting we had where the Subcommittee brought a very robust group of leaders here that he helped with.

Specifically, Samuel is working on something -- this is not a recommendation for today, but I do want to commend B- Samuel has an idea that is modeled after what CFPB is doing around Know Before You Owe. Right? So his campaign -- this is the idea he has of Know Before You Apply, which is tied to higher education, loans, et cetera, and it really builds on a lot of the research that was commented on today. There's a lot of data coming out and no place for it to go, so hopefully Samuel will be working to formalize something that we can bring first before our Subcommittee to take some serious deliberations at the Subcommittee level.

Sherry Black has been doing incredible work with tribal, the tribal area, Tribal Nations, and has already held meetings June 17th-20th in Lincoln, Nebraska on financial savvy citizens, what tribal leaders can do, and she's holding a series of meetings amongst tribal leaders. I want to thank Sherry in particular for her continuing to pound into our head that it's -- the tribal nations are a substantial part of America, it's part of the government structure, and it deserves the full respect that any other government entity would require. So, thank you for continuing to push that.

And I guess, finally, let me B- and Janie is doing work, great work with the Federal Reserve, and specifically minority small businesses. And last but not least we had in January, Mr. Chairman, a goal of 50 local financial literacy councils. We worked with the Partnership Committee on this, Carrie Schwab-Pomerantz and her Committee. We put together with the Partnership Committee a local financial literacy resource guide which has been approved and it's on the website. We had a goal of 50 councils, and I'm proud to be able to say today that we have exceeded the goal to you and to the President of the United States by 100 percent. We have now 100 plus local financial literacy councils, mayors who have committed to stand up local financial literacy councils around the nation, and the D.C. Council met, Jena Roscoe, was it June? They met June 14th here in the District. They've already seated their members and had their first meeting. We have 13 councils in North Carolina who have already agreed to within 30 days -- I'm sorry, within 60 days to stand up their full councils, and Marc Morial and I are working on the New Orleans mayor. Marc, you want to say anything about that?

MEMBER MORIAL: Yes. I think when you come down we're going to try to meet with Mayor Landrieu, and he is very inclined. And I think when you use your powers of persuasion it will be done.

MEMBER BRYANT: Well, you were mayor of New Orleans, so I think we have a little in there. So, that's -- I will just sort of end there, Mr. Chairman. We hope to not only stand up the complete 100 plus councils into operating entities, but my goal now is to move to get you actually to double that number, to get you to 200 local councils before we issue our final report.

CHAIRMAN ROGERS: Thank you.

MS. KOIDE: Great. Thanks, John. Amy, can we turn it over to you for the Youth Subcommittee report.

MEMBER ROSEN: Sure. I will be very brief now that I had to take on my experts over here and defend the Youth Committee's work on financial education. But I just want to also just thank Ted, Sherry, John, Samuel and Beth, because we have actually been very active. The large areas that we've been really working on are in the report so I'm not going to bother to go through those, but would encourage everybody to take a look at them.

I'm going to cede a minute and a half of my three minutes to Beth because I do B- am really, really excited, and I want not only the public but the other Council members to realize what this Money as You Grow has become. So, when we look at what we've actually gotten done here, Beth will give us some report on that.

But just looking forward, I do want to say -- share with the Committee and the public at large where we're going, sort of two major areas that we're honing in on. With Samuel and Beth's help, we've really started thinking and looking deeply at how we could be more effective in pushing the student loan agenda, not necessarily -- and we applaud the Administration for doing a huge amount of work, and the Education Department on the area, particularly around helping students who are mired, and instead actually manage it moving forward. We're looking backwards again into the school systems thinking about what is available to help young people take on or make better judgments about what they're able to take on. And we're looking at things that are going on that are really good, and how we can actually promote them and use the Council moving forward on them. But also looking for great new ideas. And I applaud the -- what the Assistant Secretary was talking about, getting this mobile app competition out is really, really important because there are real aisles of excellence being done in this area by state treasurers, by mayors, by a variety of people. And if this can attract some technology experts to actually -- I just ask and implore everybody here who has an interest in this to reach out to everybody to try to marry them and put them together, because this is a real opportunity to help digitize this world on some of the things that are really making progress on it.

Secondly, we are honing in on the Common Core issues. So, as we move forward to implement both the English Language Arts and the Math Common Core, the Committee has been spending a lot of time talking to experts like the two major consortiums on assessments, the PARCC and the Smarter Balance on the theme that -- or the theory that if you test it they shall teach it. Getting ideas from folks from organizations like Achieve, Student Achievement, et cetera, and really trying to marry the worlds of financial education into the folks that are really thinking hard about how to implement the Common Core. And we think there's real opportunity to both help make sure that it's aligned well to incent folks to really develop high-quality content and professional development. And we're really actively talking as a Committee about how the Council can really get involved in this much more aggressively, much more actively in the next couple of months because school district states are mired down in needs in this area, and we think we can really help bring the financial education into the Core math classes, and even conceivably into the Core learnings of English classes, et cetera, when they're younger.

So, we would just ask the Subcommittee that both Council members and experts from all over, please be in touch with us with ideas because these are the two areas we're going to really hone into and hopefully have some recommendations in the next meeting or two.

MEMBER KOBLINER: Thank you, Amy and John. Thanks, Amy, for your great leadership and to you too, John. The Money as You Grow Working Group, which also includes Samuel Jackson and Eldar Shafir, is reviewing ways to continue to broaden the reach of Money as You Grow.org. As you'll recall, this initiative offers 20 essential lessons for children which were culled from dozens of standards, curricula, and academic studies including the Treasury's core competencies and the Governor's Common Core Standards for Math. Money as You Grow.org was launched at the White House Summit on Financial Capability and Empowerment in May, and to date more than a quarter of a million people have visited the site, many of whom are moms sharing it on the social media website Pinterest. Our goal, one million families by year end.

News stories about Money as You Grow have appeared in Time, the Washington Post, US News and World Report, and tomorrow Arne Duncan and I will be on the National Public Radio Show, the Takeaway, discussing it. Many non-profit organizations and government agencies are helping to disseminate Money as You Grow.org, including the National PTA, Junior Achievement, the Chicago Fed, SEC, and OCC. The American Library Association's Library Service to Children created a special book list built around Money as You Grow for children's libraries nationwide. And the CFPB is currently exploring ways to test Money as You Grow.

I want to thank the Council members for helping us achieve our goal of getting Money as You Grow posters on every fridge of every American family's home. Thank you.

CHAIRMAN ROGERS: Terrific. Absolutely terrific.

MS. KOIDE: All right, thank you. All right. Carrie, do you want to give us an update on the Partnership Subcommittee?

MEMBER SCHWAB-POMERANTZ: Yes, we have a lot going on so I'll try to make this as brief as possible.

First of all, so on behalf of the Partnership Committee, we've been working on three areas over the last year. And you heard a lot about the Council guide, local Council guide which is actually the ultimate partnership of bringing local, or different sectors of society and local areas to create financial capability, and it's also been a great partnership with John's group, so we're very excited, over 100 cities have already committed to creating these councils and programs for financial capability in their areas.

The other two areas that we've been focused on has been workplace financial education. And if you'll remember back in January we made a recommendation to the President to direct federal agencies to provide financial education to its own employees as a way to be a role model for the rest of society as an employer. And I just wanted to give you a little update on that.

Ray Kirk, I don't know if he's in the audience, but he's been a tremendous support to us. And he has moved that recommendation forward. He has already provided a database of experts for their different employees and different federal agencies who don't necessarily have the expertise at their hands. That's supposed to come out this fall. He also has created an award system to award those agencies who are sort of doing best in class around financial education.

And then the two of us had the opportunity to speak at the annual Federal Benefits Conference in May which consisted of over 300 HR practitioners in the federal government. And we spoke specifically about the recommendation and the work of President's Council, and we hope that we inspired these federal agencies to adopt and bring financial education to a higher level within their workplace. So, that was a pretty exciting opportunity, so I just want to say thank you to Ray Kirk for being such a passionate leader and being such a support to our Committee, the Partnership Committee, and the Council.

And then lastly what we're working

on right now is improving financial capability in the private sector. And we've been working tremendously on that. We helped the White House Summit, or the White House with creating its summit, and its white paper and improving financial capability for all Americans regarding specifically with the workplace. And to supplement that we took our framework and created this sort of document, draft document right now that states the elements of a best in class financial education program that can be provided by an employer.

It's been seen by probably 30 different C-Suite experts or C-Suite business people, you know, HR positions, experts within organizations like the Human Resources, AFL-CIO, so it's incorporated a lot of different opinions around what makes a good workplace program. It's meant to be challenging yet realistic, and also flexible for different kinds of companies, micro and small thanks to Janie and to mid and large-size companies. And then we have an advanced version.

So, our hope is we will call it a final, final draft in which we will then send it out or submit it through our partner organizations such as Chamber of Commerce, SHRM, again AFL-CIO, Small Business Association, and HR Policy Association, so different organizations such as that to again give us sort of their last comments, and also send it out to companies who might be interested in improving their financial education within the workplace. So, we're pretty excited about that. You'll hear more about it I think as we get the feedback that will shape what our recommendation will be to the President, and next steps.

This has taken a lot of -- we have worked very, very hard on this Committee looking -- creating strategy, creating actual real reference guides to move the dial on financial education at the local level, and the workplace segment. And I just want to say thank you to all of my Committee members who have been equally involved in this endeavor, and that goes to Artie Arteaga, Janie Barrera, John Bryant, Rick Ketchum, Barry Rand, and Amy Rosen. And each one of them are experts in this area, and have brought that expertise to all the work that we've done, so thank you.

MS. KOIDE: Thank you, Carrie. And I have to say, too, you are recognized for leading all of that work. I've heard from numerous people among the Council members how hard you've worked to put that together, so congratulations to you.

So with that, we're running a few minutes behind. I want to turn it over to John for any last minute comments, and then we will end.

CHAIRMAN ROGERS: I will just say this has been I think a terrific day, and the conversation was wonderful. The interaction between all the Council members I thought was just perfect, and just really exciting to see how much progress we've made. So, again, I'd like to thank everybody for all the hard work, and meeting adjourned.

(Whereupon, the above-entitled matter went off the record at 12:10 p.m.)