

**IMPROVING FINANCIAL LITERACY IN THE UNITED  
STATES**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED NINTH CONGRESS**

SECOND SESSION

ON

THE NEED TO IMPROVE AMERICANS' FINANCIAL LITERACY AND EDU-  
CATION TO ENSURE ALL AMERICANS HAVE TOOLS AND RESOURCES  
TO MAKE SOUND FINANCIAL DECISIONS

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MAY 23, 2006

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## **IMPROVING FINANCIAL LITERACY IN THE UNITED STATES**

**TUESDAY, MAY 23, 2006**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:01 a.m., in room SD-538, Dirksen Senate Office Building, Senator Richard Shelby (Chairman of the Committee) presiding.

### **OPENING STATEMENT OF CHAIRMAN RICHARD SHELBY**

Chairman SHELBY. The committee will come to order.

Senator Akaka, we are pleased to have you here today. I will make my written statement a part of the record so we can move on.

Chairman SHELBY. Your written testimony will be made part of the record, without objection, and you proceed as you wish. Welcome to the committee again.

### **STATEMENT OF SENATOR DANIEL AKAKA**

Senator AKAKA. Thank you very, very much, Mr. Chairman, for having this hearing. I will make a brief statement and ask that my full statement be included in the record.

Chairman SHELBY. Without objection.

Senator AKAKA. I am delighted to be here, Mr. Chairman, because we share a common purpose of improving financial literacy for Americans.

Mr. Chairman, I have appreciated your interest in this issue. Your efforts to make Americans financially literate and your including me in this hearing today, I really appreciate that.

I want to thank Sherry Little and your entire staff for all of the contributions on this issue. I also want to convey my deep appreciation for all of the work that my good friend, the Ranking Member, Senator Sarbanes, has done for many years on financial literacy.

I want to take this moment to thank Steve Harris, Aaron Klein, and your entire staff for their tireless work to help make Americans more financially literate. In addition, Senators Enzi and Stabenow have been leading advocates on this issue whose efforts I have greatly appreciated.

I also want to thank Chairman Bernanke and the staff of the Federal Reserve, along with Chairman Cox and the staff of the Securities and Exchange Commission, for all of their efforts to help improve the financial decision making of Americans.

In April, the SEC participated, along with the National Association of Securities Dealers, in an event in Honolulu intended to help the armed forces and service personnel be better equipped to invest and manage their resources and avoid predatory lenders.

Mr. Chairman, we are all here because too many Americans lack basic financial literacy. A sample of economic statistics presents some disturbing realities. In 2005, one bankruptcy petition was filed for every 60 households. Meanwhile, the personal savings rate was negative last year. Millions of working families are susceptible to predatory lending because they are left out of the financial mainstream. The unbanked rely on alternative financial service providers to obtain cash from checks, pay bills, send remittances, utilize payday loans, and obtain credit. Many of the unbanked are low- and moderate-income families that can ill afford to have their earnings unnecessarily diminished by their reliance on these high-cost and often predatory financial services.

The 2005 Retirement Confidence Survey found that a majority of workers believe they are behind schedule on their retirement savings and their debt is a problem. A lack of preparation for retirement is of particular concern since more workers are more dependent on defined contributions rather than defined benefit pension plans and need to be better stewards of their financial futures.

Reductions in employer-provided retirement and health benefits demand that we come up with more retirement dollars. Clearly, there is a great need for larger nest eggs, smarter investing, and better debt management. Without a sufficient understanding of economics and personal finance, individuals are not able to appropriately manage their finances, evaluate credit opportunities, and successfully invest for long-term financial goals in an increasingly complex marketplace. It is essential that we improve education, consumer protections, and empower individuals and families through economic and financial literacy in order to build stronger families, businesses, and communities.

Mr. Chairman, I fought successfully to include my Excellence in Economic Education Act in the No Child Left Behind law. EEE supports teacher training, evaluations, research, and other K-12 activities in the No Child Left Behind legislation. I have been able to obtain approximately \$1.5 million a year for the program in the last three appropriation cycles. It is our schools effectively teaching economics and personal finance. Students can be prepared for the challenges they will face as business leaders, workers, heads of households, parents, and voting citizens. There is no better time than in childhood to instill the knowledge and skills needed to make good decisions throughout their lives.

I am also working to include a provision of my colleague's LIFE—L-I-F-E—bill which addresses financial literacy needs for the college population in the Higher Education Act. Economic education and financial literacy are a vitally important component of increasing financial literacy. However, we need to attack predatory lending, bring people into mainstream financial institutions, and encourage the dissemination of improved personalized and relevant financial disclosures. Too many Americans, Mr. Chairman, are taken advantage of by unscrupulous lenders through refund anticipation loans, payday loans, and other predatory loan products. We

need to develop more mainstream financial products and services that will provide viable alternatives to fringe financial services such as payday loans. That is why, Mr. Chairman, I introduced S. 1347, which would encourage the development of consumer-friendly small loans at credit unions and banks. This demonstration program will have a maximum interest rate of 18 percent and must include financial literacy opportunities for participants.

I am very proud of the Windward Community Federal Credit Union in Kailua, Hawaii, for developing an affordable alternative to payday loans to help the marines and other members that they serve. We need to further encourage more of these alternatives so that working families have access to affordable small loans. We must also ensure that consumers receive improved personalized and relevant disclosures so they may make better debt management decisions. My bill, S. 393, the Credit Card Minimum Payment Warning Act, would mandate that credit card billing statements include how many years and months it will take to pay off the full balance if consumers only make the minimum payments.

A recent Government Accountability Office report confirms that providing credit card users with detailed personalized information is possible and would help consumers make better debt management decisions.

Again, I want to thank you, Mr. Chairman, for allowing me to participate today. We have a lot of work left to do to help improve the financial skills and well-being of our Nation. This is a daunting task, and I look forward to continuing to work with you and this committee.

Thank you very much, Mr. Chairman.

Chairman SHELBY. Thank you, Senator Akaka.

Senator Sarbanes.

#### **STATEMENT OF SENATOR PAUL S. SARBANES**

Senator SARBANES. Well, Mr. Chairman, I just want to thank Senator Akaka for his extensive contributions in this area.

Chairman SHELBY. Absolutely.

Senator SARBANES. He has been focused on this issue for a long time. There are very important provisions included in law that deal with efforts to enhance financial literacy, and I am very appreciative of the leadership he has shown in this field. It has been a very significant and important contribution. I appreciate the testimony this morning.

Chairman SHELBY. Absolutely.

Senator AKAKA. Thank you very much.

Chairman SHELBY. Senator Allard, do you have any comments?

#### **STATEMENT OF SENATOR WAYNE ALLARD**

Senator ALLARD. I don't. It is good to see you this morning, Senator.

Senator AKAKA. Good to see you.

Senator ALLARD. Thanks for your comments.

Chairman SHELBY. Senator Stabenow.

**STATEMENT OF SENATOR DEBBIE STABENOW**

Senator STABENOW. Thank you, Mr. Chairman. Just welcome to Senator Akaka. Thank you so much for your leadership, and I appreciate your referencing my authoring, along with Senator Enzi, this particular title, literacy title that we now have in law. I have been very anxious to see how things have been progressing. There is no question about it that at the core of the American dream is the ability for people to make wise decisions on buying a home, sending the kids to college, being able to have safety and security in retirement and so on. And so we share that goal, and I think we made a major step forward when we passed the Fair and Accurate Credit Transactions Act in 2003, and we have had other efforts on behalf of this Committee. And I think it is something hopefully we will continue to aggressively pursue.

Thank you.

Chairman SHELBY. Thank you, Senator Akaka, for appearing here today.

Senator AKAKA. Thank you very much, Mr. Chairman.

Chairman SHELBY. And thank you for your contribution.

Chairman SHELBY. I will call the next panel up: the Honorable Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System; the Honorable Christopher Cox, Chairman of the Securities and Exchange Commission. And while you are taking your seats, I will recognize Senator Sarbanes for any statement he wants to make.

Senator SARBANES. Thank you very much, Mr. Chairman.

First of all, I want to express my appreciation to you for calling this hearing on the critical need to increase America's financial literacy and education efforts. I think it is another instance of effective oversight which this Committee under your leadership has been very much engaged in. We have talked about that, and I think it is a very important dimension of our responsibilities.

I think it is a testimony to the importance of this issue that we have such distinguished witnesses before us at the Federal Reserve Chairman, Ben Bernanke, and the SEC Chairman, Christopher Cox. They have both been leading champions in the efforts to increase financial knowledge among all Americans, and there is a second panel to follow of leading experts in the field, and we look forward to their testimony. I want to thank all of the witnesses for joining us today.

Financial literacy is a phrase we often here. I am not sure we fully understand it, but it is analogous in financial matters to basic literacy, the ability to read and understand what is read in our everyday lives. We are keenly aware from our efforts to improve our schools and raise students' ability to read that there are higher and lower levels of literacy. Numerous statistical studies support the proposition that in the field of personal finances, substantial numbers of people are financially illiterate.

In the last Congress, I was able to work with you, Mr. Chairman, and Senator Enzi, who has been a leader for many years on this issue, both in the State of Wyoming and nationally, on getting legislation through that established a Presidential Commission on Financial Literacy and Education. A number of other Senators, including Senator Stabenow and Senator Akaka, who was just with



us, were involved in this legislation. We sought to highlight the issue and to better coordinate the many programs that exist across the country under a more unified national strategy.

Mr. Chairman, this Commission is chaired by the Secretary of the Treasury, and I regret that Secretary Snow could not be with us this morning. I understand he is out of the country. The Treasury, as chair of the Commission, did release a report some 9 months after the statutory deadline, and I have to express some disappointment in the report because I think it fails to articulate a coherent national strategy.

Fortunately, the law requires that the report be updated annually, and it is my hope that in the future the Commission can produce the national strategy that will better enable us to coordinate and improve our financial literacy efforts.

There are many programs across the country, Federal, State, and local level, governments, nonprofits, for-profit companies. The Maryland Bankers Association, for example, has a very active program in financial literacy, and comparable efforts exist in other parts of the country.

It is clear that people need different types of financial information at various stages in their lives. Young people, retirees—the information they need is quite different.

I do want to recognize that Chairman Bernanke and Chairman Cox are keenly aware of this. The Fed and the SEC have both provided great service in their specific financial literacy programs, and in working with the Commission in an effort to create a more unified and strategic approach in dealing with this problem. I personally want to thank both Chairmen and the staffs at each agency for the hard work they have done in trying to implement the legislation that was passed in 2004.

Mr. Chairman, I think it is imperative that we push ahead on this. I think you can make a very substantial contribution to improved activities in the financial area. We are concerned about a lot of problems. I am not going to go through them all, but, you know, the savings rate has fallen below zero now, as I understand it. I guess that is still the case. If people become more financially literate, I think they will begin to understand its importance, and that has a very significant contribution to make, not only to the personal financial well-being but also to the Nation's financial well-being.

So, I welcome the two Chairmen. I look forward to their testimony and the testimony to follow from the panel of expert witnesses.

Chairman SHELBY. Thank you, Senator Sarbanes.

Welcome again, Chairman Bernanke, Chairman Cox. Your written testimony will be made part of the record. You may proceed as you wish. Chairman Bernanke.

**STATEMENT OF BEN S. BERNANKE, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Mr. BERNANKE. Thank you, Mr. Chairman. I would like to read a short version of the testimony—

Chairman SHELBY. Can you bring the mike up closer to you, Mr. Chairman? Thank you. Proceed.

Mr. BERNANKE. Chairman Shelby, Senator Sarbanes, and Members of the Committee, I am pleased to be here to discuss financial literacy and financial education.

Improving Americans' financial literacy, always important, is becoming increasingly critical. In recent years, technological advances have dramatically transformed the provision of financial services in our economy. For example, the expanded use of credit-scoring models, by reducing the costs of making loans and by increasing the range of assets that can be securitized, has facilitated greater extension of credit to a larger group of borrowers. Indeed, we have seen an increasingly wide array of products being offered to consumers across a range of incomes.

At the same time, the range of potential providers of credit and other financial services has also increased, including expanded market presence of non-bank entities, such as payday lenders and finance companies.

Greater availability of credit, the so-called democratization of credit, and of other financial services has important benefits, but these developments have also increased the level of financial knowledge that consumers need to navigate the financial marketplace successfully.

Informed financial decision making is also vital for the healthy functioning of financial markets. Like any other businesses, financial service firms will provide better products at better prices when they are subject to market pressures imposed on them by informed consumers. Market competition among financial providers for the business of informed consumers is, in my judgment, the best mechanism for promoting the provision of better, lower-cost financial products.

Research suggests that financial education can help consumers make better choices. For example, for many decades various non-profit organizations have offered home-buying programs and credit counseling. The evidence suggests that financial counseling can improve consumers' management of their credit. One study that analyzed nearly 40,000 affordable mortgage loans targeted to lower-income borrowers found that counseling before the purchase of a home reduced delinquency rates by 19 percent on average. This study also documented a 34 percent reduction in mortgage delinquency rates among borrowers who received individual counseling rather than classroom or telephone instruction.

My written testimony describes a number of other studies that document the positive effects of financial education and knowledge on financial outcomes.

The Federal Reserve System has long recognized the value of economic and financial education for producing better informed citizens and consumers. Our efforts and initiatives in this area may help to illustrate some of the approaches that Government agencies might use in supporting financial literacy and financial education, so if I may, I would like to describe them briefly.

First, one important means by which the Federal Reserve helps consumers make better informed financial decisions is through its consumer protection rule writing. For example, pursuant to the Truth in Lending and Truth in Saving Acts, our regulations require the disclosure of specific information on terms and fees associated

with credit and deposit accounts. This information, and in particular the standardization of these disclosures across products and providers, allows for better comparison shopping.

Of course, one of the challenges of creating effective disclosures is presenting information so that it is as accessible and understandable as possible. We conduct focus groups and consumer testing to inform the rule-writing process. The Federal Reserve also publishes numerous brochures that explain the terminology and consumers' rights in straightforward terms or provide useful information on particular areas of concern, such as predatory lending and identity theft. We have found that counselors and educators often use our brochures in teaching their audiences about financial products and services.

Second, the Federal Reserve System has also worked to promote awareness of the importance of financial education and literacy. For example, in May 2003, the Board and the 12 Reserve banks participated in a national campaign to call attention to the issue. This multimedia initiative, entitled "There's a Lot To Learn about Money," included a public service announcement and a toll-free number for obtaining financial education resources. Consumers were also directed to our financial education website, [www.federalreserveeducation.org](http://www.federalreserveeducation.org), which includes links to a wide variety of financial education resources at the national, regional, and local levels.

A third piece of the Federal Reserve's financial education effort is its collaboration with a wide range of educational and community organizations. Staff members from the Federal Reserve Board advise national organizations, such as the Jump\$tart Coalition for Personal Financial Literacy, the Conference of Mayors' DollarWi\$e Campaign, Operation HOPE, the American Savings Education Council, and America Saves on the development of policies, programs, and partnerships.

The Federal Reserve Banks also join with regional organizations to address financial education needs. For example, the Federal Reserve Bank of Cleveland has worked with community financial educators to form regional networks that combine resources and share best practices. The Federal Reserve Bank of Chicago sponsors "MoneySmart Week," partnering with banks, businesses, Government agencies, schools, community organizations, and libraries to host activities designed to help consumers learn how to manage money. The Federal Reserve Banks of San Francisco and Minneapolis have worked with leaders in the Native American community to develop financial education materials.

As part of its broader economic education effort, the Fed also runs a national competition for high school students called the "Fed Challenge." I have included an appendix to this testimony describing some of the Federal Reserve's significant programs and collaborative efforts in financial and economic education.

Fourth, the Federal Reserve promotes and engages in research relevant to financial literacy. For example, the Board conducts the triennial survey of consumer finances to gain insight into U.S. families' assets, borrowing, retirement saving, and use of financial institutions. Many researchers and practitioners use this unique data

set in analyzing trends in consumer finances and consumer behavior.

In another initiative, Federal Reserve researchers are collaborating with the Department of Defense to conduct a 3-year longitudinal study of the effect of military-sponsored financial education on the financial decisions of soldiers and their families.

Since 1999, the Federal Reserve System's biennial Community Affairs Research Conference has generated and highlighted new research on the efficacy of financial education. And at the district level, the Federal Reserve Bank of Chicago maintains the Financial Education Research Center, which provides access to online resources for researchers, educators, and program developers, and economists at the various Federal Reserve Banks are conducting a variety of studies on the effects of financial education.

Fifth, and finally, the Federal Reserve seeks to improve the financial literacy of its own workforce. The Board offers a comprehensive financial education program to help employees plan their retirements and better use their benefits. We also offer regular seminars on topics ranging from budgeting and saving, to buying a home or investing for children's education. We view our employee education program as a win-win proposition. Research has determined that such programs benefit employers as well as employees. For example, one study found that workplace financial education programs contribute to improved worker performance, increased job satisfaction, and decreased absenteeism.

Although progress has been made in improving the financial literacy of Americans, substantial challenges remain. Some of the most difficult problems involve the financial education of our young people. Findings by the Jump\$tart Coalition, which has administered financial literacy tests to high school students annually for the past nine years, illustrate the issue. According to Jump\$tart, student performance on these tests has not improved since the inception of the survey.

Another concern is that the test results also show a gap in financial literacy between minority and non-minority students. Clearly, there is still much work to do to understand how to improve the financial literacy of young people. On the other hand, the Jump\$tart survey does confirm the importance of financial literacy in that students who score higher on the test tend to make better financial decisions, such as avoiding bounced checks.

Because financial literacy leads to better outcomes for individual consumers and for our economy generally, continued effort in this area is highly desirable. The good news is that there are many opportunities for cooperation and collaboration among public, private, academic, and community institutions. Advances in technology also offer great promise for improving the quality and delivery of financial information and for sharing of research and best practices. There remains, however, a great deal more to do.

In closing, I would like to reaffirm the Federal Reserve's strong commitment to increased financial literacy and improved financial education. We look forward to continuing our collaboration with the many partners who share these objectives.

Thank you, Mr. Chairman.

**STATEMENT OF CHRISTOPHER COX, CHAIRMAN,  
U.S. SECURITIES AND EXCHANGE COMMISSION**

Mr. COX. Thank you very much, Chairman Shelby, Ranking Member Sarbanes and Members of the Committee. Thank you for giving me the opportunity to join with Chairman Bernanke and all of you this morning to testify about the importance of financial literacy and the Securities and Exchange Commission's efforts to protect and educate our Nation's investors. I commend each of you for raising awareness regarding this critical issue.

Let me start with the particular challenge we face in educating our young people about personal finance and the benefits of savings and investment. I believe it is crucial that today's young people are encouraged to look a few years down the road and learn the greatest lesson of investing: start early. For aspiring young investors, the SEC offers a range of informative publications that emphasize factors to consider before investing. They provide important questions to ask before investing. Many of our materials explain how a small difference in fees can translate into a large difference in return over time. We also repeatedly remind young or new investors of the benefits of paying off high-interest credit card debt before beginning any investment program. Overall we have published hundreds of educational brochures, investor alerts, and short topics of interest to investors. While some of the most popular materials are available in print, all of our materials are also available on the Internet through the investor information section on our website.

Also, since we serve on the board of the Jump\$start organization, our information, available in Spanish and in English, is incorporated into many K-12 curriculums. Anyone who can read a newspaper can understand our educational materials. Everything we produce is available free of charge and not copyrighted, so the widest possible dissemination is encouraged.

We have also begun Beta testing of our podcasting initiative to deliver investor education through this means. Podcasting, as I think you all know, is a method of publishing audio over the Internet. It allows individuals to listen to our SEC broadcasts directly on their computers or download them for listening at their leisure on their iPod, MP3 player or other portable listening device. Individuals can get started by listening to our introductory podcast called "Welcome to Your Money," or they can learn how to determine whether a hot stock tip is actually a good investment by listening to the episode called "Hot Stock Tips." Users can download these podcasts, as I said, just as they would download music and customize playlists in exactly the same way. That way they have the flexibility to listen to these things and replay them as they see fit, whenever it suits their needs.

If this outlet for dissemination is successful, which I think it will be, we plan to expand significantly the library of financial information available through podcasting.

Now I would like to turn to the topic of our Nation's retirees, the largest and fastest-growing segment of our population. As you may know, I have spent a good deal of my time since becoming the Chairman of the SEC working to ensure that America's seniors are protected against those who would cheat them out of their life savings. That is why I recently announced that the SEC will convene

a Seniors Summit of regulators and of organizations that are concerned with senior issues, to publicly discuss what steps can be taken to better protect this increasingly vulnerable segment of our society.

I have also announced that we are working with State regulators and the NASD to evaluate the ubiquitous “free lunch” seminars aimed at convincing seniors to purchase complex and often unsuitable investments. Building on work that we first started in Florida, we are expanding our joint efforts to examine these free lunch programs in other jurisdictions.

We have also created a page on our website aimed specifically at seniors. We are providing critical information on investments that are commonly marketed to them. It also provides key information about how to detect and avoid fraudulent schemes aimed at this segment of the population.

We have other specialized educational tools, and they are not all aimed at seniors. For example, we have our “Just for Teachers” web page. The information here helps teachers with their own investments, and it also helps them in preparing classes for their students. We are quite aware that they have the need to make sure that their students have the resources necessary so that they understand personal finance in the classroom. All of these materials for teachers are available online. In addition, teachers can request a free teacher care package consisting of the SEC’s educational brochures on mutual funds, variable annuities and other investing topics, and all of this will be mailed to the teachers.

We have contacted teachers in every State to let them know the resources we have to assist in financial education, and we have mailed over 4,000 teacher care packages to educational professionals all across America.

We are also committed to improving the financial literacy of America’s troops, the men and women of our Armed Forces and their families. The SEC’s Office of Investor Education and Assistance has teamed with the NASD Investor Education Foundation and the Department of Defense, on a multifaceted financial education program serving members of the military and their families. We presented our educational materials to enlisted men and women on military bases and on ships all over America. We have also built a web page dedicated to our military personnel and their families that contains helpful resources for service members.

Finally, I would like to address the elephant in the room when we talk about financial education, and I am not talking about any of the Republican Senators on the majority side. Even armed with an outstanding financial education, very few investors are able to slog through the swamp of legalese known as corporate annual reports and mutual fund prospectuses. Current disclosures simply do not give investors the chance to read the key facts about a potential investment in plain English, nor to easily extract the particular information they want from these cumbersome mounds of paper. Until now, data has been held captive to the document in which it was originally published, but that will change once each piece of information is given its own life through data tagging.

With interactive data, every investor will be able to focus on the disclosure they want with just a few clicks of their mouse. All of

the information they seek is called up instantly to one piece. Since mutual funds are the investment of choice for retail investors, that is where we are beginning with our interactive data initiative, and that is where we feel it will make its first big splash. I am pleased that the Investment Company Institute, which represents the mutual fund industry, has recently volunteered its time and talent to completing the technical work necessary to allow mutual fund investors to enjoy the benefits of interactive data.

The goal of interactive data is simple—to supply investors with information they can actually use. The Commission is also working toward this goal by requiring clear and concise, plain English disclosures in all of the information that is filed with us and distributed to investors for their benefit. Since the day I began at the Securities and Exchange Commission, I have been focused on translating these filings that appear to be written mostly for attorneys and accountants into plain English that ordinary investors can read and understand. Through our plain English movement, the Commission is committed to making disclosures more meaningful and intelligible to average investors.

In summary, Mr. Chairman, encouraging financial literacy is a high priority for my colleagues on the Commission and for our professional staff. We seek to accelerate our educational efforts, and we believe that technology, combined with plain English disclosure, offers an unprecedented opportunity to give Americans the power to become the most informed investors in human history.

Thank you for giving me the opportunity to be here to testify today about financial literacy, and I am happy to take any questions that you have.

Chairman SHELBY. Thank you, Chairman Cox.

I will start with you, Chairman Bernanke. As you pointed out, as the American financial marketplace becomes more and more complex, is it not given that the complexity of marketplace and the choices that people have out there expands the problem and risk associated with financial illiteracy?

Mr. BERNANKE. Yes, Chairman. Henry Ford once said that you could buy any color Model T you want as long as it was black. That made car shopping pretty simple, I think, in those days.

Chairman SHELBY. But that is a far cry from our financial market.

Mr. BERNANKE. Yes, sir. Now we have a wide variety of products, a wide variety of providers, which generally is a good thing because it allows people to find the product they need for their own personal best use, but it also makes shopping much more difficult, and it increases the premium on having good financial literacy to understand what is going on in the marketplace.

Chairman SHELBY. I understand that each of the Federal Reserve Banks across the country has its own areas of expertise and its own unique perspective on this issue, financial literacy. How do you—as Chairman—how do you bring all of that together and put it in the context of what the Federal Reserve can do? Because you are not only a bank regulator, but also, of course, the Chairman of the Central Bank.

Mr. BERNANKE. Yes, Mr. Chairman. We have a division of Consumer Community Affairs at the Board in Washington, which over-

sees and coordinates the activities of the 12 Reserve Banks. As you mentioned, each of the Reserve Banks has a variety of programs that it gets involved in, which is very useful because some of the most effective programs are local and regional, and given that these banks are distributed around the country, they are better able than Washington is to take advantage of some of these cooperative coalitions with local nonprofits, banks, and others. But we do try to coordinate. We do try to oversee their activities, try to avoid duplication. We have a clearinghouse, for example, at Chicago for research done across the system, and in general we have made attempts to work together as much as possible.

Chairman SHELBY. Mr. Chairman, something is troubling to me and to a lot of people, especially the consumers of America, and that is the credit card situation. You get a credit card bill and the emphasis is on paying the minimum. Paying the minimum, which is a real problem for a lot of people that lack literacy in financial matters, but especially for our young people. Our young people have become hooked on heavy debt as a result of credit card purchases and so forth.

What is wrong with some type of mandate that you put up there, if you pay the minimum? How long will it take you to pay this debt off? In other words, basically, you are just renting money, are you not, instead of paying the debt off? A lot of people do not understand or they do not get out in the weeds to understand. How do we approach that? I think this is a real problem.

Mr. BERNANKE. It is an issue, Mr. Chairman, and the concern is that when people are paying the minimum, that they are suffering a form of negative amortization. Their interest is being put back into the principal and it is compounding, and they are not really getting ahead.

At the Federal Reserve we have tried to deal with that issue through guidance, through working with the banks, and trying to ensure that they have adequate minimums and adequate disclosures to avoid this problem. We currently only have a couple of banks that are doing large credit card operations and—

Chairman SHELBY. Can you deal with this issue without legislation, which is, I guess the bottom line?

Mr. BERNANKE. Well, speaking for the Federal Reserve, we found that through guidance and supervisory oversight, we have been able to get satisfactory practices from the banks that we supervise.

Chairman SHELBY. What do you deem to be satisfactory practices in this area?

Mr. BERNANKE. It should be the case that people understand the implications of paying the minimum, and that paying the minimum leads to ever-increasing balances, ever-increasing burdens on the credit card holder.

Chairman SHELBY. Would that include understanding something prominent in the bill describing how long it will take you to pay off the bill's minimum? In other words, the information for non-sophisticated financial consumers, which is most of us.

Mr. BERNANKE. Writing disclosures about the implications of paying the minimum is a very useful practice and we try to encourage that.



Chairman SHELBY. You think you can do that without legislation?

Mr. BERNANKE. We are currently conducting a top-to-bottom review of our responsibilities under the Truth in Lending, so-called Regulation Z, and we will be looking at credit and disclosures as part of that review, and try to decide whether supervisory guidance or changes in regulation are needed.

Chairman SHELBY. Will you get back to us on this? Will you—

Mr. BERNANKE. Yes, Mr. Chairman.

Chairman SHELBY. To both sides. Senator Sarbanes and I are very interested in this issue.

Mr. BERNANKE. Yes, sir.

Chairman SHELBY. Thank you.

Chairman Cox, I like what you are talking about and what you are doing at the SEC as far as bringing financial statements in line to where people can understand them, really understand them. Because as you well know from your background and your experience, financial statements are basically not written where people can understand them. So I commend you for the road you are going down. I hope you will stay on that road, because there is nothing better than an informed financial consumer, or any consumer. And if you do not understand something, I do not know how you make prudent investments. That is not only for the young people, it is also for the average American including myself, and especially for a lot of the seniors that you referenced earlier. Because we have directly and indirectly about 100 million Americans investing in the markets either directly or through mutual funds. I just believe that they need to understand, and a lot of them do not, and people are taking advantage of them.

Mr. COX. Mr. Chairman, we will not let up. You need not worry. We are very, very keen on making sure that the SEC, as the investors advocate, fulfills its mission of helping people make their investment choices with better information. We do not need to dumb down the information. That is not what plain English is all about. That is not what clarity of financial presentations is about.

Chairman SHELBY. It is clarity, right?

Mr. COX. That is right. We are trying to address the needs of busy people. If you are investing your money, your after-tax hard-earned savings, presumably that is because you have a job, you do something else for a living besides study these financial statements. So we have to take busy people in their real-life circumstances and give them the tools they need to make decisions reasonably quickly after the kind of study that can reasonably be expected of a financial customer, but they should not have to take three weeks off from work and take a special course and hire three assistants to go through the information that comes to them in the mail or that they see on the Internet.

Chairman SHELBY. Chairman Cox, the SEC's Office of Investor Information, it is my understanding, is responsible for a lot of the SEC's public education efforts. That office has worked to decrease identity theft by making people more knowledgeable about identifying and reporting this serious crime, which is rampant in America and all over the world. Could you share with the Committee some ways that we can improve our efforts to stop the attacks on

people's wealth and their privacy in this country, to stop identity theft?

Mr. COX. Mr. Chairman, this is, obviously, part of a public education effort and a basic element of financial literacy. People, through good financial and, in particular, online hygiene, can take many steps to protect themselves. We want to be sure that the simplest of those steps is explained in plain English. Through our website we devote materials and information to this. At the same time, the SEC, through its enforcement arm, is going to take every effort that we can, to the extent that identity theft is part and parcel of securities fraud, to crack down on this.

Chairman SHELBY. The SEC also has a role in policing the behavior of financial market participants, central here. How has the use of the SEC's policing powers and the SEC's role in promoting transparency, helped thwart those who engage in the target groups, what you term affinity fraud?

Mr. COX. Mr. Chairman, affinity fraud crops up in a number of contexts.

Chairman SHELBY. What do you mean by affinity fraud?

Mr. COX. First explaining basic terms I think would be a good thing. Affinity fraud is simply the efforts of scam artists, people who are trying to rip you off, to prey upon you by appearing to be a part of your group. It could be a church group, a civic group, a nonprofit organization. It could be based on national origin—immigrants from a particular country, any number of things. In that way it is possible for crooks to insinuate themselves into circles where they will be more implicitly trusted. For that reason, we have tried to keep an eye—

Chairman SHELBY. Keep it inside a group or something like that.

Mr. COX. Exactly. These kinds of scams have been a target of special enforcement efforts. Affinity fraud and fraud against seniors are often closely connected.

Chairman SHELBY. OK, thank you.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

I want to just pick up on the fraud against seniors point that you just made. Ms. Hounsell, who is on the second panel, talks about the elderly being targets of fraudulent activities, and, in particular, why women are at particular risk for economic insecurity in their retirement years. As I understand it, you have been focusing very intently on the question of securities fraud against seniors, and I wonder if you could just elaborate on that a little bit here this morning?

Mr. COX. I would be very pleased to do so. We have been focused, the SEC has been focused, along with State regulators, on the marketing of investments specifically to seniors, with a view to ensuring that the people who are making the sales pitches are closely supervised. Some of the rules that the SEC administers and enforces are focused on making sure that sales reps, when they are making these presentations, are doing so under the supervision of the organizations for whom they work, and a failure to supervise is a violation of our rules and generally of our laws.

In this way we have been able in the early going, unfortunately, to determine that a great many of these special seminars to which

seniors are invited, often with the lure of a free lunch, many of these things are abusive. In fact, we are close to 100 percent hit rate on the ones that we have visited where we are finding problems. So I am sorry to report that it was a very good idea for us to focus in this area, because each rock we turn over seems to have something crawl out from beneath it.

Senator SARBANES. I urge you on in that effort. I think it is extremely important and people are simply being exploited, and it is really outrageous when you think about it.

Chairman Bernanke, I notice in your written testimony of the Fed evaluating the DoD's education efforts to see what works and what does not work—actually, we may be considering here in the near future legislation to protect members of the Armed Forces from unscrupulous practices regarding the sales of insurance, financial and investment products. There have obviously been some clear abuses. But that raises this issue of how do we evaluate the quality of all of these various programs that address financial literacy. There have been some studies that have said, you know, the program is not really very good. Someone is running a program. Everyone says, "That is terrific," then they evaluate the results of the program, and they find out that it is not really producing results.

How important is this evaluation process to making all of this work?

Mr. BERNANKE. Senator, it is obviously very important to try to determine which of these many different programs and approaches is actually producing results. This DoD study I think is a rare opportunity for us to do something approaching a controlled medical-type study, if you will, with control groups, with following people over a number of years, with looking at different types of practices and so on. I think it is going to be an excellent opportunity to learn more about what kinds of programs are actually effective.

Senator SARBANES. I think it is important to sift through all of these programs and begin to differentiate the ones that do work and seem to have an important impact, and then set them out as sort of the models to be pursued by others.

I want to ask both of you. You are both on the Commission. We thought that the Commission, once put into effect, the Financial Literacy and Education Commission could become a significant actor in developing a national strategy that coordinated all of the Federal agencies, interacted with the State and local governments and the private sector. Up to now my perception is we are not getting there. And I would like to ask both of you—you are members of the Commission, although you do not chair the Commission, as I noted at the outset—what can we do to enhance the work of the Commission in terms of moving toward developing a coordinated national economic strategy?

Mr. BERNANKE. Well, the Commission had three products. A toll-free number and a website have been produced. And the Commission has delivered the report. I think the report is useful in calling attention to a number of the key issues and laying out some of the problems that we have to address. I think we need to do more work collectively to develop a national strategy, and I note, as you did earlier, that this is going to be an ongoing process of annual update

and collaboration. So I think we have made a start, but I think we have more work to do to develop a more coherent national strategy.

Senator SARBANES. Chairman Cox?

Mr. COX. I would agree with that. I think the effort is gaining steam. As you know, the strategy document was due to Congress in July 2005. It was actually delivered in April 2006. In part, that was because of the charter that Congress gave. It required the involvement, collaboration, and ultimate agreement of 20 different agencies, but I would say that all of that effort, all of that energy was well worth it. Having agreed upon and delivered to the Congress the strategy and now begun to execute on it, I think we are much better situated than we were before.

As Chairman Bernanke says, we have a website that is up and running that is *www.mymoney.gov*. In addition, there is a toll-free number that you can call for information, 1-888-MY-MONEY. These are not too hard to remember. We are getting, I hope, some advertising for this just now in this hearing.

There is really no limit to the amount that each of these 20 agencies can do in this respect, but by focusing the effort, as Congress has done, I think you have helped us get a handle on it and ensured that we will move forward much more aggressively in the future.

Senator SARBANES. How often does the Commission meet?

Mr. COX. To my knowledge, this is an ongoing and regular collaboration at the staff level.

Senator SARBANES. It is staffed by an office in the Treasury Department, am I correct in that respect?

Mr. BERNANKE. That is correct.

Mr. COX. And the Chair of it is, of course, the Secretary of the Treasury. The Commission members themselves meet on a formal basis quarterly.

Senator SARBANES. Mr. Chairman, on occasion we have the Secretary of the Treasury here. As I indicated at the outset, I regret that he was unable to be part of this panel today as had originally been planned, and I intend the next time he comes before us, regardless of the subject matter of his appearance—

Chairman SHELBY. Sure.

Senator SARBANES.—to explore this issue with him, because, obviously, if we do not have strong leadership from the Chairman, or from the agency that is chairing the Commission, it is hard for everybody else, no matter how committed they are to the effort, to carry through in achieving some of these results.

But I thank both Chairman Cox and Chairman Bernanke for their testimony this morning, and I also, again, repeat the appreciation I expressed at the outset for the efforts each are making in their own agencies, along with their dedicated staff, to try to deal with this question.

Thank you very much.

Chairman SHELBY. Thank you.

Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman. I appreciate the fact that we are making this effort to get investors educated, and I particularly want to applaud Chairman Cox for his efforts on plain ac-

tion English, I guess, is what you call your program. I think that is badly needed and certainly helpful for all of us, I think.

And I looked over the national strategy of financial literacy, and one of the things that struck me is that there are a number of action items listed, but I did not see any clear delineation of outcomes; and as you recall, Chairman Cox, a number of years ago—I think about 1993, 1994—we had the Government Results from Procedures Act legislation we passed out of here. It is now defined by this President as the PART Program and where they look at outcomes for a number of agencies.

My question is, in line with the President's PART analysis, how does the Commission intend to evaluate the efficiency and success of its efforts based on outcomes? It is not to put in place—and in your testimony you have covered procedures and actions, but I am one who likes to see outcomes. No need to have a commission if we cannot show results from it.

Mr. COX. I would like to suggest at least one measure, because this is one of the measurements that has caused us to focus on the need for education in the first place, and that is information that we had put together by the nonprofit Jump\$tart Coalition. They have gone out and surveyed the baseline level of financial literacy that we're addressing. What they have found, I think, is shocking in our country. They found that, on average, the high school seniors that they put these questions to could answer only 52 out of 100 questions right, testing basic financial literacy. They found, for example, that less than half of these high school seniors had an understanding of the impact of inflation on one's savings or one's investments. They found that only 14 percent of the high school seniors knew that the best return in a multiple choice question from a category of investments over the long term was stocks, not savings accounts, for example.

I think if this is a national effort, if it involves all of these agencies of the Federal Government, that we ought to go back and check ourselves against this kind of data and see whether we are moving the needle, whether life is getting better or not, and whether this effort is meaningful. Obviously, that is the object. We want to improve the level of financial literacy in America.

Mr. BERNANKE. I would like to add to that.

Senator ALLARD. Chairman Bernanke.

Mr. BERNANKE. That besides just looking at tests, we also want to look at outcomes and behavior, and do we see that people who have received this information, who have been part of these programs, are they doing a better job of budgeting, are they saving more, are they making better choices in credit markets? So we want to look at outcomes and behavior at that level as well as at the knowledge level, but I agree that both of these are very important.

I want to reiterate my comments to Senator Sarbanes about the DoD study that we are doing. There is a real lack of serious program evaluation in this area. It is a very difficult problem from a social science point of view, and we are working on it in this particular context, and we will do other studies as well. But it is not going to be easy. We will need to do significant research to deter-

mine what works and how people's behavior is affected by those programs.

Senator ALLARD. Is there some effort to somehow or other incorporate these programs into the educational effort that goes off—maybe not necessarily at an institution of higher education but perhaps at a vocational school, or even small business? Is one of their biggest reasons for failure is they just don't know how to manage their business properly and they just basically miss the fundamentals of how do you, in the proper way, fill out a check, and how do you manage your checking accounts? Your loans? Small business people have to get loans and traps that they can fall in there.

Mr. BERNANKE. Senator, there are two broad types of programs. There are programs in the K–12 educational system, and a number of States have mandated either financial education courses or modules in their programs, starting to get some sense of the effects of those programs. But also for adults, there are a lot of nonprofits. Just here in Washington I recently visited with a program called Operation HOPE in Anacostia, which counsels small business people on exactly some of the issues you are talking about, and the evidence we have is actually very favorable on counseling, because when people are making a decision about a mortgage or taking out a loan or starting a small business, they are very motivated to try to understand the issues. And counseling that takes place at that point has, we have found in the research and others, that it has definite benefits for their behavior.

Senator ALLARD. I just want to thank you, Mr. Chairman. You can expect this Member of this Committee to frequently ask questions about the PART Program of the President, looking to ask the question on outcomes. Thank you.

Chairman SHELBY. Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman.

Welcome back to the Committee, Chairman Bernanke and Chairman Cox. It is good to have you with us. I first want to say that we in Michigan are taking this issue very seriously. We have about 70,000 people in the last year that have received some kind of financial literacy education through our programs with our banks, our credit unions, Jump\$tart, with accountants, others that are involved. We have about 250 student-run financial institutions and about 40,000 students that are getting some kind of credit, classroom credit, for learning about finances. So we have been able, in the last while, to double what we are doing in Michigan, and I think this is so important for all of us to be doing. When I originally put forward the idea of a commission—and, Mr. Chairman, I thank you for including the Stabenow-Enzi Commission legislation in the final bill we did as Title 5.

The goal was not only to report on what we are doing, because as I looked around the Federal Government there are a lot of things that we are doing, and you indicated today a lot of things that we are doing, important things that we are doing, but the idea was to first bring it together and make it accessible—and we do have the website, we have the hotline number and so on—but also to really develop a strategy—and I know other colleagues have asked about this, but I think it is very important to look at the difference between a report on best practices, which I think really is

what that report is. It talks about what is happening, what best practices are, versus a strategy on how we are going to go forward to determine what works and what does not, and make more things available.

So I would ask your thoughts on really moving forward on a strategy. Do you see the Commission making recommendations more specifically on what should be available in schools, for instance, or what businesses should be doing internally as it relates to employees and retirement and so on? Where do you see us going on this? Because I think it is we really will not have done what I had hoped we would do if we have not gone beyond just listing what is already there, but how do we streamline it and bring it together, and how do we develop a strategy so all of this that we are doing in the Federal Government can come down to a point where we could have a strategy and measure it and really be able to see us moving forward on these issues of education, which affect predatory lending, which affect a whole wide range of issues that we deal with all the time? But I am concerned about getting to more specific actions and specific strategies.

Mr. BERNANKE. Senator, the good news is that so much is happening. As we talked about this morning, Chairman Cox and I, there are so many programs and so many initiatives going on. One point I would make is that one of the lessons we have learned is that there is room for both top-down and bottom-up type strategies. From the top-down, the Federal Government can usefully set standards. It can provide materials. It can do research. But we found that much of the effective work takes place when we collaborate with local nonprofits, community institutions, financial institutions and the like, who know their constituency, who know their local area, and so you want to have a combination of top-down and bottom-up. You do not want to take an entirely top-down approach.

I do think that we need to look at how the activities of various agencies like the SEC and the Fed and many others are coordinating with each other and working together, and so I would just agree that we need to do more to understand how best to coordinate those activities and how best to measure those outcomes going forward.

Mr. COX. I would second that and add that the strategy document that was just delivered last month is just that, and it is very new, and so we are now beginning to execute on it. I think we all need to be encouraged to be creative. I think a good deal of what you expect of us is, as you say, not just that we will report and give you a static view of best practices or the way things have been, but collaborate and find new ways to reach people that are increasingly effective.

One of the things that we are doing, along the lines of what I just presented here about seniors and students and armed services people and so on, is to target this information to the special circumstances of people at times in their lives when they can really use it. In Michigan and Ohio right now we have a lot of people who are losing their jobs in the auto industry. They are in these buy-out circumstances, and the Securities and Exchange Commission is targeting information to them, so at a time when they have to

make choices about how to deal with a lump sum distribution, let's say that information is right at hand.

Senator STABENOW. I would just encourage you to continue to do that, and I think it is very true, and I appreciate what you are saying, Chairman Cox, in terms of what people are going through right now, no question about it, but the more we can coordinate and even streamline. We found that there were, in setting up the Commission originally, there were lots of different things happening. We were not necessarily coordinating what was happening, and also making recommendations on where we ought to be putting our time or resources. It may be that there are some ways in which we ought to be investing some dollars to encourage certain kinds of things to happen, and I hope and look forward to your recommendations on that.

Chairman SHELBY. Thank you, Senator.  
Senator Bunning.

#### STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman.

Chairman Bernanke, since the Fed raised interest rates two weeks ago, the stock market has given back a lot, if not all, of the gains made this year. The prime rate is now 8 percent, and almost every American cannot, I say cannot, borrow at that rate, and credit, especially mortgage credit, is getting too expensive for many Americans. Do you understand what the Fed actions and words have done? Does that bother you?

Mr. BERNANKE. Senator, in our policy statement on May 10th, we noted that there are some upside inflation risks in the economy. Among other things, higher inflation would raise mortgage rates by raising long-term interest rates. And we indicated at that time that some additional firming of policy might yet be needed in order to address those risks.

But we also noted at that time that our thinking on this would be very data dependent. We would be looking at the data as they come in, and making a decision based on the full picture. We have about a month to go before the next FOMC meeting and a lot of data between now and then, and we will be watching that data very carefully.

Senator BUNNING. Chairman Bernanke, during your confirmation process, I warned you to be careful about what you say because people are going to follow your words very closely. At the end of last month your comments to a financial reporter at a White House dinner made quite an impact on the market the next week. Did you learn anything from that episode about being careful about what you say and who you say it to?

Mr. BERNANKE. Senator, that episode you refer to was a lapse of judgment on my part. In the future my communications with the public and with the markets will be entirely through regular and formal channels.

Senator BUNNING. Last but not least, Chairman Bernanke, why do you think the stock market has been so sensitive to the Fed's action and the statements over the last few months? Do you find it troubling how sensitive the markets are to interest rate expectations right now?



Mr. BERNANKE. Senator, I think there are a lot of factors that are entering into the stock market, among them some reduction in desire to bear risk, some change in evaluation of the global economy, and also some concerns about inflation. So I think there are a number of issues affecting the stock market.

Senator BUNNING. Or can we look at the action of the market as a typical correction, like a 10 percent correction which occurs occasionally, or do we have to look beyond that into the global economy?

Mr. BERNANKE. Senator, I do not want to make judgments about why the stock market is doing what it is doing or what the value of the stock market is. The Federal Reserve's responsibility is to meet its mandate of stable prices, maximum sustainable employment and low-to-moderate interest rates. We are going to make our decisions in a way to achieve those objectives.

Senator BUNNING. The problem with that is that we have to be accountable for the people for your actions, and your actions have adversely affected people's retirements, people's ability to invest confidently in the market, and with a 10 percent correction—especially international markets have had a bigger than a 10 percent correction—we are troubled at the actions of the Federal Reserve, and I just want to let you know that.

Thank you.

Chairman SHELBY. Senator Carper.

#### **STATEMENT OF SENATOR THOMAS R. CARPER**

Senator CARPER. Thanks very much.

I just want to say how refreshing it is to hear the statements that both of you have made, and Commissioner Cox, I think I should mention the plain English movement which you are the unofficial leader of here in the Federal Government, and I am just delighted that you are providing that leadership. I am delighted that our new Chairman of the Federal Reserve subscribes to that movement and is an active participant in it.

In Delaware, we are quite proud of the work that is being done with respect to financial literacy. We have a State treasurer who—and I say this is an old State treasurer—who has taken up the mantle of leadership with respect to financial literacy throughout our State and has created something called the Money School. Actually, later today there is, this evening, the 20th anniversary celebration of something called Meaningful Economics Competition, that is really the heart and soul of that competition is a woman who is a retired elementary school teacher, who taught in the Brandywine School District for years, and actually would teach one of my sons. She is going to be—her name is Ronni Cohen. I like to say in Delaware, we are not a Johnny-come-lately with respect to financial literacy. We are not a Ronni-come-lately either. She has just provided great leadership for several decades. The competition is actually supported by the Delaware Money School and by the University of Delaware Center for Economic Education and Entrepreneurship. So these are issues that we are not just interested in, but enthusiastic about in the First State. We appreciate your comments today.

Before you actually began your testimony, Commissioner Cox, I was wondering how do we convey these—let me just ask both of you just a simple question. Why do you think we are such lousy savers in this country?

Mr. BERNANKE. Senator, in the aggregate, part of the factors that has been driving down the savings rate has been an increase in capital gains. Essentially for people who own a home, for people who own stocks, increases in wealth have made people feel that it is less necessary to save out of their current paycheck, and that has been one of the factors that has driven down the savings rate over the past few years.

That is a concern because if we cannot finance our domestic investment through our own saving, it contributes to the current account deficit, which is an issue we have discussed at other times.

There is a rather separate issue, I think, which is saving at the lower end of the income distribution, which has always been quite low, and that is a concern because people need to have at least some savings for precautionary purposes, and one would hope, to help them in their retirement or in education and those sorts of things. We need to improve financial literacy and financial understanding to help people understand the instruments and the importance of saving.

I think employers could be helpful, for example, by providing savings vehicles and by having a default option which says people will automatically have a payroll deduction into their saving plan unless they otherwise choose not to, which has been shown to increase savings rates.

It is possible that the Congress might want to consider various tax measures to provide incentives for saving at the lower levels of income. There is a whole variety of approaches one could take.

It is true, historically, we have not been high saving people in this country, but I think the concerns are greatest at the lower levels of income where there is very little wealth and very little reserve in case of emergency or for retirement.

Senator CARPER. Thanks.

Mr. Cox, briefly, do you want to respond? Why do you think we are such lousy savers?

Mr. COX. Certainly, in my capacity as Chairman of the SEC, I cannot improve upon professional economists and the Chairman of the Fed's description just now, and I subscribe to everything that he just said. As a former Member of Congress, normally I would be happy to jump into the tax debate and describe how incentives for saving in the tax code might be advisable, but sticking to the position I am playing and the reason that I am here, I think there are two main reasons that can describe the way that people save and do not save in America. One category of reasons is structural, and economists in particular should be listened to in explaining those.

The other is behavioral, and there the SEC can play a role. To the extent that these are choices that people are making, rather than decisions that they really haven't any control over because of wealth factors and so on. To the extent that these are choices that people are making, education can help, making it easier to invest wisely.

And so what we are doing to facilitate investors' choices, I think, plays a big role there.

Senator CARPER. My time has expired. We have a vote underway, so I am going to yield to our colleagues.

Chairman SHELBY. Senator Menendez.

#### STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman SHELBY. We are about to run out of time, but I wanted to recognize you. We have a vote on the floor.

Senator MENENDEZ. Thank you, Mr. Chairman. I appreciate it.

I want to get just to two very specific points, and they both go toward the question of financial literacy, but particularly as it relates to the impact in two areas, credit card debt, particularly among young people, and adjustable rate mortgages.

My district director's 2-year-old son got a pre-approved credit card, so I guess if you have a Social Security number and a pulse beat you can get a credit card. The reality is, is the number of solicitations that are out there, particularly aimed on college campuses with young people is overwhelming, and that is now wonder that we now have undergraduates who have credit cards and have high-level balances between \$3,000 and \$7,000. I keep hearing stories from families who ultimately paid off the debt of their students because they did not want them to end up with bad credit.

When you look at that and you look at the number of solicitations that are taking place, the question is, Chairman Bernanke, is Regulation Z really being used in such a way that ultimately creates that protection? Should we consider the possibility of having that particular universe having to opt in versus opting out because of the enormous overture and the great debt that is being accrued by this generation of Americans in this age group?

And second, I have a real concern about this tranche of adjustable rate mortgages that are going to be coming due—I think some estimate it to be around \$2 trillion—in which this adjustment period will take place and what the consequences are for consumers in this country to be able to actually pay their new rates. Is that a concern that you have as well?

Mr. BERNANKE. Senator, first on credit cards, there are arguments on both sides. As an economist I know I am always subject to that critique, but from the point of view of a college student, credit cards can be a convenience. They can also be a way to build a good credit history. It can be a way to learn how to manage money. So used properly, they can be positive. Obviously, they also have the potential to create debt and problems for students.

I think the best approach is, again, through financial literacy. If students are exposed at the high school level and the college level to these issues of credit management, and we take that seriously, I think that is probably the best solution.

Disclosure is important. People need to understand, as we were discussing earlier, the importance of making substantial payments each month and keeping up with their obligations. And again, as I mentioned, we are reviewing Regulation Z on credit cards, and we will be thinking about all aspects of our disclosure and information policy in that respect.

On adjustable rate mortgages, our data are that about 10 percent of all mortgages, not just adjustable rate, but of all mortgages, will reprice in 2006. Something on the order of 20 to 25 percent of outstanding mortgages are adjustable rate and something close to half of those will be repriced, we think, within the next year. That is significant, obviously, for those people who have those mortgages and may be facing higher interest rates.

One concern I would note is that adjustable rate mortgages seem to be more prevalent in the sub-prime market relative to the overall market, and so some pressure may be felt in that area.

The Federal Reserve and the other banking agencies have recently issued guidance about nontraditional mortgages, which go beyond adjustable rate mortgages to look at interest-only mortgages and payment option type adjustable rate mortgages. We are asking banks and other lenders to be more complete in their disclosures and explanations, and more careful in their underwriting to make sure that the people who are taking out these more exotic mortgages both understand the instrument and are able to make the payments even as interest rates adjust.

Senator MENENDEZ. I appreciate your answer. I think we have to start earlier on financial literacy than even high school, to be very honest with you. Hopefully, parents do that, but the reality is a great percentage of those students who were in a survey said they didn't get that from their parents. So the reality is, with credit being such an incredible part of our lives, and bad credit having such enormous consequences, this universe of Americans is being challenged to operate credit responsibly and effectively and not end up with bad credit, and I think we need to extend ourselves.

And on the adjustable rate mortgage, I will just tell you, I hope that when people hit the new levels that they have to, that they are going to be able to sustain the payments, but I have a real concern that they will not, and we will see a fair number of houses being foreclosed upon, and that has an enormous effect, not only to those individuals, but to the economy as a whole.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Carper, you have a last word for this panel?

Senator CARPER. Your point about starting early, Ronni Cohen was a fourth-grade teacher for my son, Christopher, at Burnett Elementary School. By the time he was 15 years old, he had saved \$7,000. She taught his financial literacy course in the fourth grade. He was about 9 years old. He is an extraordinary saver, and I suspect that so are the other kids that went through his class with him and the others who have learned from her. Starting early, I think you nailed it right there. That is the key.

Chairman SHELBY. We thank the panel. I do want to note for the record that Secretary Snow is in the Middle East at the request of the President, but his written testimony will be made part of the record.

Chairman SHELBY. Chairman Bernanke, Chairman Cox, we appreciate you coming today.

We are going to try to make this vote and then come back for the third panel. The Committee is in recess.

[Recess.]

Chairman SHELBY. The Committee will come back to order.

Our third panel is composed of Ms. Cindy Hounsell, Executive Director, Women's Institute for a Secure Retirement; Ms. Sarah Teslik, Chief Executive Officer, Certified Financial Planner Board of Standards, Incorporated; and Mr. Steve Brobeck, Executive Director, Consumer Federation of America.

We welcome all of you here. Your written testimony will be made part of the record. We appreciate your patience in going through two panels. This is the third panel today. So you proceed. We will start with you, Ms. Hounsell.

**STATEMENT OF M. CINDY HOUNSELL, PRESIDENT, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT**

Ms. HOUNSELL. Thank you. It is an honor to be here. Thank you very much for including this issue of women's retirement.

First, I wanted to start with a story, the story of Hazel Shoyrer, a lifelong worker, who would have greatly benefited from financial counseling when leaving her job. Like most workers, she was left on her own to figure it out, and the decision she made will affect her standard of living for the rest of her life.

Ms. Shoyrer retired at age 62 from a Chicago factory after 30 years. Like most American workers, she took her Social Security benefit at the earliest age and, when she did so, likely was informed that it would provide her with the highest amount of lifetime benefits.

A moderate earner, she was unaware of the amount of money needed in retirement. She thought she could easily manage her modest lifestyle with monthly \$900 Social Security and \$988 pension payments. In fact, her benefits add up to a substantial amount for an average worker, \$10,000 above the median retirement income for retired women. She had also accumulated a nest egg of \$5,000 which probably seemed to her like a sizable amount of money.

After retiring, she took a part-time job at a truck stop. But then she was hit with what researchers call a "negative shock," an event likely to cause significant financial consequences. Her negative shock was pneumonia. It landed her in the hospital. The \$5,000 in savings vanished, a \$10,000 hospital bill appeared, and she lost her part-time job.

She is now age 67, and she is looking for work. She pays hundreds of dollars a month for medications, insurance, and her Medicare Part B. She talks about her bills, and she says, "No matter how much you think you have, it's not enough."

She was never told the basics. Such as, she needed to be age 65 to be eligible for Medicare and that taking Social Security would cause her to lose 20 percent of her benefit. She is unlikely to recover financially, and while she continues searching for work, that will become more difficult as she ages.

Women, least of all, can afford any of these financial mistakes. We use this example because it is not an uncommon story and because she started retirement with twice the income of most women and access to a pension that today is only available to one out of five workers.

Women have unique retirement problems. The biggest risk is longevity. Women should be saving more money than men because they will need extra money to support longer lives. Yet two-thirds of working women earn less than \$30,000. So the notion of being told to save more must seem like trying to get blood from the proverbial stone, especially as all workers are taking on more out-of-pocket responsibility to pay for their health and retirement benefits.

Despite a decline in poverty rates among older Americans, many older women remain poor, and that likelihood increases with age. It is a startling demographic, but the vulnerable population of those living past age 85 is expected to double and triple over the next few decades.

All Americans are being asked to assume a larger share of responsibility for making complex retirement savings decisions. Aside from the overwhelming quantity of information, financial literacy is impaired by language that many people just don't get. The Treasury report mentioned earlier refers to the national mosaic of America's financial literacy and education. I think mosaic is a generous description. It is more like a giant jigsaw puzzle that is missing the box cover that shows the picture.

I think it is also laudable that the Committee and the Bush administration have set a course to develop a national strategy, and perhaps that strategy will help people to see the puzzle begin to take shape.

Our experience with financial education outreach has borne out the research. People need the guidance to make the crucial decisions. Our most popular booklet, which I happen to have here, is "Seven Life-Defining Decisions," a joint project with the Actuarial Foundation. It takes people through the big decisions such as taking a job, marriage, starting a family, determining when to retire, how much income is needed, it walks them through it all.

We have learned that people need the information put into such a context because they hear a lot of conflicting advice. You ask any three financial experts whether you should pay off your home mortgage, and you are likely to get three different answers.

In a dramatic display of the broader consequences of our financial literacy, the State of Nebraska recently dropped its 401(k)-type plan because it found that individuals' investment decisions were unwise, resulting in a waste of taxpayer contributions to those plans. In fact, a study by Standard & Poor found that as a result of poor investment practices, a switch to 401(k)s by public employees might lead over the medium term to lower pension contribution costs, but in the end they were going to have higher public assistance costs.

Our program known as the POWERCenter began as a cooperative project funded by the United States Administration on Aging. We work with thousands of organizations across the country. They teach our program. We work with financial companies, insurance companies, everyone. But this is a drop in the bucket compared to the millions of boomer women who need to be educated.

We have found that workshop participants are most interested in learning how it all fits together—a basic lifetime financial journey. I often say to people it is like those refrigerator magnets where all

the words are in a jumble, and then they all get thrown at you—annuity, beneficiary, you know, money markets, all of these things. And people just don't have the basic road map on how to make the right decisions.

Outreach, let me just give a few suggestions because I know my time is running over. We have 48 million boomer women whose retirement clocks are ticking. I think what we need is a coordinated national campaign that everybody is going to be talking about. When I was a much younger woman in the early 1980's, everyone used to talk about IRAs. You have to have one, you have to sign up. And I did. I don't even think I knew why, just everyone told me that I had to do it, that it was a good deal. And if I hadn't had that, I am sure I would not have the financial security that I have today.

One of our board members is also a financial journalist, and she does financial tips for MTV's University feature, and that is another way to reach people. But we have to reach the omen that I am talking about because they are the ones that are coming up, and they are the ones that are going to be likely living in poverty with no idea that this is happening.

Women are much more likely to spend their lump-sum retirement distributions because they have smaller accounts. We have to stop them from doing that. And then I thought I might as well leave you with sort of a far-fetched idea, and the far-fetched idea is that there is a retirement readiness program that is being developed by InFRE, which is the International Foundation of Retirement Education, for testing with OPM. And perhaps there is some way that a retirement readiness test or checklist could come with your Social Security statement and you would tick off all these things and if you cannot tick them off, then you cannot retire and you should not be taking those benefits early.

Finally, to end on an upbeat note, I will say that we were able to launch a wonderful program in Appalachia with a group of self-employed knitters. To make a long story about a very complicated journey short, since half of the full-time working women in West Virginia earn less than \$20,000, we were able to get all of these knitters into a savings program, and it showed that if you spend enough time teaching financial concepts, and if you have a financial incentive, that low-income workers will take the opportunity to do something about it.

Thank you.

Chairman SHELBY. Ms. Teslik.

**STATEMENT OF SARAH TESLIK, CHIEF EXECUTIVE OFFICER,  
CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.**

Ms. TESLIK. Thank you very much. I know that the main obligation of a last panel is to be brief, so with your permission, I will skip introductions. In fact, I think if Dante were going to redo the Inferno today, he would add a layer of hell where you have to listen for eternity to testimony at hearings. So I will try to be brief.

What we have learned this morning so far is that we have a huge problem. You have heard a number of facts, although I don't know that you have heard the juiciest ones. I gave you a one-page summary of those, of which my two favorite are the following:

If I told you to go to a number of bedrock States like Indiana, Ohio, Tennessee, Utah, knock on every door, and find out how many households had ever declared bankruptcy, if I said to you that 1 out of 40 of those households had declared bankruptcy sometime in their existence, you would be stunned. But that is not the truth. The truth is that more than 1 out of 40 households in those States has declared bankruptcy in the last year alone.

Chairman SHELBY. Say that again.

Ms. TESLIK. In Indiana, Ohio, Tennessee, and Utah, over 1 in 40 households declared bankruptcy last year alone.

Chairman SHELBY. Is that unprecedented?

Ms. TESLIK. It is. It is in the one-page fact sheet. The other fact I will highlight from that sheet is the following: Look at current seniors. This is the generation that has lived through the Depression, the Greatest Generation, the one that works hard and saves. How much money does the average senior today get from their retirement savings? Not from Social Security, not from their corporate pension fund. From their own savings, which is what we are trying to generate here through financial literacy. A thousand dollars a year. That is from the Depression era babies. That is the size of the problem.

We know we have a huge problem. Nobody debates that. We also know we have a huge effort that has been around for a while, thanks in part to a number of you, targeted at financial literacy. Look at the size of the list of entities compiled by the Treasury Department. Look at all the public and private dollars. We know there is a huge effort, but, frankly—and I will be the one to say it—so far the effort has been a huge failure. The numbers are all going in the wrong direction. There are just little bits here and there, but we are getting deeper into debt. We are having worse and worse behavioral outcomes.

The fact of the matter is there is no mystery why the problem is getting worse, not better, despite this effort. If you think about what you have heard so far this morning, the whole focus has been on financial literacy. Literacy is information. Information works most easily for something that is simple to do, like the campaign recently that says turn your babies up instead of down. It is very easy for people to flip their babies. We are not talking about baby flipping here. We are talking about telling people to postpone gratification. That is what financial literacy is. Don't spend it today, save it for tomorrow. By the way, save it for 40 years from now when you might not be around and those little bits will add up so slowly you will hardly notice them. That is what financial literacy is. This is about as tough a game as you are ever going to play. This is a game that equates most closely to the efforts to combat smoking, alcoholism, gambling, and dieting. And you have got to think about it that way or all of this will be a waste of time.

What that means is we have to not only focus on the message of financial literacy, which has so far been massaged to death. But we have to focus on the behavior. Are we reaching the right people and are we changing their behavior?

Luckily, there happens to be a revolution going on—the timing could not be more perfect. It is a revolution in academia. I know that sounds dull. It is actually not dull. And that is that because



of technology, our ability to put people's brains in PET scans and watch them think while they are alive and our ability to crunch numbers in huge amounts. The areas of psychology, biology, chemistry, anthropology, and finance are merging. The thing that is in the center of them is financial literacy, financial behavior.

So what is it we are learning, and what does this mean we should do? I am going to say five totally inappropriate things because, otherwise, what is the point of being here?

The first is we know that people like to be inert. I know my sons don't like to wake up in the morning and hear them as an example yet again on the evening news, but we know that people like to be inert. So science has taught us that if we redesigned financial structures so that people take no action, they take the right action. That is obviously why we have seen a bump up in participation of 401(k) plans. That is the thing we already know about, but that is an example where the science has made us do a better job. We simply changed the structure. We are getting higher participation rates.

The second is that we have to admit that because financial literacy asks you to postpone gratification and because human beings are wired as a survival mechanism not to do that, you need to pair a postponing action with a now reward, which is why banks used to give away toasters when you opened bank accounts. They had that figured out 50 years ago, but we are missing that in financial literacy. Where are the efforts to pair a reward today for a savings action tomorrow? There are many ways to do it. There are some ways which our laws prevent that from happening. This is an easy area to work on.

Third—and this sounds odd—meds, pills. We know, for example, that some percentage of people who take Parkinson's medication become compulsive gamblers. We know there is a chemical link. We also know that there is now chemical evidence that you can play with people's wiring with pills and alter their shopping habits. I know this sounds odd—but if you are going to tackle a problem as large as our personal finance problem, you have to look at all the weapons you have got, and this is another area where the science is booming. In fact, I would make the case that the Banking Committee may want to rethink what its most important Government agency is. It may turn out to be NIH, where all these grants are given, rather than the SEC.

Fourth, why don't you go with a winner? What is one of the most compelling, engaged-in financial behaviors in America today? Gambling. One-quarter of all Americans—including babies, prisoners, the institutionalized, people who cannot get out—one-quarter of all Americans have visited a non-Indian reservation casino at least four times in the last year. The amount of money that Americans spent last year with online gambling, smaller than the other two types of gambling, last year, was \$145 billion. Now, there is science behind this. We know why gambling is addictive. I can go into it, but I will not. We do know why it has a draw for humans that putting money in a 401(k) does not. OK, well, we know that works. Why don't we change the way we get people to do financially responsible stuff to draw on this science?

For example, have a State lottery, but put the money into everyone's 401(k). Right now I have to beg my hourly employees to participate in our 401(k). I do not ever beg them to participate in the State lottery. They do it. There is actually a scientific reason for that. Why structure something where you force people to make a hard decision when you can let them make an easy decision? There is a lot of creative work out there. I do not hear it being discussed in forums like this. It has a lot of potential.

Finally, let's look at the organizations that have addressed similar problems—alcoholism, smoking, dieting. What is the only successful model in all of those areas? It is networks like AA, Weight Watchers, Take Off Pounds Sensibly. If we are going to all jump into ice water together, we need a bunch of people to hold our hands and go together.

I just read in the Annals of Internal Medicine's edition last month that when they had a dieting program that gave the same information in two ways—one, they gave it once; and then the second model, they gave it 30 times over a period of weeks. There was, of course, a huge difference in the success rate if you do it over time. Financial literacy information needs to be packaged in networks of human beings over long periods of time if we are going to get people to give up the shoes today to save for retirement.

Thank you.

Chairman SHELBY. That was a good presentation. Thank you.

Mr. Brobeck.

**STATEMENT OF STEPHEN BROBECK, EXECUTIVE DIRECTOR,  
CONSUMER FEDERATION OF AMERICA**

Mr. BROBECK. Thank you, Mr. Chairman, Senator Sarbanes, and I thought I was going to be the only skunk at the garden party, but I endorse virtually everything that Ms. Teslik has said.

In my remarks, I will focus on the limits and opportunities of financial education to help tens of millions of Americans become truly financially literate. Unfortunately, financial education is limited by its current weaknesses and by its inherent character. There is no coherent national strategy nor effective leadership implementing the strategy to meet the financial literacy needs of the Nation. In the schools, coalitions have made progress persuading State legislatures to pass financial education mandates, yet many States still have not approved mandates, and in those that have, the education varies widely in intensity and effectiveness. The magnitude of the remaining challenges is reflected in annual surveys of students with financial education that reveal low knowledge levels which have not improved.

In communities, financial education efforts are even more fragmented. Just in the past decade, hundreds of public corporate and nonprofit organizations, including my own, have initiated their own programs that seek to inform and educate. Yet the quality of these programs varies considerably, with many ignoring the most important messages consumers should receive. I would be surprised to learn, for example, that most materials about credit cards stress the single most important message that card holders should try to pay off all their balances in full every month on time or, to oversimplify, bad things may well happen to you.

Moreover, there is little adequate evaluation of the effectiveness of all this community financial education. Most initiatives contain no assessment of consumer impact. Those that do tend to limit their evaluation to one-time surveys of the experience of participants, and very few attempt to study the long-term programmatic effects on participant behavior and whether any behavioral changes are sufficient to meet financial services needs.

Even more importantly, financial education is limited in the extent to which it can produce real financial literacy: the ability to effectively manage one's financial resources to achieve lifetime financial security. Knowledge, though essential, is simply not enough. Consumers must value this knowledge enough to apply it, and there must be accessible opportunities for utilizing these skills. Let me give two examples very briefly.

Knowledge about retirement programs is very difficult to apply if one does not have available at work a contributory plan, as many workers do not. But even when one is available, a significant minority of employees are not sufficiently motivated to participate, and of those that are, many choose inappropriate investment allocations. Similarly, knowledge about the expense of payday loans is not sufficient if one does not have available less expensive credit options. And even when these options exist, they are sometimes considered too inconvenient to be utilized.

Truly effective financial education is linked to motivation and opportunities to produce desired behavioral change and has the capability—this is very important—of going to scale. Hundreds of uncoordinated programs only trying to convey knowledge are not sufficient to meet the financial services needs of tens of millions of consumers. I would urge this Committee and others to examine programs that come the closest to meeting the criteria for effectiveness that I have outlined.

In closing, I suggest one initiative that would not only help link diverse financial education programs but also help motivate as well as inform consumers. That is a call to all consumers in the country to estimate and then periodically monitor their net personal wealth. Awareness of net assets is an important motivator for better money management and debt management, as well as savings accumulation. People who know their net wealth are more likely to spend money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through retirement savings, homeownership, and other savings strategies. In other words, if Americans were more aware of their net personal wealth, they would be far more receptive to effective financial education programs that help them monitor, conserve, and accumulate financial resources. My written testimony suggests how such an initiative, at least in broad outline, might be developed, as well as an appropriate role for the Federal Government.

Thank you.

Chairman SHELBY. I thank all of you.

We will start with you, Ms. Hounsell. The life expectancy gap between men and women is still such that women, we all know, on average, will live longer than men. What implications does this seemingly simple fact or truth have on retirement strategies for women for educational outreach, particularly in those instances

where a woman might outlive a husband who is also the family's financial planner?

Ms. HOUNSELL. Well, I think it is dire, the fact that women need more income. They need to deal with inflation. They need to deal with the fact that they are going to be living alone, that probably because they live alone, there will not be anyone to take care of them, so they are going to need money for long-term care. And I think these are strategies that people are not even thinking about.

Chairman SHELBY. In your testimony, you mentioned that your organization, WISER (Women's Institute for a Secure Retirement), has worked cooperatively with the Departments of Agriculture and Labor, Good Housekeeping magazine, and even U.S. Airways to reach out to women on the retirement issue. Can you elaborate on your strategy and briefly tell us how you coordinated the different participants involved in your outreach? And what lessons did you take from this outreach?

Ms. HOUNSELL. Well, I will sort of back up for a second. I had one of the first frozen pensions. I used to work for PanAm. I was a flight attendant. And in 1984, they froze our pensions. And I went on and—

Chairman SHELBY. When you say they froze it, what do you mean?

Ms. HOUNSELL. It is like the United—all those airline pensions that they are freezing today. You know, it stopped in 1984, and when someone explained that to me, I thought, well, that just meant when I get old, I will just go to the freezer, take out the pension, and everything will be fine. But it was explained to me that it would not accrue any value. So someone suggested, you better get a new career, my dear, because, you know, you have just lost your benefits.

So I left years before the company went out of business, and I went to law school, came to Washington, worked at a nonprofit here that only worked on retirement issues, and I realized that everyone I knew was going to be poor. No one was doing this. No one was saving. And one of the foundations, when we started this women's pension project, came and said, If you could do one thing, what would you do? And I said we need to make every women's group, every, you know, financial organization pay attention to this issue. And I think, you know, over the years that I have been doing this, that is what the Good Housekeeping project did.

We have a newsletter, and I would just say that recently I was thinking about just going online, forgetting the paper version, because I wasn't sure. And we sent out a survey, and the letters we got back from people, because a lot of times people just don't go home, and they're not going to get online and read about what they should be doing financially, even though there is a lot of information there.

So you have got to get it to them in a way that they feel comfortable with and that they will use. And that is what we were able to do. We were able to meet—to really reach millions of women—

Chairman SHELBY. It is not easy, though, is it?

Ms. HOUNSELL. No. No, it is not. But with the groups that we work with—and as I said, I think we are losing an opportunity. If you bring somebody in for budgeting, they need the whole long-

term picture. We call it a lifetime financial journey. You cannot bog them down and say, “You don’t save today, you are going to be poor tomorrow.” But you need to say, look, you can start, you have to get your debt in order, and this is where you are going to end up, and you can do it.

Chairman SHELBY. Ms. Teslik, what is your experience with people speaking of the goals that they have set out? In other words, how do you keep people on the long-distance run here?

Ms. TESLIK. It is as difficult to get people to continue to meet long-distance financial goals as it is long-distance dieting goals, which is one of the reasons that my last suggestion was that we find ongoing networks of support for people, because sometimes you need somebody who says, well, you know, that path is not working for you, let’s see if we can do this; you don’t seem to be able to save this way, let’s try to do this.

These networks can be provided through employers. It is much, much cheaper for employers to provide financial advice than it is for them to provide a pension plan, and so for companies that cannot afford a DB plan but can afford someone who is there to say, well, if this isn’t working, let’s try this. It is as big a problem as it is in the dieting world. It has to be acknowledged in that way, and you have to know that different things work for different people.

Chairman SHELBY. Is it basically a behavioral problem?

Ms. TESLIK. It is much more a behavioral problem than an information problem.

Chairman SHELBY. Mr. Brobeck, you mentioned the potential value of what you call a wealth estimator for encouraging Americans to change their financial behavior. How would this work? And what impact do you believe it would have?

Mr. BROBECK. I think the only way it would work is if all of us would get together and agree on a fairly simple net wealth estimator that would not only allow you to estimate your current wealth but also project into the future your future wealth, and it was endorsed by organizations such as the Federal Reserve Board. And then all financial educators, planners, financial institutions, educators who have anything to do with financial education should encourage individuals and communities, to utilize this net wealth estimator.

The highly respected journalist, Michelle Singletary, has compared this to keeping track of your weight. If you do that, there is no guarantee that you are going to maintain your weight, but if you do not, it is very difficult to do so.

The other thing that people will recognize when they start estimating their wealth and also their wealth-building potential is they have far greater wealth-building potential than they think they do. People are not aware of—and we have tested the Nation’s knowledge on this—the power of interest compounding. People underestimated that power by two-thirds, and when we talk to focus groups about interest compounding, people who were 25, 26 years old with very low incomes said, “If I had known that when I was 20”—and they are only earning \$18,000—“I would have started saving \$10 a week or \$20 a month.”

So this is not a cure-all, but we need something that will galvanize the population and that will also tie together these thousands of disparate efforts in financial education. Maybe somebody else has a better idea. This is the best one we have been able to come up with.

Chairman SHELBY. But you first have to have a financial literacy program that will work. You have got to let people know and understand what their situation is.

Mr. BROBECK. We would start with the estimate.

Chairman SHELBY. Then they have got to modify their behavior to react to that, have they not?

Mr. BROBECK. We would agree. But you can start with the wealth estimator, and I am speaking particularly—this does not apply as much to kids who are in school, but to the adult population. Just start with that. So community educators, government educators, are all urging people to check on their net financial wealth. You know that 9 percent of households, according to the Federal Reserve Board research, have negative wealth. And quite a few of those are young people who buildup credit card debt and student debt.

One of the great barriers to people in their 20's to building personal wealth is they are pessimistic. That is what our focus groups show. They never think they can get out of the hole that they have dug for themselves. But when you do the net wealth estimator and you project your income to the future, you see it may take 5 to 10 years to pay off that debt. But after that, you are on the upward slope.

Chairman SHELBY. There are countless numbers of financial literacy programs, as we know, but how do we measure those? How do we measure the efficacy of them? How can we better measure behavioral change here dealing with financial literacy?

Mr. BROBECK. We would agree with the Chairman of the Federal Reserve Board that it is very important to evaluate and measure. Now, the way academics traditionally measure is they use statistical significance. Let's say that somebody is saving \$20 a month. If an academic were to study the effectiveness of a program and they went from \$20 to, let's say, \$30 a month, the researcher would conclude that there was a statistically significant difference at probably the 1/1000th level, which is highly significant. But, really, the true measure should be in terms of the financial needs of that individual. Is their need \$30? Or is their need \$100? We need to establish through a needs assessment what they need to save and then measure in those terms, not just in terms in conventional academic statistical significance.

Chairman SHELBY. Rather than the so-called minimum payment, which everybody markets—and I say “everybody.” A lot. Why couldn't there be a program of some kind out there dealing with financial literacy, not just credit cards, but that is a real thing?

Mr. BROBECK. Yes.

Chairman SHELBY. How you can pay so much more a month, \$10, \$20, \$30, and pay this off, or how you could double up on your house payment and pay this house off, instead of 30 years, in 12 years or 10 years, how can you show wealth that way? Is that part of this?

Mr. BROBECK. If you utilize an effective wealth estimator, that will show you very specifically the benefits of paying off that mortgage early.

Chairman SHELBY. But you have got to have discipline to do that.

Mr. BROBECK. Yes, you do. That is why I would agree with Ms. Teslik that you need social support mechanisms. Our America Saves program, for example, has wealth coaches as well as motivational speakers. Motivational speakers get their attention, persuade them to start on a personal wealth building, and then the wealth coaches encourage them, assist them, give them advice.

Chairman SHELBY. But at the very end—and I guess the beginning, too—we should do everything, working with the bank regulators, to try to promote literacy and make sure people are not exploited because of their non-understanding of financial products and so forth. Is that fair?

Mr. BROBECK. I would agree. The financial regulators and the institutions they regulate play a critical—

Chairman SHELBY. And this Committee, perhaps.

Mr. BROBECK.—A critically important role in terms of improving financial literacy and motivating people to make more sensible financial decisions and providing opportunities to do so.

Chairman SHELBY. Thank you.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

This has been a very helpful panel, and I particularly want to acknowledge and stress my appreciation for the very thoughtful statements that have been submitted for the record. I have had a chance to go through them very quickly, and they are enormously helpful.

Ms. HOUNSELL, I was struck by your reference that it is not a mosaic, as the Secretary of the Treasury says, but like a giant jigsaw puzzle that is missing the box that shows the picture the pieces are supposed to form. Actually, the national strategy we are trying to get out of the Commission was designed or intended to be that box cover, which brought programs in line with target groups and eliminated duplication, promoted partnership aimed at underserved groups, including, of course, women in retirement on which you focused. But I would like to ask each of you whether you think this report of the Treasury's, the first—well, the Treasury as chair of the Commission, but we all know that—those of us who serve on committees know that it looks very much to the Chairman to push its agenda, and it can make a big difference. Chairman Shelby, for instance, has been pushed very hard on oversight, which this is an example of. I think that makes a big difference in effecting policy.

What is your view of this first report that has come in from the Financial Literacy and Education Commission? I put that to all of you.

Ms. HOUNSELL. I think it is not going to do the trick, and maybe there is hope for the future that they are going to keep improving on it. But as I said in my testimony, I feel like, you know, the house is on fire and people are talking about how they should evaluate the firemen and, you know, whether there should be—how

many reports there should be and, you know, whether they should have filled out forms or whatever.

I was recently on a panel, and everyone on that panel, I feel—I am passionate about this because, you know, I lost my own retirement about 20 years ago. So I realize—it was not just me. Lots of people were in trouble because they did not even have a pension to lose. And when I see the status of where we are today with the baby-boomers marching into retirement, you know, we hear it every day. It is not a long time. We are not taking the steps that are needed to get them the information, and the reason I use the story that I used was that this was a woman who sort of had it made. I mean, she was like your dream worker. She worked, she had a great pension, she had a decent Social Security benefit. And within a couple of years, she is on the road to poverty. She is going to, you know, end up in big—I mean, she is already in big trouble.

And so what are we going to do for all those people that don't even have that knowledge that can't make these decisions and don't have the money? We have to get to them now. That is why I keep saying we either need a national campaign, we have to use the Social Security statement that people get, put more information, make people take a test when they get that statement. I mean, I know people that just throw it away and say, "Oh, I thought it was an advertisement. I didn't know," as if the Social Security Administration sends you advertisements.

So, you know, we need to use the tools that we have, I think, and—

Senator SARBANES. Of course, you get these people who are soliciting you for one thing or another, and they do everything they possibly can to make it look like it is coming from the Social Security Administration. It shows up in the mail, you say, oh, here is something from the Social Security Administration. It is not something from the Social Security Administration.

Ms. Teslik, do you want to address this point? And then Mr. Brobeck.

Ms. TESLIK. I was trying not to smile when you asked it. I also want to thank you for your leadership on this issue. Thank goodness there is some somewhere, because it is not in the report.

I was speaking at the break with one of the key staffers of La Raza who is here. We were saying if only we had that money to change financial behavior, what we could have done with it, the money that went into preparing the report.

As I mentioned before, this is an area where the measurables are actually there. They are easy to measure. We can measure in the aggregate changes in financial behavior really easily. We can measure them on the individual level. We are not trying to evaluate people's appreciation of a painting. We are trying to evaluate how much they are spending versus how much they are making, how much they have on credit cards. This is very easy to measure.

This is an area where there are lots of interesting new ideas, some of which I mentioned—

Chairman SHELBY. Are these the statistics?

Ms. TESLIK. Yes, right. Again, what we are measuring is personal financial behavior, and it's easy to come up with lots of them.



You can debate which are the right ones, but compared to a lot of things, there are measurable activities here.

Second, there are lots of new ideas, which I really have not seen in the report. There is exciting stuff going on. This Committee could have a couple hearings where you showcase some programs that are working. One of the ways you already try to further a goal you want is to say, well, who is already achieving that goal and let's bring them in and then let's replicate it. There wasn't really that in the report. There wasn't the focus on, well, who is already doing it and how can we fund those programs.

So I think it is a missed opportunity, and maybe we will just hope the next ones will be better.

Senator SARBANES. Mr. Brobeck?

Mr. BROBECK. The report does include useful information about a number of constructive financial education programs, but it does not really set out what I think this Committee intended it to do, and that is, as you indicated earlier, Senator, it does not define a national strategy. A national strategy would set very measurable goals: we will increase the saving rate for low- and moderate-income households by X amount; we will reduce high-cost debt by X amount. And then it will outline a set of strategies. And I think we have to be a little agnostic here. At this point I don't think anyone really knows exactly what would work for the country. I think we know what works for some populations and some groups, but not for the whole country. So we have to take an experimental approach, and try out different strategies. But then every year we need to assess, we measure. To what extent have we met the goals? And we evaluate the strategies.

Now, why did we not meet the goals? Was it this aspect of the strategy or that aspect? And then we fine-tune. We try new strategies, and this will take some time. Social change takes a long time. But I think it is very worthwhile, and we appreciate the leadership of this Committee in this area.

Senator SARBANES. Well, Mr. Chairman, I know the hour is late, but I want to thank the panel again, and also, as I indicated, for these very thoughtful statements. We set up a commission on the Trade Promotion Coordinating Committee some years ago, and we had difficulty in the beginning, but we finally got them where they began to develop a national strategy for trade promotion. And you can say, well, you know, it needs this or it needs that. But it finally gave us kind of the box to fit the jigsaw together. And I think we desperately need to do the same thing in this area as we move ahead. There are so many programs out there of varying quality and impact, and we need to be able to evaluate them, and then as Ms. Teslik said, I think, put forward the ones that are really working and producing results as models to be followed by others.

One of the problems in all of this—and we are searching how to—is the hit-or-miss nature of the thing. It is not systemic so you can sort of say, well, you know, here is the curriculum, everyone gets exposed to the curriculum, et cetera, et cetera. I mean, some people may be fortunate to get very good financial literacy education and training. Others get hardly any at all or get some that is not very good. So you have these very different—and, of course, Ms. Hounsell, you point out where we are going in the future in

terms of—I mean, this challenge is only going to increase, not diminish.

Ms. HOUNSELL. Exactly.

Senator SARBANES. So thank you all very much for your contribution.

Thank you, Mr. Chairman.

Chairman SHELBY. I want to join Senator Sarbanes in thanking you. I think maybe we should have had this panel first, Senator Sarbanes.

[Laughter.]

Chairman SHELBY. Because you spoke to the heart of the matter, the tough approach that it is going to take. It is not going to be easy. But thank you very much for your contribution.

The Committee is adjourned.

[Whereupon, at 12:24 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

**PREPARED STATEMENT OF BEN S. BERNANKE**

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MAY 23, 2006

Chairman Shelby, Senator Sarbanes, and members of the Committee: I am pleased to be here to discuss financial literacy and financial education. My remarks will emphasize the importance of financial literacy, both as a source of better decision making by consumers and as a means of improving the functioning of financial markets. I will also highlight various Federal Reserve System initiatives to promote financial education and address some of the opportunities and challenges that policymakers and financial educators face as they seek to improve financial literacy.

Technological advances have dramatically transformed the provision of financial services in our economy. Notably, increasingly sophisticated information technologies enable lenders to collect and process data necessary to evaluate and price risk much more efficiently than in the past. For example, the expanded use of credit-scoring models, by reducing the costs of making loans and by increasing the range of assets that can be securitized, has facilitated greater extension of credit to a larger group of borrowers. Indeed, we have seen an increasingly wide array of products being offered to consumers across a range of incomes, leading to what has been called the democratization of credit. Likewise, innovation has enhanced financial services, such as banking services, and increased the variety of financial products available to investors.

Even as the availability of credit has increased, so has the range of potential providers. In particular, in recent years, the number of nonbank entities providing credit products and other financial services has increased significantly. Data from a recent paper on alternative providers of financial services revealed that, between 1996 and 2001, the number of nonbank check-cashing establishments doubled in the United States. Payday lending outlets, a source of credit that was almost non-existent a decade ago, now number more than 10,000.<sup>1</sup> Data from the Federal Reserve Board's 2004 Survey of Consumer Finances indicate that the share of households with a loan from a finance company increased from 13 percent of households in 1992 to 25 percent of households in 2004.<sup>2</sup> While many of these providers cater to low- and moderate-income consumers, their customers include people with a wide range of incomes and financial experience.<sup>3</sup> Clearly, to choose wisely from the variety of products and providers available, consumers must have the financial knowledge to navigate today's increasingly complex financial services marketplace. Consumers with the necessary skills to make informed financial decisions about purchasing a home, financing an education or their retirement, or starting a business will almost certainly be economically better off than those lacking those vital skills.

Informed financial decision making is also vital for the healthy functioning of financial markets. Like any other businesses, financial service firms will provide better products at better prices when they are subject to market pressures imposed on them by informed consumers. Regulators have an important role in helping to ensure that financial service companies provide necessary information to their customers, but such information is of value only to the extent that it can be understood and applied by potential users of these services. Market competition among financial providers for the business of informed consumers is, in my judgment, the best mechanism for promoting the provision of better, lower-cost financial products.

**Research on the Impact of Financial Education**

Research suggests that financial education can help consumers make better choices. For example, for many decades, various nonprofit organizations have offered homebuying programs and credit counseling to improve consumers' financial management skills and reduce the risk of default or delinquency. Research on the effectiveness of these programs has generally associated financial counseling with improvements in consumers' credit management. For example, one study that analyzed nearly 40,000 affordable mortgage loans targeted to lower-income borrowers found that counseling before the purchase of a home reduced 90-day delinquency

<sup>1</sup>Noah Sawyer and Kenneth Temkin (2004), "Analysis of Alternative Financial Service Providers," prepared for The Fannie Mae Foundation by the Urban Institute Metropolitan Housing and Communities Policy Center, [http://www.urban.org/UploadedPDF/410935\\_AltFinServProviders.pdf](http://www.urban.org/UploadedPDF/410935_AltFinServProviders.pdf).

<sup>2</sup>Survey of Consumer Finances (2004), Federal Reserve Board of Governors.

<sup>3</sup>Gary Eliehausen, Ph.D and Edward C. Lawrence, Ph.D, (2001), "Payday Advance Credit in America: An Analysis of Customer Demand."

rates by 19 percent on average.<sup>4</sup> This study also documented a 34 percent reduction in mortgage delinquency rates among borrowers who received individual counseling rather than classroom or telephone instruction.

In another study, researchers found that credit counseling had a positive effect on creditworthiness, especially for individuals with the lowest credit scores. They examined credit bureau data on 14,000 recipients of one-on-one credit counseling and found that, over a 3-year period, these borrowers reported reduced debt levels and delinquency rates.<sup>5</sup> Another, preliminary study found that after receiving on-line instruction in credit management new or recently delinquent credit cardholders were more likely to pay on time and to have lower revolving balances.<sup>6</sup>

Other research has looked at the link between financial knowledge and broader financial management skills. For example, one study examined the relationship between financial knowledge and financial behavior such as cashflow management, savings, and investing. Overall, the study found a significant correlation between the level of financial knowledge and good financial management practices. Individuals who were familiar with financial concepts and products were found to be more likely to balance their checkbook every month, budget for savings, and hold investment accounts.<sup>7</sup> Similarly, another study on consumer creditworthiness and consumer literacy determined that financial knowledge is the single best predictor of behaviors, such as budgeting, saving, and shopping responsibly, that translated into positive outcomes on credit bureau reports. This study also found that the main sources of knowledge were bad experiences, school instruction, and other education.<sup>8</sup>

### **The Federal Reserve System's Commitment to Financial Literacy**

The Federal Reserve System has long recognized the value of economic and financial education for producing better-informed citizens and consumers. Broadly, our financial education activities fall into five primary categories: (1) increasing access to information about financial products and services, (2) promoting awareness of the importance of financial literacy, (3) collaborating with educational and community organizations, (4) supporting research and identifying best practices, and (5) providing financial education for its own employees. I will briefly comment on each of these.

#### *Increasing Access to Information About Financial Products and Services*

One important means by which the Federal Reserve helps consumers make better informed financial decisions is through its consumer protection rule-writing. For example, in pursuit of the goals set by the Congress, our regulations require the disclosure of specific information on terms and fees associated with credit and deposit accounts. The Truth in Lending Act of 1968 (as implemented by Regulation Z) requires uniform methods for computing the cost of credit and for disclosing terms on a broad range of credit products—credit cards and other lines of credit, automobile loans, student loans, and home-purchase and other home-secured loans. In addition, the Truth in Savings Act, implemented by Regulation DD, requires uniform disclosure of certain cost information on deposit accounts, including the annual percentage yield. These disclosures provide consumers with the essential information they need to assess the costs and benefits of financial services offered by different providers. Standardization of disclosures allows for comparison among similar products and thus provides consumers with an important shopping tool.

One of the challenges of creating effective disclosures is presenting information so that it is as accessible and understandable as possible. To address this issue, we conduct focus groups and consumer testing to inform the rule-writing process. Because regulatory language can be quite technical, the Federal Reserve also publishes numerous brochures that explain the terminology and consumers' rights in straightforward terms or provide useful information on particular areas of concern, such as predatory lending and identity theft. Focus groups convened over the years have

<sup>4</sup> Abdughani Hirad and Peter Zorn (2001), "A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling," [www.chicagofed.org/cedric/files/2003\\_conf\\_paper\\_session1\\_zorn.pdf](http://www.chicagofed.org/cedric/files/2003_conf_paper_session1_zorn.pdf).

<sup>5</sup> Gregory Elliehausen, E. Christopher Lundquist, Michael Staten (2003), "The Impact of Credit Counseling on Subsequent Borrower Credit Usage and Payment Behavior" (January), [www.chicagofed.org/cedric/files/2003\\_conf\\_paper\\_session1\\_staten.pdf](http://www.chicagofed.org/cedric/files/2003_conf_paper_session1_staten.pdf).

<sup>6</sup> Kimberly Gartner and Richard Todd (2005), "Effectiveness of Online 'Early Intervention' Financial Education for Credit Cardholders" (July), [www.chicagofed.org/cedric/files/2005\\_conf\\_paper\\_session3\\_todd.pdf](http://www.chicagofed.org/cedric/files/2005_conf_paper_session3_todd.pdf).

<sup>7</sup> Jeanne M. Hogarth and Marianne A. Hilgert (2003) "Patterns of Financial Behaviors: Implications for Community Educators and Policymakers," [www.chicagofed.org/cedric/files/2003\\_conf\\_paper\\_session1\\_hogarth.pdf](http://www.chicagofed.org/cedric/files/2003_conf_paper_session1_hogarth.pdf).

<sup>8</sup> Marsha Courchane and Peter Zorn (2005), "Consumer Literacy and Creditworthiness," [www.chicagofed.org/cedric/files/2005\\_conf\\_paper\\_session3\\_courchane.pdf](http://www.chicagofed.org/cedric/files/2005_conf_paper_session3_courchane.pdf).

found that the Federal Reserve's consumer brochures were regarded as high-quality, unbiased publications. We have also found that counselors and educators often use our brochures when teaching about financial products and services.

*Promoting Awareness of the Importance of Financial Education and Literacy*

The Federal Reserve System has also worked to promote awareness of the importance of financial education and literacy. In May 2003, the Board and the twelve Reserve Banks participated in a national campaign to call attention to the value of personal financial education and the wide variety of financial literacy tools and resources available. This multi-media initiative, entitled "There's a Lot to Learn about Money," included a public service announcement and a toll-free number for obtaining financial education resources. Consumers were also directed to our education website, [www.federalreserveeducation.org](http://www.federalreserveeducation.org), to obtain more-substantive information, ranging from materials about personal financial literacy to interactive tools for economic education. The website links to a wide variety of financial education resources at the national, regional, and local levels.

*Collaborating With Educational and Community Organizations*

A third piece of the Federal Reserve's financial education effort is its collaboration with a wide range of educational and community organizations. Staff members from the Federal Reserve Board advise and assist national organizations such as the Jump\$tart Coalition for Personal Financial Literacy, the Conference of Mayors' DollarWise Campaign, Operation HOPE, the American Savings Education Council, and America Saves on the development of policies, programs, and partnerships. The Federal Reserve Banks also join with regional organizations to address financial education needs. For example, the Federal Reserve Bank of Cleveland has worked with community financial educators to form regional networks that combine resources and share best practices.

The Federal Reserve Bank of Chicago sponsors "MoneySmart Week," partnering with banks, businesses, government agencies, schools, community organizations, and libraries to host activities designed to help consumers learn how to manage money. The Federal Reserve Banks of San Francisco and Minneapolis have worked with leaders in the Native American community to develop financial education materials. As you are aware, the Federal Reserve Board also participates in the Federal Government's Financial Literacy and Education Commission.

Collaboration with outside organizations also plays a central role in the Federal Reserve's support for broader economic education. We believe that a better understanding of how the economy works promotes both better citizenship and greater personal economic success. As one means of supporting this objective, Reserve Bank staff members advise high-school teachers on ways to help students understand economics. Perhaps the best-known economic education initiative in the Federal Reserve System is the Fed Challenge. This academic competition offers high-school students the opportunity to learn more about how the Federal Reserve develops monetary policy and how those policies affect the economy. Federal Reserve Bank economists provide instruction guides for developing a Fed Challenge team. These teams compete at local, regional, and national levels. The competition hones students' analytical and presentation skills, while expanding their knowledge of economic principles. I have personally judged the national finals of this competition on two occasions and can attest to the remarkable economic knowledge displayed by these students.

I have included an appendix to this testimony describing some of the significant System and Federal Reserve District programs and collaborative efforts in financial and economic education.

*Promoting Research and Identifying Best Practices*

The Federal Reserve also promotes, and engages in, research relevant to financial literacy. For example, understanding how families are doing financially helps financial educators decide how best to focus their efforts. The Federal Reserve Board conducts the triennial Survey of Consumer Finances to gain insight into U.S. families' assets, borrowing, retirement saving, and use of financial institutions. Many researchers and practitioners use this unique data set in analyzing conditions and trends in consumer finances.

Given the significant commitment to financial education by government, private-sector, and nonprofit organizations, it is important to determine whether such programs actually improve consumer financial literacy and behavior. Toward this end, the Federal Reserve undertakes and promotes research that aims to increase our understanding of the financial education programs and delivery channels that work best. For example, the Board's Division of Consumer and Community Affairs engages in research on learning preferences and consumer financial behavior. Cur-

rently, Federal Reserve researchers are collaborating with the Department of Defense to conduct a 3-year longitudinal study of the effect of military-sponsored financial education on soldiers' financial behaviors. Since 1999, the Federal Reserve System's biennial Community Affairs Research conference has generated and highlighted new research on the efficacy of financial education. In fact, much of the research that I cited earlier has been presented at these conferences. The Federal Reserve Bank of Chicago maintains the Financial Education Research Center, which provides access to online resources for researchers, educators, and program developers.

Economists at the Federal Reserve Banks also assess the effects of financial education. The Federal Reserve Bank of Kansas City is currently evaluating the role that financial knowledge and education play in personal money management behavior. In addition, the Federal Reserve Bank of Boston plans a year-long evaluation of its credit repair education program, which is provided to taxpayers filing for the Earned Income Tax Credit at volunteer tax preparation sites where Reserve Bank staff offer their assistance. This study seeks a better understanding of the underlying determinants of credit problems and ways in which credit counseling can improve individuals' credit scores.

#### *Employee Financial Education*

Besides these externally focused initiatives, the Federal Reserve seeks to improve the financial literacy of its own workforce. The Board offers a comprehensive financial education program to help employees plan their retirements and better use their benefits. We also offer regular seminars on topics ranging from budgeting and saving to buying a home or investing for children's education. The Board maintains an internal website with links to information on quality-of-life matters, including managing finances. The website is organized by age groups and life events to help employees identify the information resources that are most relevant to their circumstances.

We view our employee education program as a win-win proposition. Research has determined that such programs benefit employers as well as employees. For example, one study found that workplace financial education programs contribute to improved worker performance, increased job satisfaction, and decreased absenteeism.<sup>9</sup> The Federal Reserve Bank of Kansas City is studying how financial education programs affect employers' bottom lines.

#### **Challenges and Opportunities**

Financial education is a critical component of a robust and effective financial marketplace, but it is not a panacea. Clear disclosures, wise regulation, and vigorous enforcement are also essential to ensuring that financial service providers do not engage in unfair or deceptive practices. Even the most financially savvy consumer may fall victim to fraud or deception.

As policymakers and educators know, providing effective financial education presents many challenges. Efforts to increase financial literacy are resource- and time-intensive. Counseling programs require trained instructors and, to be most effective, must be available to consumers near the time at which they are making an important financial decision, such as whether to buy a home. Some school programs now include financial literacy courses or modules, but curricula must be regularly updated to remain relevant and teaching methods must be adapted to the backgrounds and interests of students. In some cases, financial education efforts are constrained by gaps in math and reading literacy, which impede comprehension of fundamental financial concepts.

Recent findings by the Jump\$tart Coalition for Personal Financial Literacy illustrate the magnitude of the challenges still facing us, particularly in the case of young people.<sup>10</sup> The Coalition has administered financial literacy tests to high-school students annually for the past nine years. Student performance on these tests has not improved during that time: The average score reported in the 2006 survey was 52.4 percent, up from the low of 50.2 percent in 2002 but below the 1998 score of 57.3 percent. The survey results also show a gap in financial literacy between minority and nonminority students: In the most recent survey, white students scored an average of 55 percent while African-Americans scored 44.7 percent and Hispanics scored 46.8 percent. Clearly, there is still much work to do to understand how to

<sup>9</sup> E. Thomas Garman, Jinhee Kim, Constance Y. Kratzer, Bruce H. Brunson, and So-hyun Joo (1999), "Workplace Financial Education Improves Personal Financial Wellness," *Financial Counseling and Planning Journal*, vol. 10.

<sup>10</sup> Jump\$tart Coalition for Personal Financial Literacy (2006), "2006 Survey of Financial Literacy Among High School Students," <http://www.jumpstartcoalition.org/>.

improve the financial literacy of young people. On the other hand, the Jump\$tart survey does confirm the importance of financial literacy, in that students who score higher on the test tend to make better financial decisions. For instance, students who reported having bounced a check averaged just 45.8 percent on the financial literacy test while students with checking accounts who had never bounced a check scored higher on average, at 53.4 percent.

Because financial literacy leads to better outcomes for individual consumers and for our economy generally, continued effort in this area is highly desirable. Fortunately, given the current level of interest in improving financial literacy and education both in the United States and internationally, opportunities abound for cooperation and collaboration among public, private, academic, and community institutions. Advances in technology also offer great promise for improving the quality and delivery of financial information and for sharing of research and best practices among financial education providers.

In closing, I want to reaffirm the Federal Reserve System's commitment to increased financial literacy and improved financial education. We look forward to continuing our collaboration with the many partners who share these objectives.

### **Financial Education Programs and Initiatives**

#### ***In Order of Federal Reserve Bank District***

##### *Federal Reserve System*

**There's a Lot To Learn About Money** is the Federal Reserve System's financial education campaign. This web-based resource features the brochure and the public service announcement used in launching the campaign, as well as links to financial education resources available through the Federal Reserve Banks and through organizations within the Federal Reserve Districts.

**American Savings Education Council** is a national coalition of public- and private-sector institutions committed to making saving and retirement planning a priority for all Americans. ASEC is a program of the Employee Benefit Research Institute Education and Research Fund (EBRI-ERF). ASEC brings together public- and private-sector partners to share information on best practices and to collaborate on financial-security initiatives, including the Federal Government's *Savings Matters* campaign (now in its tenth year), the *Choose to Save*® public service campaign, and the U.S. Securities and Exchange Commission's *Facts on Saving and Investing* campaign. The Federal Reserve Board is an ASEC mission partner, along with other government agencies, educational institutions, and nonprofit organizations committed to increasing awareness of the importance of saving and financial education.

The Federal Reserve is active in the *America Saves* initiative and serves on the National Savings Forum, its national advisory committee. The mission of this nationwide campaign—sponsored by nonprofit, corporate, and government groups—is to help individuals and families save and build wealth. The program is targeted at low- and moderate-income families, to raise their awareness and support their efforts to become more financially secure. Through local and regional campaigns, *America Saves* recruits “savers,” who commit to the program and pledge to save. As a result of their commitment, savers receive information and education about strategies for fulfilling their financial goals, such as reducing debt, building an emergency fund, and saving for a home, education, or retirement. The Federal Reserve Bank of Cleveland played a significant leadership role in developing and launching *Cleveland Saves*, a pilot program for the national *America Saves* campaign. The program has also launched the targeted initiatives *Black America Saves*, *Hispanic America Saves*, and *Military Saves*.

**Financial Literacy and Education Commission (FLEC)**, established by Congress in 2003 through the passage of the Financial Literacy and Education Improvement Act, was created to “improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education.” The Federal Reserve, along with numerous other Federal Government agencies, is a member of this commission, which is supported by the Treasury Department's Office of Financial Education.

**U.S. Conference of Mayors' National DOLLAR WISE Campaign** was developed to encourage the development of ongoing local strategies to educate citizens about financial issues. With improved basic money management and financial planning skills, citizens are in a better position to own homes, raise healthy families, educate their children, and invest in small businesses. The Federal Reserve Board serves as an advisor to the National DOLLAR WISE Campaign. The Federal Reserve Banks of Cleveland, Chicago, and St. Louis provide supporting programs that have been described as best practices by the U.S. Conference of Mayors.

**Operation HOPE** is a nonprofit organization that provides lower-income and minority populations and communities with financial education and access to financial services. Its mission is to improve asset-building skills and accessibility of mainstream financial services for its constituencies. The organization, founded in 1992, is effective in creating public-private collaborations to fulfill its mission. Among its many national partners are the Federal Reserve Board, the FDIC, the Department of Commerce, H&R Block, E\*Trade, Citigroup, and Bank of America. The Federal Reserve System has partnered with Operation HOPE in launching its youth financial education program *Banking on Our Future* in Washington, D.C.; Providence, Rhode Island; Atlanta, Georgia, and Los Angeles, California. A Federal Reserve Board staff member serves on Operation HOPE's Mid-Atlantic advisory board.

**The Jumpstart Coalition for Personal Financial Literacy**, in its 10-year history, has brought visibility and—through its biennial survey of high school seniors—research-based data to the financial literacy movement. Jumpstart is a Washington, D.C.-based not-for-profit organization that seeks to improve the personal financial literacy of students in kindergarten through college. The coalition has grown to include more than 170 national partners and 43 affiliated state coalitions. One of its premier services is the Jumpstart Personal Finance Clearinghouse ([www.jumpstartclearinghouse.org](http://www.jumpstartclearinghouse.org)), a web site that lists more than 580 financial literacy titles and provides information about speakers and training programs. The Federal Reserve is a partner and serves on the Jumpstart Coalition board of directors.

**The Fed Challenge**, in its twelfth year, is an academic competition in which five-member student teams play the role of monetary policymakers. In this role, each team makes a presentation in which it analyzes the current economic situation and advocates a monetary policy prescription. The team then engages in a question-and-answer session in which the judges probe to examine students' understanding of the mechanics of monetary policy, macroeconomic concepts, and the workings of the Fed. The Fed Challenge has been a great success, as measured by participants' grades on Advance Placement Exams, adoption of the program by other central banks (for example, the central banks of England, New Zealand, and South Korea); recommendations in the New York State Economics Syllabus, textbooks, and the National Academy Foundation's Academy of Finance curriculum; and anecdotal evidence offered by teachers that the Fed Challenge profoundly affects participants' career choices. The Fed Challenge is organized by the Federal Reserve Bank of New York, and many other Federal Reserve Banks participate.

**FederalReserveEducation.org** is the Federal Reserve System's recently redesigned financial education web site, designed to increase the use of Federal Reserve educational materials and promote financial education in the classroom. The web site has material intended for the general public, as well as materials specifically geared toward teachers and high school and college students. It provides easy access to free educational materials, a resource search engine for teachers, and games for various ages and knowledge levels. *FederalReserveEducation.org* is maintained by the Federal Reserve Bank of Kansas City.

**Federal Reserve Community Affairs Research Conferences** are sponsored to invite and highlight research on a variety of issues that affect consumer financial service policies and practices. Since 1999, this biennial event has featured research that evaluates and explores the role of financial education in improving financial outcomes for consumers, particularly those with lower incomes.

#### *Boston*

**The New England Economic Adventure** is an hour-and-a-half interactive exhibit at the Federal Reserve Bank of Boston that highlights New England entrepreneurs Francis Cabot Lowell, Colonel Albert Pope, and Ken Olson and investment decisions they made that enabled workers to be more productive. Increased productivity helped to raise the standard of living of the average New Englander and contributed to the overall economic growth of the region. Program use and effectiveness is tracked through visitor and teacher evaluations and an online evaluation form. Numbers of visitors, including those from low- and moderate-income communities, are also recorded.

**Peanuts & Crackerjacks** is a frequently visited online economic education program that simulates a baseball game to teach economic concepts. Pitches are questions, correct answers to questions about the economics of team sports lead to hits and runs, and wrong answers are outs. The site also includes a teacher's guide. The next iteration, **Economics of Entertainment**, is due out in this fall. It will focus more on the abstract concept of markets and will draw from the music industry to tap into students' own experience.



**Talking About College** is a curriculum created in collaboration with Citizen Schools, the national after-school program. It was created for middle school students to nurture their aspiration to attend college and to assist them in financial planning and the college-selection process. This curriculum has been taught as a financial literacy “apprenticeship” in after-school programs in the Boston Public Schools. The curriculum includes a built-in assessment.

*New York*

**It’s All About Your Money** is a program, offered in two formats, that promotes financial awareness among students in grades 4–8. In one format, groups of 30–35 students visit the Bank for roughly three hours to take part in a series of activities, including a play about bartering; an active-learning exercise about how money has changed over time; social studies lessons derived by examining foreign currency notes; and several team and individual activities focusing on budgeting, saving, and other personal finance topics. In the second format, teachers direct all of the activities described in the first format in their own classrooms by using a package of materials and guides ordered directly from the Bank through the Internet. Success is measured by the teachers, who engage students in activities and assignments before and after their visit to the Bank. Students then write letters to the Bank discussing what they learned and what they intend to do differently as a result of the program. In the 2005–2006 school year, the program was presented to 55 schools, mainly in low- and moderate-income communities, as planned.

**Foundations of Finance: Money Management for High School and College Students** is a money management workshop that teaches students basic sound practices that foster wise financial decisionmaking. Workshop content is flexible and can be adapted to the content, format, and time specifications set forth by each host school or college. Frequently requested topics include college financing, the benefits and risks of credit use, financing life’s expected and unexpected contingencies, budgeting and building net worth, taxes and other financial obligations, wise consumer practices, work and compensation, and common financial mistakes. Success is measured by school administrators and educators, who meet to determine the extent to which the workshops helped to encourage changes in curricula and mandates. Ideally, the workshop results in the development of new courses, mandated personal finance awareness sessions for all students, or changes in course content. An attempt is made to contact all students who participated in the workshop to determine how it changed their financial practices.

**Wall Street Economics and Finance Club** reaches approximately 50 high school students from throughout the Second Federal Reserve District who convene for eight two-hour monthly meetings at the New York Fed to learn more about the structure and functions of the financial system. Students take part in numerous activities, including discussions with economists, analysts, and traders at private-sector financial institutions; visits to trading floors and financial exchanges; their own presentations about financial developments and issues; and educational competitions that lead directly to internships. The Bank measures success by participating in discussions with educators involved in the program, attempting to determine the extent to which club activities resulted in changes in lesson plans, curricula, course offerings, and students’ performance and interest in finance-related topics. Students in the club become Ambassadors to their classmates, encouraging greater interest in economics and finance as a course of study or career.

*Philadelphia*

**Finding the Keys to Your Financial Success** is an annual, free, 5-day training program for educators on a curriculum created by the Bank, the University of Delaware, the Delaware Bankers’ Association, and the Consumer Credit Counseling Services of Maryland and Delaware. The program is used extensively in Delaware schools, and over the past two years it has been promoted to schools in seven Pennsylvania and New Jersey school districts.

**Buried by Debt: The Dangers of Borrowing** is a 14-minute video for adults that describes the pitfalls of borrowing against your home. On the video, six Philadelphia District residents tell the viewers, in their own words, how they lost or nearly lost their homes by making unwise borrowing decisions. The Bank created the video at the request of ministers who were contacted to assist with outreach to low- and moderate-income minority homeowners who were most at risk because of lending abuses. The Bank has distributed over 4,000 copies to organizations throughout the United States and abroad. The video is shown at training events conducted for faith-based organizations interested in delivering financial education programs. A Spanish version is also available.

**Money and Banking for Educators**, the Bank's signature free summer professional development course for teachers, is in its third year of existence. It is designed to provide teachers with active learning techniques to enhance students' understanding of the economy, the Federal Reserve System, and monetary policy. Those who elect to receive graduate-level credits for the course enroll through a participating university.

**Personal Finance for the Middle School Classroom** is a 5-day professional development course for K–12 educators taught by Federal Reserve economic education specialists and staff from the state centers for economic education. The course covers how to teach students about money, banking, and the Federal Reserve System. Emphasis is placed on strategies for active and collaborative learning.

**Personal Financial Education Curricula and Compendium of Providers** provides information on training materials and other resources available to the public, as well as organizations that offer educational services in the Third Federal Reserve District.

#### *Cleveland*

**The Learning Center and Money Museum** was opened in January 2006. The Learning Center features over 30 interactive exhibits and related educational programs centered around the theme "What gives money value?" The educational programs were designed by the Bank, with teacher input, based on state educational benchmarks. Programs include lessons on saving and spending, inflation, barter, and the Federal Reserve System. The Learning Center hosted over 2,500 visitors in its first quarter of operations, and reservations for Learning Center educational programs are booking seven months in advance. All program participants "strongly agree" that their Learning Center visit provided a valuable learning experience. The center has been endorsed by the Ohio Council on Economic Education.

**Fourth District Financial Education Consortia** launched in June 2003 with a series of roundtable meetings with financial institutions, government agencies, and community-based nonprofits. These meetings were convened to coordinate financial education programs and discuss how to improve financial education delivery in the Fourth District, in part in response to the Federal Reserve Bank of Cleveland's financial education survey "Financial Education: What Is It and What Makes It So Important," published earlier that year. The meetings were also a response to the growing complexity of financial services, predatory lending, wide gaps between white and minority homeownership rates, record low savings rates, and increases in personal bankruptcies and debt among American consumers. The roundtable meetings resulted in the formation of several financial education networks, or "consortia," in the Cincinnati, Cleveland, and Pittsburgh regions. The Federal Reserve Bank of Cleveland has staff in each of those cities who act as coordinators for these initiatives.

**The Essay Contest** is an annual competition for area high school students. Essay topics are chosen with an eye toward engaging a broad range of students, not just students in economics classes. Topics have included the economics of children's literature, the economics of rock music, and economics on TV.

The Bank also participates in the **Fed Challenge** and hosts a number of other programs for teachers and students throughout the year, including workshops and student competitions with various partners such as **Ohio JumpStart**, the **Ohio Council on Economic Education**, **Junior Achievement**, and local public libraries.

#### *Richmond*

**My Money** is an educational package for elementary school students that includes a teacher's guide and student workbooks featuring lessons entitled "What is Money?," "Money Equivalents," and "Jobs, Money, Goods and Services." Over 1,100 *My Money* packages have been shipped to elementary schools worldwide since early 2006. Teacher feedback gathered from evaluation cards has been overwhelmingly positive.

**The Essay Contest** is an annual fall contest, sponsored by the Bank, designed to reach students who may not be enrolled in an economics class and have limited knowledge about personal finance and the Federal Reserve. High school juniors and seniors write a three-page essay on a financial literacy topic or the Federal Reserve. Winners receive savings bonds at an awards luncheon held at the Bank. In the fall of 2005, the essay theme highlighted the importance of saving at a young age. There were over 250 entries.

**Financial Literacy Fairs** are sponsored by the Bank for its employees each year, during Financial Literacy Month. Financial seminars address issues ranging from free credit reports, saving for retirement, and paying off credit card debt.

The Bank also partners with local and regional financial and economic education organizations, including the **Council on Economic Education** in Maryland, Virginia, North Carolina, and South Carolina.

#### *Atlanta*

**Monetary Policy: Part Art, Part Science** is a DVD-based lesson that focuses on the structure and functions of the Federal Reserve System, the Fed's role in formulating monetary policy, and how members of Reserve Banks' board of directors contribute to interest rate-setting decisions. This video was originally used as part of the Atlanta tour program; however, because of its popularity, it was adapted for use across the District and for distribution to educators. As part of this extension, a lesson plan entitled "Monetary Policy Starts in Your Own Backyard" was developed to accompany the DVD. The lesson and video were distributed to more than 4,300 educators in the spring 2006 *Extra Credit* e-newsletter.

**Extra Credit**, an e-newsletter published twice a year, is designed to help teachers looking for information, lesson plans and activities, and ideas for teaching economics and personal finance to middle school and high school students. The second edition of the e-newsletter, available on the Internet, was distributed in spring 2006 to more than 4,300 educators.

**Financial Education Day at the Fed**, an annual event, teaches eighth-grade students about personal financial education. More than 40 employee volunteers teach roughly 250 students money management skills through lectures and interactive exercises dealing with budgeting, credit, and saving. To measure the knowledge gained, students are given a test—both before and after the event—on the topics covered.

**Workshops and tours** reached roughly 2,000 educators and over 15,300 students in 2005. In addition to conducting workshops and tours, the Bank works with other organizations to collaborate on various initiatives to provide quality learning experiences for educators. In July 2005 the Bank—in cooperation with the St. Louis Fed's Memphis Branch, the Mississippi Council on Economic Education, and Mississippi Jump\$tart—conducted a 3-day economic and financial education workshop that reached over 100 educators each day. Similar collaborations are planned for 2006 throughout the District.

The Bank also works closely with the state **Department of Education** and state legislators on legislation and on a curriculum for a high school personal finance course. It also works with organizations that promote financial literacy, such as Junior Achievement, Jump\$tart Coalition, and the Academy of Finance.

#### *Chicago*

**Money Smart Week**, an annual event, continues to be the Bank's premier program for promoting the importance of financial and economic education to the Chicago community. In line with our goals to continue growth, participating partner organizations numbered 192 (up from 134 a year ago) and events numbered 274 (up from 220 in 2005). The campaign included promotional and marketing components such as a direct mail campaign to one million households, distribution of almost 400,000 Money Smart bookmarks to grades K–6 within the Chicago public schools, and street marketing campaigns to distribute 40,000 event calendars. In addition, 5,000 Spanish language event calendars were distributed as part of the program.

**Financial Education Research Center** is a data base of research on the impact of financial education programs. The goal of the center is to promote excellence in the field by providing online resources for researchers, educators, program directors, and others interested in supporting these types of programs and initiatives. The web-based tool also offers a listing of national financial education programs available to the public and educators.

**Power of Money Curriculum Package** includes two lesson plans and a nine-minute video about the Federal Reserve Bank of Chicago. Since its inception in 2003, the package has been distributed to almost 2,200 high schools in the five-state region. The total audience for the project is upwards of 250,000 students.

**The Visitors Center and Tour Program** continues to grow and receive positive feedback from the students, teachers, and members of the general public who visit the facility. Surveys in which visitors rated their experience in the Visitors Center show an 87 percent satisfaction rate, defined as a score of 4.5 on a 5-point scale. The total number of counted visitors in the Visitors Center during 2005 was 23,623, a 9 percent increase over 2004. Uncounted (walk-in visitors) are estimated to have totaled more than 5,000 in 2005. This was the second year in a row in which the number of counted visitors has exceeded 20,000. Since the museum opened in June 2001, new attendance records have been set each year.

*St. Louis*

**Making Sense of Money and Banking** is a one-week, three-credit college course hosted by the Bank in conjunction with the University of Missouri—St. Louis and Southern Illinois University—Edwardsville. The course is offered to K–12 teachers to help them integrate money and banking topics into social studies, language arts, and math lessons. Guest speakers from the St. Louis Fed are featured. June 2006 will mark the eleventh year of the course, which draws 25 to 35 educators each year. The success of the course is measured by attendance, formal course evaluations, and general commentary by actual and prospective students.

**Teach Children To Save Day** is a national event developed by the American Bankers Association Education Foundation in cooperation with the Bank, the University of Missouri—St. Louis Center for Entrepreneurship and Economic Education, and a number of metro area banks. Students in the first, second, and third grades are given 45-minute lessons on the importance of saving and then receive piggy banks. Of the 148 volunteers who delivered the program to 287 area classrooms, 68 were Bank employees. Success is measured by participation and by reaction from teachers and students.

**Your Paycheck** is a program conducted with Culver-Stockton College of Canton, Missouri, that focuses on teenagers earning their first paychecks and facing challenges related to money, credit, and financial responsibility. The program is sponsored by Quincy, Illinois, businesses that often employ teens. The program's trainers are Culver-Stockton students who are trained by Bank employees. Success is measured by evaluations from the student trainers and the program students.

**Learn Before You Leap** is a series of brochures listing counseling agencies that provide advice on every step of the home-buying process, from budgeting income to negotiating a contract to closing on a loan. Each of the brochures focuses on one of the Federal Reserve Bank's regional areas—*St. Louis, Little Rock, Louisville, and Memphis*.

*Minneapolis*

**Supply, Demand, and Deadlines** is an annual economics workshop for journalists. In its sixth year, the workshop—sponsored by the Bank and the University of Minnesota's Journalism School—was founded on the premise that a better understanding of economics can improve the reporting skills of journalists from all news beats, not just the business section. Roughly two dozen journalists from all types of media spend three days learning about economic principles and participate in a thorough case study. The workshop faculty includes college professors and experienced professional journalists. All participants are surveyed six months after the course to determine how they are applying what they have learned.

**The Essay Contest for High School Students**, has, since 1998, challenged hundreds of high school students from the district to look through an economic lens to address questions about poverty, the environment, banking, economic development, and even illegal drug markets. The top 30 essay writers, along with their parents and teachers, are invited to the Bank for an educational program on that year's subject and to receive an award. Many teachers also use the contest materials in their class curriculum to apply economics to real-world issues. The Bank works with district teachers to regularly evaluate the effectiveness of this program.

The Bank has also assisted with the formation of local financial education organizations, including the **Montana Financial Education Coalition (MFEC)**, the **Montana Jump\$tart Coalition affiliate**, and the **Minnesota Jump\$tart Coalition (NFEC)**. The Bank partners with the **Native Financial Education Coalition (NFEC)**, created to promote financial education in native communities, and its Youth Initiatives Committee for the Building Native Communities adult financial education curriculum; the **Minnesota Council of Economic Education**; the **Montana Council of Economic Education**; the **South Dakota Council of Economic Education**; the **Minnesota Saves Network**; and the **University of Minnesota's Center for Personal and Family Financial Education (CPFFE)**.

*Kansas City*

**The Workplace Financial Education Program** encourages employers to offer financial education classes to employees. The program is a series of seminars that include budgeting for current and future needs, reducing debt, increasing savings, understanding how credit works, improving credit ratings, building a relationship with financial institutions, and maximizing retirement funds. To complement the classroom settings, each participant is offered up to two hours of confidential one-on-one counseling with a certified financial planner. This program was piloted by the Bank in October 2005. Kansas City's community affairs research economist con-

ducts surveys, before and after the program, in order to publish results and findings from the program.

**JumpStart Your Money** was organized in Oklahoma in 2005 and has successfully raised the profile of personal financial education. The event, one week of programs focusing on personal financial education, is sponsored by over 60 statewide partners. The Bank is working to replicate this program by establishing coalitions in Missouri, Kansas, and Nebraska. The Bank is also developing a comprehensive data base and a public web site to create awareness of financial education resources and services.

The Bank also participates in financial education networks in Oklahoma, Colorado, New Mexico, and Wyoming—most notably **Teach Children To Save Day** (Denver and Kansas City), **Oklahoma JumpStart Coalition**, and the **Denver Financial Literacy Network**.

#### *Dallas*

**Building Wealth: A Beginner's Guide To Securing Your Financial Future** is a publication that introduces individuals and families to the idea of developing a plan for building personal wealth. It contains four sections: Learn the Language, Budget to Save, Save and Invest, and Take Control of Debt. Written in both English and Spanish, it is available in print and as an interactive web site. *Building Wealth* is widely used as a basic financial education tool by a broad range of professionals, including bankers and other lenders, credit counselors, homebuyer education providers, employers, and real estate professionals. Its popularity has increased steadily since its introduction in October 2000, and over 170,000 copies have been printed and distributed across the country. In addition, it is the most frequently downloaded publication on the Bank's web site, with over 130,000 downloads in 2005.

**Rx: Financial Health** is the Bank's 2006 personal financial education workshop. It will address topics related to achieving financial health—such as credit scoring, banking services, and tax preparation—and will touch on state-legislated personal finance education initiatives. This workshop, open to all high school educators, is part of a series of annual workshops hosted by the Bank in partnership with the Texas Council on Economic Education. Several presentations will be conducted by representatives of both private and public organizations, including the Internal Revenue Service, the Federal Reserve Bank of Dallas, and the Texas Council on Economic Education. The workshop was held in Dallas and at the Bank Branches.

**Where Did My Money Go? Making Money, Spending It, and Keeping It** was the Bank's 2005 workshop series, which focused on money in the form of income, how personal choices affect future income, and the difference between money made and money kept. More than 300 high school teachers attended workshops conducted by Dallas Fed economists, the Consumer Credit Counseling Services, and Citigroup's Office of Financial Education. The 1-day events were held at the Bank in Dallas and at Branches throughout the District.

**Riding the Waves of the Global Economy** was a Bank-hosted two-day economic summit for more than 130 high school faculty. The program focused on the world economy and international issues, with special emphasis on technology, financial markets, poverty, and outsourcing. Dallas Fed President Richard Fisher and Fordham University economics professor Darryl McLeod were featured speakers.

#### *San Francisco*

**There's a Lot To Learn About Money** is the Bank's one-hour personal finance session for high school students, which supplements the Bank's tour program. This interactive session teaches students how to take control of their finances by understanding the time value of money through saving and investing, how to develop a budget, and how to use credit wisely. Since the program was launched in the fall of 2005, a total of 69 workshops have been held, reaching 1,620 students. Teachers also have access to the program curriculum through the Bank's web site.

**Open and Operating: The Federal Reserve Responds to September 11** is a video-based lesson that gives history and economics teachers a tool for introducing their students to the Federal Reserve System. The video combines news footage and interviews with Federal Reserve officials to illustrate how the Fed functions in the real world. The events of September 11, 2001, provide the context for this lesson, documenting how the Federal Reserve acted decisively to calm the financial markets, keep funds moving, and stabilize the economy. The program includes a videotape/DVD, a lesson plan booklet, and web-based resources. In the first quarter of 2006, 2,500 *Open and Operating* kits were distributed to high school teachers, reaching more than 17,500 students across the country.

**The International Economic Summit (IES)** is a program that educates high school students about the benefits of world trade while exploring the controversies

associated with globalization. Working in small groups, student teams adopt a country and take on the role of economic advisor. Each student team evaluates conditions within their country and develops a strategic plan to improve living standards. A typical event hosts 300 to 400 students representing 60 to 80 countries. The event concludes with an awards ceremony recognizing those teams of economic advisors who achieved the goals of their strategic plan. Student teams also compete for awards in creative costume and table displays. The Bank established a partnership with the IES Foundation in 2003 to promote and support the program throughout the District. Since then, approximately 25,000 students have participated in the IES simulation in high school classrooms throughout California, Idaho, and Washington. Most recently, the first bi-national IES event hosted 300 high school seniors from San Diego County and Ensenada, Mexico.

**Building Native Communities** is a series of workshops offered in Portland, Sacramento, Seattle, and Phoenix to train tribal members and representatives of Native American community organizations to teach financial education curricula in their communities.

**Individual Development Account Initiatives** were launched in the District to establish partnerships for sponsoring match-savings account programs for low- and moderate-income populations to save for buying a home, starting a small business, or pursuing education. The programs include financial education for participants.

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**PREPARED STATEMENT OF CHRISTOPHER COX**

CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION

MAY 23, 2006

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee: Thank you for giving me the opportunity to be here today to testify about the importance of financial literacy and the Securities and Exchange Commission's efforts to protect and educate our nation's investors. I commend each of you for raising awareness regarding this critical issue.

In my testimony today, I discuss the financial literacy challenges we face with various segments of our population and explain what the SEC is doing to get information into the hands of today's investors—whether they are young adults, teachers, seniors, or the members of our armed services. Improving financial literacy is one of the keys to fulfilling the investor protection part of our mission. But it's not just about pushing educational information out the door. It is not our job to tell people how they should invest. Critical to our efforts to improve financial literacy is actually putting investors in the driver's seat so they can better make their own financial decisions. Putting them in the driver's seat means giving ordinary investors the means to interact directly with companies' information in a way that allows them to compare, contrast, and put that information into contexts that are meaningful to them. In the last part of my testimony, I explain why plain English disclosure and interactive data are key to getting investors into the driver's seat.

**I. Financial Literacy for Young Americans**

Senator Sarbanes, when I last appeared before this Committee, you mentioned the particular challenge we face in educating our young people about personal finance and the benefits of savings and investment. Your concerns are well placed. Recently, the non-profit Jump\$tart Coalition published the results of a comprehensive financial literacy survey of 5,775 high school seniors.

On average, students answered only 52 percent of the survey questions correctly. In addition to the low average scores, I found several of the findings to be of particular concern:

Based on several questions in the survey, fewer than half of respondents demonstrated an accurate understanding of the impact of inflation on savings.

Perhaps as a corollary, while a large majority of teens in the survey appreciated the importance of safer investment vehicles for short-term savings, they struggled mightily when faced with questions about long-term investment. Specifically, 80 percent of the kids understood that for money that will be needed within a few months or years, a bank savings account is superior to stocks, corporate bonds, or locking cash in the closet—an encouraging result. Yet when asked which investment vehicle tends to have the highest growth over a period of 18 years—and given the choice of a US Savings Bond, a checking account, a savings account, or stocks, only 14 percent knew that the correct answer is stocks.

This is of great concern when we reflect on the wonderful news that Americans' life expectancy continues to increase—we expect the average baby born today to live 78 years. We expect that the average high school senior in the survey group will

also live to almost 80, and a fair number will live past 100. It is essential that they get into the savings habit early and that they take advantage of the best opportunities to grow their wealth, allowing them someday down the road to cover the costs of a retirement that may last for decades. To put it another way, these kids will face the Mt. Everest of financial planning if their plans do not include exposure to the equity markets, especially when they are young. Just as we need to teach these kids that the stock market is no place for the summer job earnings that they need at college this fall, we also need to share with them the powerful role of stock investments in building wealth over the long haul.

Wharton School Professor Jeremy Siegel's research has shown that over the long-term—in fact over the last two centuries—investing in stocks has delivered average real growth of between 6 and 7 percent per year. We make it clear in our investor education efforts that stocks have historically had the greatest risk and highest returns among the major asset categories. While the volatility of stocks makes them a risky investment in the short term, I do believe that thanks in part to the reforms that bear your name, Senator Sarbanes, young people with long-term financial goals can invest in America's companies with confidence, taking advantage of all the financial tools appropriate to their circumstances. And we seek to address this gap in financial literacy by making sure that just as young investors understand the risks of equity investments, they also fully appreciate the rewards.

Funding their retirements will be a challenge, but of course the kids headed into the workforce or to college this fall will have many large expenses before then, for example their own kids' college tuition. The College Board reports that the average cost of attending a public college or university for just one year is now over \$12,000 and the average cost for just one year of private college is now more than \$29,000. Both continue to rise significantly faster than inflation. I believe it is crucial that today's young people are encouraged to look a few years down the road and learn the greatest lesson of investing—start early! As a side benefit, if we can convince today's young people to contemplate the money that they will need to provide for their own families in the future, and perhaps reflect on the sacrifices already made to finance their educations, then perhaps they will also begin to appreciate and respect their parents.

For aspiring young investors and, in fact, for investors of all ages, we offer a range of informative publications. Our Office of Investor Education and Assistance routinely creates and disseminates neutral, unbiased information on saving and investing. The educational materials are all directed at helping people make wise investment choices and avoid fraud.

In these publications, we emphasize factors investors should consider before they invest, and explain important questions to which they should get answers before investing. Many of our materials explain to investors how a small difference in fees can translate into a large difference in returns over time. We also repeatedly remind investors of the benefits of paying off high-cost credit card debt before beginning any investment program. After all, virtually no investment pays off as well as, or with risk less than, wiping out the balance of a credit card.

Since we serve on the board of the Jump\$tart organization, our information, which is available in Spanish and English, is incorporated into many, many K–12 curriculums. Anyone who can read a newspaper can understand our educational materials. Everything we produce is available free of charge and not copyrighted, so that the widest possible dissemination is encouraged.

While we cannot tell investors which products to purchase, we can and do arm them with the information they need to assess various products and investment strategies. For example, our "Get the Facts on Saving and Investing" brochure helps individuals create a basic financial plan, explains the differences between stocks and bonds, and highlights the "magic" of compound interest. Another brochure explains the basics of asset allocation, diversification, and rebalancing.

We also offer a wide range of publications on many financial products, including mutual funds, 529 plans, variable annuities, and equity-indexed annuities.

A dominant theme of the SEC's investor education materials is "*investigate before you invest.*" We encourage individuals to ask questions and to check out the background and credentials of any salesperson or financial professional they use. We make sure investors know how to find out whether their brokers or investment advisers have a history of complaints or fraud. Not only do we list the key questions every investor should ask, but we also provide investors with information on how to confirm whether a financial professional is, in fact, duly licensed. In addition, we give investors resources for researching companies and tips for avoiding fraud.

Overall, we have published hundreds of educational brochures, investor alerts, and short topics of interest to investors. While some of our most popular materials are available in print, all of our materials are available through the "Investor Infor-

mation” section on our website ([www.sec.gov/investor](http://www.sec.gov/investor)). There, visitors can search for these materials using a targeted search engine, browse for information by subject matter, or view an alphabetical list of publications.

We have also begun beta testing of investor education delivered through “podcasting.” Podcasting is a method of publishing and syndicating audio broadcasts through the Internet. Podcasting allows individuals to listen to our broadcasts directly from their computers. Individuals can get started saving and investing by listening to our introductory podcast entitled “Welcome to Your Money,” or learn how to determine whether a hot stock tip is a good investment by listening to the episode called “Hot Stock Tips.” Users can also download these podcasts onto their iPods, or other handheld listening devices, just as they would their customized music playlists. That way, they have the flexibility to listen to them, or re-play them, wherever and whenever it suits their needs. If this outlet for dissemination is successful—and we believe it will be—we will expand the library of financial information podcasts available to the public.

## II. Financial Literacy for Other Target Populations

### A. Seniors

I’ve talked about today’s young people and their need to save and invest for the many expenses they will face, right up to and including a long retirement. But I’d like to focus now on the people who are already there—our nation’s retirees—the largest and fastest growing segment of our population. The statistics tell the story: No fewer than 75 million Americans are due to turn 60 over the next 20 years, more than 10,000 every day. Households led by people aged 40 or over already own 91 percent of America’s net worth. The impending retirement of the baby boomers will mean that, very soon, the vast majority of our nation’s net worth will be in the hands of the newly retired.

Older Americans, who have already worked and saved over the course of a lifetime, have different needs. As you know, I have spent a good portion of my time as SEC Chairman working to ensure that America’s seniors are protected against those who would cheat them out of their life savings. I have been so focused on this issue in fact that I have to be careful not to give the impression that this is all I do each day. But I think my focus is well placed given our aging population, and the fact that so much of America’s financial assets are held by seniors.

Sadly, some industry professionals target seniors for inappropriate investments. And we know that scam artists frequently prey on the elderly.

That’s why I recently announced that I will convene a “Seniors Summit” of regulators and organizations that are vitally concerned with seniors, to publicly discuss what steps can be taken to better protect this precious segment of our society. I intend this to be a first step towards a nation-wide assault against securities fraud perpetrated against seniors.

I have also announced that we are working with state regulators and the NASD to evaluate the ubiquitous “free lunch” seminars aimed at convincing seniors to purchase complex and perhaps inappropriate financial products. Building on work we first started in Florida, we will be expanding our joint efforts to examine “free lunch” programs in other jurisdictions.

Throughout this nationwide effort, we will be coordinating the distribution of educational materials to senior investors, and reaching out to the local media to raise awareness of financial issues affecting seniors. This joint initiative also involves extensive information sharing among securities regulators with a common goal: to safeguard the financial well-being of our nation’s senior citizens.

When I addressed this Committee last month, I described the Commission’s three-pronged approach to combat investment fraud on our senior citizens: enforcement, examinations, and education. This morning I’d like to provide some more details about our educational efforts for seniors and how we are putting better information in their hands so they can make informed investment decisions.

We know that many seniors, and many children and caregivers of seniors, use the Internet to search for information on investing. That is why we created a page on our website (<http://www.sec.gov/investor/seniors.shtml>) aimed specifically at senior investors. The information on this page can help seniors fend off high pressure sales pitches for legitimate, but arguably unsuitable products. After reading our materials on equity-indexed annuities, for example, seniors will know to avoid any salesperson claiming that individuals “can’t lose money” in that product. Investors can lose money buying an equity-indexed annuity, especially if the investor needs to cancel the annuity early.

In addition to providing critical information on other investments commonly marketed to seniors, such as variable annuities, promissory notes, and certificates of de-



posit, the page also provides key information about how to detect and avoid fraudulent schemes.

Fraudulent schemes come in many flavors and fraudsters can turn on a dime when it comes to tailoring their pitches to capitalize on the latest trends, from hedge fund investing to charity schemes. But most frauds, like bad sitcoms, are not new. Instead, they're the same old material wrapped up in new packaging.

The frauds targeted at seniors mirror the frauds aimed at broader audiences: "Ponzi" or pyramid schemes—where money from new investors is used to pay off earlier investors until the whole scheme collapses; questionable debt instruments—which are often pitched as providing guaranteed income; and classic "pump and dump" market manipulations—when fraudsters drive up the price of a company's stock (typically a microcap or penny stock) using false and misleading statements and then sell at the peak.

Our "Seniors" page warns against the dangers of listening to the sales pitches of cold-callers and alerts seniors to the very real threat of affinity fraud—scams that prey upon members of identifiable groups, such as religious or ethnic communities, professional groups, or the elderly.

Senior citizens and their adult children who love them can learn more by browsing through our "Senior Care Package," a collection on our website of our most popular brochures for seniors (which are also available in hard-copy). Illustrative examples of brochures that we publish that might be of special interest to seniors include: "Cold Calling" and "Variable Annuities: What You Should Know."

Our investor education publications are available through our website, [www.sec.gov/investor](http://www.sec.gov/investor), by writing us at SEC headquarters or by calling 1-800-SEC-0330.

We are continuously looking for ways to provide valuable information to our nation's elderly citizens. Since last month, we've added two new investor education brochures to our page dedicated to seniors. One new brochure can help individuals become more informed before they invest a lump sum payout, a common and often difficult decision for seniors who elect to receive their pension in a single payment. And because many financial professionals use designations that imply that they are experts at helping seniors with financial issues, we also added a brochure that can help investors understand the sets of initials that may follow the names of their financial professionals and the meaning of titles, like "senior specialist," they use to market themselves.

But helping our nation's seniors is not a task that can be undertaken solely by the Commission. Efforts by multiple parties play an important role in equipping consumers with needed financial skills. Coordinated actions can efficiently reach seniors with high-quality, unbiased information. That's why the SEC works with others to leverage our efforts. I mentioned earlier our cooperation with the states, represented by the North American Securities Administrators Association, as well as with the NASD, in aggressive actions to prevent and respond to investment fraud against seniors, and we are also working cooperatively on the education side, giving seniors the tools to avoid being victimized.

#### *B. Teachers*

Of course, our educational tools are not only geared towards seniors. When we noticed that our busy, dedicated public school teachers sometimes overlook their own financial needs, such as planning for a secure retirement, we created our "Just for Teachers" web page ([www.sec.gov/investor/teachers.shtml](http://www.sec.gov/investor/teachers.shtml)). The page helps teachers evaluate and select appropriate investments for employer-sponsored 403(b) retirement savings plans and other savings vehicles. Mindful of the need I discussed earlier to ensure that their students also benefit from financial education, we have also included on the site and resources for teaching personal finance in the classroom.

While all of the materials are available online, teachers can also contact the SEC from the "Just for Teachers" web page and request a free "Teacher Care Package," consisting of SEC educational brochures on mutual funds, variable annuities, and other investing topics, which will be mailed to the investor. We have contacted teachers in every state to let them know of the resources we have to assist in financial education and we have mailed over four thousand teacher care packages to educational professionals all across America.

#### *C. Military Personnel and Their Families*

We are also committed to improving the financial literacy of our service members and their families. The SEC's Office of Investor Education and Assistance has teamed with the NASD Investor Education Foundation and the Department of Defense on a multi-faceted financial education program serving members of the mili-

tary and their families. In addition, we have presented our educational materials to enlisted men and women on military bases and ships all over America.

Our “For Military Personnel and Their Families” web page ([www.sec.gov/investor/military.shtml](http://www.sec.gov/investor/military.shtml)) contains helpful resources for our service members. These resources include an online brochure explaining mutual fund contractual plans—also known as periodic payment plans—which generally impose a 50 percent up-front fee. As you know, some unscrupulous salespeople have used misleading scripts to sell these investment products to our military personnel.

### III. Making Disclosure More Useful for Ordinary Investors

I’d now like to address the elephant in the room when we talk about financial education, and I’m not talking about any of the Republican Senators on the majority side. We face a great challenge, even if we are able to provide robust financial education to our young people, and an abundance of online tools and paper publications to Americans of all ages.

Even if investors know to start saving early, to appropriately use stocks and bonds depending on their needs and time horizons, to ignore promises of guaranteed sky-high returns, to disregard emails, faxes, and voice mail messages containing “hot” stock tips, to be wary of apparently free lunches, and to check out the advisers and brokers seeking their business, they will still have trouble getting the information they need.

Even armed with an outstanding financial education, very few investors are able to slog through the swamp of legalese known as corporate annual reports and mutual fund prospectuses. Based in part on the requirements we have placed on corporations and mutual fund firms, and in part on the desire of these firms to defend against potential lawsuits, current disclosures often do not give investors the chance to read the key facts about a potential investment in plain English, nor to easily extract the particular information they want from these cumbersome mounds of paper.

Watching TV or reading magazines, you have probably noticed an increasingly prominent theme in advertising and marketing. A recent New York Times piece described the trend this way: “My, my, my. Madison Avenue has become obsessed with using the word “my”—along with “your” and “our”—in advertising slogans, as well as in the names of brands, products and even a new television network. The trend is inspired by a desire by marketers to demonstrate that they understand changing consumer needs by, literally, putting the customer first.”

Madison Avenue is responding to consumers who increasingly demand personalized and customized products and services.

Unfortunately, when it comes to financial information, “Have it your way” is not a phrase that immediately comes to mind. “Take it our way” is what these documents seem to be saying to the individual investor, and the result is that even the most ardent students of our educational efforts run into a sometimes impenetrable wall of complexity, discouraging them from an informed examination of their financial assets.

But technology offers a way for average investors to create My Annual Report, My Prospectus, or My Quarterly Update—exactly the information they want, how they want it, when they want it, uncluttered by extraneous legal gobbledygook.

As I described last month, interactive data will let any user—anyone—take mountains of financial data and make it searchable and usable.

Until now, data has been held captive to the document where it was originally published. But that will change once each piece of information is given a unique label through data-tagging.

With interactive data, each investor will be able to focus on the disclosure they want to see with just a few clicks of the mouse. All of the information they seek is called up instantly to one page.

Since mutual funds are the investment of choice for retail investors, that’s where we feel interactive data will make its first big splash. We already require mutual funds to disclose a great deal of information. With interactive data, we can help investors tame this mass of facts, statistics, and numbers, so it can serve the individual needs of each user. I am pleased that the Investment Company Institute, which represents the mutual fund industry, has recently volunteered its time and talent to completing the technical work necessary to allow mutual fund investors to enjoy the benefits of interactive data. I’m also pleased to report that earlier this month, the SEC received its first voluntary interactive data test filing from the mutual fund industry.

The goal of interactive data is simple—to supply investors with information they can use. The Commission is also working towards this goal by requiring clear and concise disclosures.

Since the day I began at the Commission, I've been focused on translating disclosures—that appear to be written by and for attorneys and accountants—into plain English that ordinary investors can read and understand. We can't continue to “let a short cut for the writer become a roadblock for the reader,” as our own Plain English Handbook advises. That means eliminating legalese, defined terms, and, in most cases, the passive voice.

When I was here last month, I indicated that the Commission is committed to making disclosures more meaningful, and intelligible, to average investors.

I described initiatives that would require plain language disclosure of executive compensation and reduce the complexity of accounting rules and regulations. But our plain English movement is intended to transform all of the disclosure documents sent to individual investors.

### Conclusion

Encouraging financial literacy is a high priority for my colleagues on the Commission and for me. We seek to accelerate our educational efforts and we believe that technology, combined with plain English disclosure, offers an unprecedented opportunity to give Americans the power to become the most informed investors in human history.

In closing, thank you for giving me the opportunity to be here today to testify about financial literacy. I can think of no more important topic for the future of the American economy and I am happy to answer any questions you may have.

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### PREPARED STATEMENT OF M. CINDY HOUNSELL

PRESIDENT, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT (WISER)

MAY 23, 2006

### Introduction

Chairman Shelby, Senator Sarbanes, distinguished members of the Committee, thank you for the opportunity to discuss WISER's efforts at helping women develop their financial knowledge and planning skills.

My name is Cindy Hounsell. I am president of the Women's Institute for a Secure Retirement (WISER), a nonprofit organization dedicated to ensuring the security of women's retirement income through outreach, partnerships, and policy advocacy.

WISER commends the Committee for examining the state of financial education in our country. There is ample evidence that Americans lack financial knowledge, and that financial education is an ever-growing need that requires more resources to address these challenges.

Our testimony will briefly cover the reasons women are at particular risk for economic insecurity in their retirement years. We will detail the outreach efforts of WISER and its partners to provide financial education to help women address these unique challenges. We will also cover the topics that seem to resonate most with women we reach, and issues that all Americans must become more informed on if we are to improve financial literacy—and in particular, the literacy of those who are nearing retirement age.

First, I'd like to share the story of **Hazel Shoyrer**, a lifelong worker, who would have greatly benefited from education and financial counseling to help her with the complicated financial decisions she needed to make when leaving her job. Unfortunately, Ms. Shoyrer was left on her own to figure it out—and the decisions she made when leaving her job influenced her standard of living for the rest of her life.

*Ms. Shoyrer retired at age 62 from a Chicago hot dog factory after 30 years of service.<sup>1</sup> Like most American workers, she took her Social Security benefit at the earliest age and likely was informed when she applied that doing so would provide her with the highest amount of lifetime benefits.*

*As a modest earner throughout her working life, she was unaware of the amount of money that she would need in retirement and the critical challenge of making the money last for the rest of her life. She thought she could easily manage her modest lifestyle with a \$988-a-month pension and a \$900-a-month Social Security check. In fact, these are substantial benefits for an average worker and well above the median retirement income of \$12,080 for retired women. She had also accumulated a nest egg of \$5,000 which probably seemed like a sizable amount of money.*

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<sup>1</sup>Bonnie Miller Rubin, “More Working Women Find They Can't Afford to Retire.” Chicago Tribune, April 24, 2006. (<http://www.chicagotribune.com/features/health/chi-0604240222apr24,1,6336184.story?page=2>.)

*After a year in retirement, Ms. Shoyrer took a part-time job at a truck stop. But then she was hit with what researchers refer to as a negative shock, an event which is likely to cause significant financial consequences. Her negative shock, pneumonia, landed her in the hospital for 6 days. She was discharged with a \$10,000 hospital bill, and the loss of her part-time job at the truck stop. The \$5,000 she had in savings quickly vanished and she is still paying off the hospital bill.*

*Now at age 67, Ms. Shoyrer is desperately trying to find work. She has since developed a heart problem, and though Medicare paid for a recent hospitalization, she pays hundreds of dollars a month for heart medications, supplemental insurance, and Medicare Part B coverage. As she looks down at all the bills on her table, she says, "Some days, I just want to cry. No matter how much you think you have, it's not enough."*

There were a number of decisions that would have helped Ms. Shoyrer: among them, she needed to know that she would not be eligible for Medicare until she was age 65 and that taking Social Security at the earliest age would cause her to lose about 20 percent of her benefit. Ms. Shoyrer is unlikely to recover financially, and while she remains hopeful and continues to search for work, she is unlikely to find it as she ages.

### **Women Need To Save More Money To Avoid Poverty in Retirement**

We began by using an example that unfortunately is not uncommon and because Ms. Shoyrer started retirement with nearly twice the income of most women and with access to a pension that today is only available to one out of five workers.

Women have unique retirement problems. The biggest risk is longevity, and with it, the risk of outliving assets. Women should be saving more money than men because they will need money to support themselves for about four more years than men on average. They are also more likely to have higher expenses for health care and prescription drugs. Unfortunately, women's lower average earnings and more time out of the workforce for caregiving make it difficult for many of them to save the amounts needed for retirement.

There are other reasons that make it difficult for women to save more money for retirement. Today, all workers are taking on more out-of-pocket responsibility to pay for health and retirement benefits. While women must plan for a longer retirement, they start off with less income and are left to rely too heavily on Social Security as their primary retirement income source. The increased cost of health care and retirement cannot be easily addressed by saving more for most women. Two thirds of working women earn less than \$30,000, so the notion of saving more for these women is much like trying to get blood from the proverbial stone.

We know that in every age group, women on average have lower incomes than men do. But the wage gap is especially pronounced in retirement: the median retirement income in 2004 for women was \$12,080 compared to men's income of \$21,102.<sup>2</sup> Furthermore, older women are about half as likely as older men to have earnings or pension benefits, and those women who do have these sources of income receive, on average, much less than men do.<sup>3</sup>

Despite the overall decline in poverty rates among older Americans during the last several decades, many older women remain poor. In 2004, 12 percent of women aged 65 and older were poor compared to 7 percent of the men in this age group.<sup>4</sup> The likelihood of a woman being poor in retirement increases with age. Older unmarried women and minority women are especially at risk. Approximately one in five unmarried elderly women is poor.<sup>5</sup> The poverty rate for single black women over age 65 is 40.8 percent, and for single Hispanic women it is 41.5 percent—more than twice the rate of white women.<sup>6</sup> (In 2004 the poverty threshold for an individual age 65 and older was \$9,060.)

The current generation of elderly women has little in the way of savings and investments for their retirement. In fact, half of all unmarried older women have less than \$1,278 a year in asset income, which amounts to only about \$106 a month.<sup>7</sup> Older minority households have even less than white households: one survey found that older black households had an estimated net worth of \$13,000 compared with \$181,000 for white households.<sup>8</sup>

<sup>2</sup> U.S. Census Bureau Statistics Division: *Housing and Household Economics*. Revised January 13, 2006.

<sup>3</sup> Social Security Administration: *Income of Population 55 or Older*, 2002. March 2005.

<sup>4</sup> U.S. Census Bureau: *2005 Annual Social and Economic Supplement*. Current Population Survey. June 2005.

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

<sup>7</sup> Social Security Administration 2002.

<sup>8</sup> Federal Interagency on Aging Related Statistics 2000.

It is startling to be reminded that the vulnerable population of those living past age 80 is expected to double and possibly triple over the next few decades. The demographics of older Americans points to the importance of women's retirement security:

- At ages 65 and older, there are 6.2 million more women than men.
- At ages 75 and older, there are 4 million more women than men.
- At ages 85 and older, there are 1.8 million more women than men. This amounts to 71 percent of the 85-and-older population.<sup>9</sup>

### Financial Education

All Americans are being asked to assume a larger share of responsibility for making complex retirement saving decisions. But the thousands of pages available on the Internet, conflicting and often poor advice from families and colleagues, and quote "education" from marketers of financial products and services seem to create more confusion and inertia than action. The avalanche of information and the complexities involved in retirement planning especially are significant barriers to workers to protect themselves from economic insecurity.

Aside from the overwhelming quantity of information, financial literacy is impaired by language that many people just don't get. Just think about some of the terms that are part of the financial planning lingo: we have MMAs, CDs, DBs, DCs, IRAs, annuities, low loads, no loads, 12b-1 fees, vesting. To reach people—to have them hear the message and turn it into action—we need to take a step back from all the jargon and give people basic, usable information. Otherwise, we will continue to see people tune out or throw their hands in the air and walk away from the responsibility.

The Treasury report that Secretary Snowe discussed earlier on the national strategy for financial literacy refers to the "national mosaic that comprises America's financial literacy and education effort."<sup>10</sup> I think *mosaic* is a generous description. It is more like a giant jigsaw puzzle that's missing the box that shows the picture the pieces are supposed to form. It is laudable that the Bush Administration has set a course to develop a national strategy for financial literacy.

### What People Need To Learn

Research has shown what WISER's experiences with financial education outreach have borne out—that people need better guidance for decisionmaking about determining when to retire, how much spendable income will be needed, where the money will come from, and how to make it last. We have noticed that, like our earlier example of Hazel Shoyrer, many people make the mistake of retiring early—reducing their pension and Social Security benefits without having considered the future costs of medical insurance and prescription drugs.

But we have also learned that we have to help people put this information in context because they are hearing a lot of conflicting advice. At a recent briefing of financial experts recapping the 2006 SAVER Summit, there was a brief discussion of what multiplier should be used times final pay to ensure sufficient income in retirement—the multiplier number recommended by the financial experts ranged from four to 22. Ask three experts whether you should pay off your home mortgage and you are likely to get three different answers.

Workers should be given a "retirement readiness" program or test before they retire. There is a readiness survey being designed for testing with the Office of Personnel Management by the International Foundation of Retirement Education. This survey for government workers will help determine whether they will have enough income to retire and to understand the issues before they make their decisions to leave a job. While this may not translate as well into the private sector, it does indicate a promising means to help people gain an understanding of current resources.

We find that many people are ill-prepared to make what we term life-defining decisions. Many people make retirement decisions based on the fact that they want to stop working or they get forced into it. But a key factor to consider before retiring is the likelihood of living 20 or more years—years during which purchasing power may be lost with inflation and more income is needed for chronic medical needs. Nearly every retiree I have come into contact with over the past two decades tells me two things: they had no idea they would live so long, and they wished they had saved more money.

<sup>9</sup>He, Wan, Manisha Sengupta, Victoria A. Velkoff, and Kimberly A. DeBarros: *U.S. Census Bureau, Current Population Reports, P23-209, 65+, in the United States: 2005*, U.S. Government Printing Office, Washington, DC, 2005.

<sup>10</sup>U.S. Department of the Treasury: *Taking Ownership of the Future: The National Strategy for Financial Literacy*. Financial Literacy and Education Commission. 2006.

A recent report, “Public Misperceptions about Retirement Security,” identifies areas of concern with regard to public knowledge about retirement.<sup>11</sup> Some of the issues highlighted in this report include the following:

- Longevity risk is poorly understood and not planned for.
- More than 40 percent of Americans end up retiring earlier than they planned to retire, usually due to job loss, family needs including health issues, or personal poor health.
- Many people do not understand how investments work. For example, they do not understand what a money market fund is.
- A substantial number of people believe that the common stock of their employer is less risky than a diversified portfolio of common stocks.
- Many people do not save enough, and they do not estimate their needs well.
- Many people fail to consider the impact of future inflation.

The impact of these misperceptions is compounded by the increased responsibility taken on by millions of workers for their own retirement preparedness. In a dramatic display of the individual and broader consequences of low financial literacy, it has been reported that the state of Nebraska recently dropped its 401(k)-style plan because it found that individuals’ investment decisions were unwise, resulting in a waste of taxpayer contributions to those plans. Indeed, a 2005 study by Standard & Poor’s found that, as a result of poor investment practices, a switch by public employers to 401(k) plans might lead to “lower pension contribution costs over the medium term, but could end up with higher public assistance costs in the long term.”<sup>12</sup>

#### **WISER’s Program on Women’s Education for Retirement**

One of WISER’s key initiatives is the National Women’s Resource Center and Program on Women’s Education for Retirement, also known as the POWERCenter. The Center is dedicated to helping women plan for the future and provides average women with a place to turn for basic financial education.

This initiative began as a cooperative project funded by the U.S. Administration on Aging in 1998. The program includes many partners—employers, women’s organizations and community based groups. Government agency partners have included the Department of Agriculture’s Cooperative Extension Service, the Department of Labor’s Women’s Bureau, and the Social Security Administration. We have directly reached more than 25,000 women through our own workshops and millions through our publications published in *Good Housekeeping Magazine* and the *US Airways* in-flight magazine. Our organizational partners include Mothers’ Voices Georgia, MANA, A National Latina Organization, N4A—the National Association of Area Agencies on Aging, the General Federation of Women’s Clubs, and Business & Professional Women-USA. Our partners have helped us to train trainers and reach tens of thousands more women. WISER also works with several insurance and financial companies who help spread our message and disseminate our material. WISER’s staff has published booklets with the Actuarial Foundation, including our most popular, *Seven Life-Defining Financial Decisions*.

The PowerCenter’s primary objectives are to:

1. Ensure that the material and program is flexible enough to reach women in their communities, their jobs and their places of worship;
2. Encourage women to take an active role in planning for their future;
3. Reach the maximum number of average- and lower-income women with information;
4. Create an awareness of retirement basics, pensions savings plans, and the Social Security program, to help motivate women to plan early by stretching and managing their resources and increasing their retirement income;
5. Help older women protect their income by educating them about the types of insurance and related products that can help make their money last for a lifetime, as well as avoiding consumer fraud, financial schemes, and predatory scams; and
6. Help women in crisis situations, such as caregiving for elderly parents and spouses, and with the financial issues resulting from death and divorce.

WISER’s POWERCenter workshop, “Your Future Paycheck®,” hits home with diverse audiences. It provides practical knowledge by interweaving substantive information with case histories of women who have worked and cared for their families

<sup>11</sup>Society of Actuaries, LIMRA International, Inc, Mathew Greenwald & Associates: *Public Misperceptions about Retirement Security*. 2005.

<sup>12</sup>American Federation of State, County and Municipal Employees: *Myths and Facts*. March/April 2006. ([http://www.afscme.org/publications/public\\_employee/2006/pema0607.htm](http://www.afscme.org/publications/public_employee/2006/pema0607.htm).)

their entire lives. Participants identify with the situational problems and remember the solutions and make retirement savings a priority.

WISER urges workshop participants to make sure they have a basic financial plan and teaches them how to take manageable steps to retain more of their earnings. We also acknowledge the fact that many of the participants are behind the eight ball when it comes to saving for the future. We emphasize taking small steps to avoid being overwhelmed.

We have found that workshop participants are most interested in:

- Learning how it all fits together—a basic lifetime financial journey;
- Practical suggestions for women with children who must prepare for gaps in employment, lower wages, and fewer benefits;
- Access to employer savings plans and techniques for saving on one's own;
- Credit problems, credit repair, and debt reduction;
- First-time home ownership programs and Individual Development Accounts;
- Types of insurance and annuities;
- Social Security as a retirement program and as a program that provides survivor benefits to children and disability benefits; and
- Predatory lending scams.

#### **More Meaningful Outreach Is Needed**

As the Treasury report and other analysis shows, there is a lot more financial education happening now than in prior years, but not enough people are being reached, and not enough behavioral change is occurring to have a meaningful effect on retirement income insecurity. Much more meaningful outreach is needed, including:

- Increased public education for average Americans about retirement planning and how much money is needed for 20–30 years in retirement. Much of the information in the media is aimed at higher-income individuals.
- Information to help individuals understand the importance of decisions about taking and leaving jobs. Women are more likely to spend their lump-sum retirement distributions because they have smaller amounts in their accounts.
- The effect of various types of insurance on retirement planning, such as long-term care policies and annuities.
- Better education on planning for contingencies, such as widowhood and divorce.
- Better education of lawyers and judges about pension division at divorce.

We would like to mention a successful initiative that was based in part on the Individual Development Account model to structure a matched retirement savings program.<sup>13</sup> WISER worked with Appalachian By Design to create a savings program for self-employed knitters in rural West Virginia. Appalachian By Design is a non-profit economic development company dedicated to finding markets and training a network of knitters in rural areas of the state. To make a long story about a complicated journey short, our program turned a small group of low-income women into first-time savers. Mr. Chairman, more than half of full-time working women in West Virginia earn less than \$20,000 a year. To get a subset of these women saving for retirement is proof that a combination of the opportunity, the information, and an incentive to save can work to get even the hardest-pressed workers preparing for retirement.

#### **Conclusion**

Mr. Chairman, thank you for including women's issues in retirement as part of the broader discussion on financial education today. As I hope my testimony has pointed out, women are at a particularly high risk for poverty in retirement, and more education is needed to help them avoid this outcome. WISER has learned firsthand that women without financial knowledge are eager to gain and apply it, and take greater control of their financial lives. The Federal and state governments, non-profits, employers and others need to continue seeing financial education as an imperative, and to continue finding ways to help people achieve financial stability.

Thank you. I welcome your questions.

<sup>13</sup>See "Crafting a Retirement Plan for Appalachian Artisans." Appalachian By Design. 2004. (<http://www.appalachianbabydesign.org/docs/Retirement%20Report%20April%202004.pdf>.)

**PREPARED STATEMENT OF SARAH TESLIK**  
CEO, CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.

MAY 23, 2006

Certified Financial Planner Board of Standards, Inc. (CFP Board) is a 501(c)(3) educational/certifying body with a public mission. CFP Board owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and federally registered CFP (with flame logo) in the U.S. and awards use of those marks to more than 50,000 people who have successfully completed initial and ongoing certification requirements designed to ensure that those certified are capable of providing competent and ethical financial planning services. CFP Board's mission also includes a public focus: to create awareness of the importance of financial planning and the value of the financial planning process and to help underserved populations have access to competent and ethical financial planning.

CFP Board's involvement with financial planning educators, financial planning professionals and the public that seeks financial planning information gives it a front-row seat in financial literacy and education circles. And it is clear there is a great need to increase Americans' understanding of and appreciation for financial literacy and financial planning and to encourage healthy financial actions across all sectors. So CFP Board thanks the Committee for the spotlight it is shining on these issues; their importance to the future of our country can hardly be overstated.

It is always nice to start with good news, and there is some good news to report. First, the bodies of knowledge described by the terms "financial literacy," "financial education" and "financial planning" have developed so substantially over the past two decades they can fairly be described as mature. Billions of dollars and millions of person-hours have gone into defining and describing the content encompassed by these terms. And there is excellent material available capturing these bodies of information for a staggeringly wide array of audiences. Of course learning will continue, laws that affect these bodies of knowledge will change, and other developments will ensure gradual refinements and evolution, but the starting point is that we are not at the starting point. Information on financial literacy, financial planning, and financial education is high quality, wide ranging, deep and current.

That is the good news. The bad news is that we know this information is not having the impact it should. We know, for example, that Americans are spending more than they are making. Even in the very highest income bracket over 15% of households spend more than they make. We know that average personal debt is around \$10,000 a household and that income devoted to debt is at a record high, having almost doubled in only a decade. We know that half of all seniors are receiving annual income of \$15,199 or less, and seven out of ten of them get the majority of that from Social Security, with the average senior today receiving only \$1,000 a year from personal savings. And we know Americans are aging and that numbers unprecedented in human existence will be heavily testing these frayed governmental, personal and familial safety nets very, very soon.

There is so much data and information about the serious issues related to Americans' financial situations that it has become information overload that we tune out. The numbers involved—from the gigantic groups mentioned in the statistics to the large sums individuals need to save for comfortable retirement—are so large they lose significance to us as individuals, just as distances in outer space do.

So what does this mean should happen? First, government can address ways current laws make these problems worse. CFP Board does not officially support or oppose any law, regulation or piece of legislation, but various parties have suggested a number of ways governments discourage responsible financial behavior.

Some suggest that tax laws discourage savings and encourage consumption. Some suggest bankruptcy laws make fools of individual who do not use them as a strategy to offload debt. Some say government guarantees in various markets encourage reckless investor behavior that comes back to haunt taxpayers. But these issues contain political dynamite that lawmakers are unlikely to pick up.

Are there other, more achievable, advances that government might encourage to enhance financial literacy and financial planning knowledge and expertise? The answer is yes.

That answer springs from relatively new developments. All around us a revolution in science is occurring that can help translate the excellent financial literacy and financial planning work that has already occurred into better results. As new technology enables us to obtain knowledge we never dreamed of before—whether by seeing inside living brains as people think or by collecting and crunching enormous data dumps—the edges between many once-distinct scientific disciplines are blurring. These disciplines include economics, biology, psychology, finance, math and



many more. Neuro-economics and behavioral finance are obvious examples with immediate relevance to financial literacy, but there are many more.

Financial literacy and financial planning are at the epicenter of this convergence of disciplines. Thus one of the main consequences of this explosion is a rapid increase in our ability to understand why people do what they do and what can be done to influence that behavior.

What does this mean? It means that employers, learning from scientific studies confirming the human tendency to prefer choices requiring the least effort, are changing retirement plan designs to tap this inertia by having employees opt out of, rather than into retirement plans. This science allows financial policymakers to turn something that might otherwise be a negative—apathy or a preference for inaction—and turn it into a plus.

This is but one example. The implications of behavioral finance and neuro-economics go much farther and some of the design suggestions they make, however unnerving they may at first seem, are exciting. Examples will be provided in oral testimony.

These advances in science tend, as a whole, to make clear that the reason financial literacy information has not had greater impact is a more fundamental one and needs to be addressed as such.

The reason is as obvious as it is overlooked: the vast majority of behaviors that financial literacy encourages involve postponed gratification. To save today what you could otherwise spend is not a popular message. There is a reason, for example, banks often offer a prize to individuals who make deposits—they need to create an immediately gratifying experience to obtain a postponement-of-gratification decision. Policymakers need to wise up to this basic insight.

The effort to get Americans to slim down and get fit offers a perfect analogy. There is abundant and excellent information on exercise and diet. There is a real interest in losing weight and getting fit. But all this interest and effort are having frustratingly few effects—largely because the effects depend on postponing gratification or denying gratification. We know some people can improve their physical fitness; we know for most people it is extraordinarily difficult.

So, admitting the nature and size of this difficulty is essential if we are going to have any hope of success. Our problem is not just how to get the necessary information to the right people in the right form for them to understand it, but it is figuring out how to get people to deny themselves instant gratification and replace it with difficult behaviors designed to achieve goals that may not be reached in decades. I doubt many of us would want our annual job reviews to depend on achieving such a goal.

Congress is not a body known for its ability to save—telling your constituents you are going to tax them more and provide them less but their children will benefit is not a popular re-election strategy. But Congress can encourage work that helps current and future financial literacy and financial planning initiatives have broader and deeper effects. Funding program and design changes can generate major benefits at minimal cost—a kind of financial elegance that financial literacy and financial planning initiatives deserve.

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**PREPARED STATEMENT OF STEPHEN BROBECK**  
EXECUTIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

MAY 23, 2006

I am Stephen Brobeck, executive director of the Consumer Federation of America. CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education. For three decades, CFA, and I personally, have sought to promote effective financial education. We commend you, Mr. Chairman, Senator Sarbanes, and members of your Committee for organizing these hearings and for providing us with the opportunity to explain our views on the role and limits of this education.

In this testimony, I will briefly discuss the need for financial literacy, the limits of financial education, essential characteristics of effective financial education, and the single most important initiative we could take to promote financial literacy.

*Growing Need for Financial Literacy*

Being financially literate means that one has the knowledge to effectively manage one's financial resources—especially through budgeting, debt management, and asset accumulation—to achieve lifetime financial security. Unfortunately, for several decades this financial management has grown more difficult, and in the future it

is likely to become even more challenging. Two types of societal changes help account for this increasing difficulty.

*Erosion of Economic and Social Security:* Many Americans have experienced an erosion in their economic and social security. Advances in technology and economic globalization have accelerated the pace of change in our economy, increasing both job insecurity and the awareness of this insecurity. In the past two decades, this has been especially the case for relatively highly compensated blue collar workers forced to accept less lucrative positions or retire from the workforce. In the future, this will increasingly be true for large numbers of white collar employees who will be replaced by foreign workers with access to the latest communications technologies.

At the same time, globalization has spurred efforts by employers to reduce costly pension and health care benefits. As a result, over the past decade there has been a massive reduction in the availability of pension plans for employees. For younger workers, for all practical purposes these plans have ceased to exist. Employers have largely replaced these pension plans with contributory retirement programs that are voluntary and must be funded, entirely or in large part, out of wages. At present, most workers with access to these contributory programs are not participating sufficiently to allow them to retire in their sixties without suffering a great decrease in their level of living.

Employers have also sought, with some success, to reduce their medical care obligations to existing and retired workers. That often increases the need for these Americans to take a more active role in managing their health care. If Medicare and Medicaid programs must sharply cut back benefits in the future, as many experts predict, this need for greater skill in dealing with health care and health insurance providers will only increase.

*A More Complex and Risky Financial Services Marketplace:* Over the past two to three decades, as members of this Committee are well aware, the financial services marketplace has become much more complex and risky for consumers. In particular, the growing availability of credit, the way this credit is priced and sold, and the rising popularity of securities have increased financial literacy needs.

Massive increases in the availability and purchase of consumer and mortgage credit now require almost all consumers to understand and make sensible decisions about debt. A key factor in the rising number of personal bankruptcies over the past decade has been the growth in credit card marketing, which includes over five billion mail solicitations annually, and in available credit lines on these cards, which have nearly reached \$5 trillion. There has also been a substantial increase in extremely high-cost loans with onerous or unsustainable terms, such as payday loans and some mortgage loans. Furthermore, a principal reason for the decline of discretionary income for many young and middle-aged consumers has been the rising availability of aggressively marketed first- and second-mortgage loans made attractive by lower down payments, relatively low interest rates, and the expectation of future increases in housing prices.

The more dynamic pricing of consumer and mortgage credit has also increased the need for financial literacy. As recently as 10 years ago, for example, someone who made two late payments on a credit card was charged only two late fees of under \$20. Today, the same person who makes two late payments on the same credit card will not only be charged late fees of about \$35 but may also have their annual percentage rate hiked by more than 10 percentage points, possibly have the interest rate on other credit cards increased, and experience a costly decline in their credit scores.

However, these risks are much lower for middle-class consumers than those assumed by the less affluent who purchase nontraditional mortgages. Many experts, and lenders, worry about the ability of many purchasers of adjustable-rate mortgages to afford rising interest obligations. And they cannot understand how many lower-income consumers would ever be able to afford interest-only mortgages once they are required to start repaying principal as well as interest.

As incomes and participation in contributory retirement programs have increased, more people, now nearly half of all households, have purchased stocks or bonds. But in the securities marketplace, as in the credit marketplace, consumers face complexity and risk. The latter include opportunities for casino-like day-trading, the temptation of highly risky, purportedly high-yield investments, increased availability of exotic financial products featuring derivatives, and solicitations by sellers more interested in their own compensation than investment risks and yields.

In brief, to effectively manage their financial resources, most consumers must be much more financially literate about financial products and about financial services professionals who sell and manage these products.

*The Limits of Financial Education*

Financial education, whose aim is to increase financial literacy, is limited by its current weaknesses and by its inherent character.

*Fragmented Character:* The most important weaknesses of this education today relate to its fragmented character which, some say, reflects our society's lack of commitment to effectively providing this education. There are many institutions and individuals who are working with dedication and effectiveness to increase financial literacy. Many of their programs, including several in which we participate or lead, are described in the recently released "National Strategy for Financial Literacy" report. But these worthy programs do not begin to meet the financial literacy needs of our nation.

For a start, there is no coherent national strategy, or effective leadership of the implementation of this strategy, to meet these needs. Such a strategy must define as precisely as possible the needs themselves and how they vary for different population groups, effective programs needed to meet these needs, and a rigorous method for assessing the success of these programs.

In the schools, Jump\$tart and its partners have made progress persuading state legislatures to pass financial education mandates. And, these mandates are in large measure responsible for the fact that hundreds of thousands of students now receive at least some financial education. Yet, many states still have not approved mandates, and in those which have, the education varies widely in intensity and effectiveness. The magnitude of the remaining challenge is reflected by Jump\$tart's annual surveys of the literacy of students who have had financial education instruction that reveal little or no progress in knowledge levels. Moreover, it is not at all clear that even statistically significant increases in this knowledge adequately prepare students for the financial challenges of adulthood.

In communities, financial education efforts are even more fragmented. Just in the past decade, hundreds of public, corporate, and nonprofit organizations, including CFA, have initiated their own financial education efforts. They have produced information on a wide variety of topics that they attempt to communicate to consumers through publications, audio-visual materials, the Internet, and workshops.

The quality of this information varies considerably. Some of it, for example, ignores the most important messages consumers should receive. There are many materials on the use of credit cards, for example, that fail to emphasize the importance of trying to pay off all balances on time each month and the risks of being unable to do so. These and other materials also often tend to communicate more information than consumers are prepared to read and digest. Unfortunately, the lower-income and least-educated consumers, who have the greatest need for this financial education, also tend to be those who have the most difficulty understanding complex materials.

There is little adequate evaluation of the effectiveness of all this community financial education. Most initiatives contain no assessment of consumer impact. Those that do tend to limit their evaluation to onetime surveys of the experience of participants. Very, very few attempt to study the long-term effect of the initiative on participant behavior and whether any behavioral changes are sufficient to meet financial services needs.

*Importance of Motivation and Opportunity as well as Knowledge:* As noted above, financially literate persons must have adequate knowledge to effectively manage their financial resources, and the goal of financial education is to provide this literacy. However, since this literacy is only one condition necessary for effective management of resources, financial education alone cannot assure this skillful management. Two other conditions must also be obtained: consumers must value this skillful management enough to learn and practice it, and there must be accessible opportunities in the marketplace for utilizing these skills.

The following examples illustrate the importance of all three conditions—knowledge, motivation, and opportunity:

- Only employees with access to retirement plans at work can easily save for retirement. But they must want to participate in these voluntary plans, and they must know how to do so in ways that serve their long-term financial interests. That usually entails keeping most funds in equities, not "safer" money market funds.
- The knowledge necessary to maintain an emergency savings fund is not complicated. But one must value this savings highly enough to keep a separate savings account with balances sufficient to meet normal financial emergencies. For lower-income individuals, it is easier to open such accounts if financial institutions set low opening and minimum balance requirements. And it becomes much easier to maintain adequate balances if employers and financial institu-

tions permit, even encourage, split direct payroll deposits into saving as well as checking.

- Aggressive credit marketing and its “deceptive” pricing make it difficult for many consumers, especially the inexperienced, to use and manage debt wisely. They assume that, if a financial institution offers them credit, they can afford it and that, if they are able to make minimum credit card payments and initial payments on ARMs or interest-only mortgages, this credit is sustainable. So, many think they have little need to manage their debts carefully, for instance, until their credit card balances are so large that 2–3 percent monthly payments are burdensome or until ARM rates rise or until principal must be repaid on an interest-only mortgage. In our opinion, the only effective way to address these problems is for lenders to be more responsible about extending credit (“limiting credit opportunities”) and intervening at the first sign of payment difficulties, perhaps by urging consultation with reputable credit counseling agencies.

#### *Characteristics of Effective Financial Education Programs*

Truly effective financial education programs share two general characteristics: They work—that is, they produce desired behavior change—and they have the capacity to “go to scale”—that is, they can reach large numbers of consumers.

Unfortunately, we have no idea whether the vast majority of financial education initiatives really work because their impacts have never been carefully studied. That is not to say these unexamined programs have no value. For the past 12 years, for instance, CFA has led a Consumer Literacy Consortium of national governmental, nonprofit, and corporate groups that carefully developed key consumer money-saving tips and then distributed, on request, nearly two million copies of its “66 Ways to Save Money” brochure through the Federal Citizen Information Center, where it remains the most popular publication, and through other national networks. Frankly, we have no idea exactly what consumer impact this brochure, and related website, have had, but continuing strong consumer demand for this information, coupled with the program’s low cost, strongly suggest it is cost-effective. That said, no one in the Consortium believes that this initiative should serve as the cornerstone of a national financial education program—it is much too limited in scope and ambition.

Accordingly, for financial education programs to be seriously considered as model programs they must give evidence, through rigorous evaluation, of significant behavioral change resulting in satisfactory ability to manage financial resources. There are some initiatives, described in the “National Strategy for Financial Literacy,” that offer much promise for meeting these criteria. We are most familiar with the America Saves program, which in local and regional areas (often with Cooperative Extension leadership) has recruited public and private organizations to undertake campaigns to enroll thousands of nonsaving individuals as Savers. These participants are required to make written commitments to implement a specific plan that they have developed to meet a savings goal. To date, more than 50,000 Americans, about half of them African-American or Hispanic-American, have enrolled as Savers. Assessments funded by The Ford Foundation have revealed that, in the aggregate, these Savers are saving \$.50 on each pledged dollar.

Just as importantly, as a related assessment reveals, the local campaigns have persuaded important local institutions, particularly financial institutions and employers, to more effectively promote saving. For example, in several dozen areas where campaigns exist, most banks and credit unions have lowered opening and monthly savings minimums considerably so that less affluent families can afford to begin building savings.

The America Saves program is relatively successful in large part because it seeks not only to communicate important financial information, but also to motivate individuals to apply this information in their financial lives and to create opportunities for the application of this knowledge. And, the program is expanding, both conceptually and physically, so that it can now realistically aspire to positively influence hundreds of thousands of Americans.

This program cannot solve all financial problems or fully prepare participants to effectively manage their financial resources. Its principal goals have been to jumpstart personal saving and wealth-building and to create an institutional environment that supports this wealth-building. So, no one with the 1,000 participating organizations believes that the program in and of itself is sufficient. But the experience of America Saves does suggest that there are great benefits to organizing a broad array of influential institutions to work together to develop and implement programs—which combine knowledge with motivation and opportunity—to change consumer behaviors in ways that are measured and evaluated.

In our view, many of the most successful future efforts will be closely linked to “products” that are sold by institutions which can reach millions of Americans. These organizations include employers, tax preparers, banks and credit unions, other mortgage lenders, mutual funds, credit counseling agencies, the military, and schools. There is increasing study and experimentation in this area, which should be encouraged. One especially promising initiative, for example, involves “financial education” by employers and financial institutions to persuade employees to split directly deposited paychecks into saving as well as checking. Nearly three-quarters of employees now directly deposit these paychecks, the ACH technology allows such splitting, and once employees have agreed to the split, saving is automatic. Of course, the risks of linking financial education to sale of products must be effectively minimized.

*Linking Existing Financial Education Programs Through a New Initiative*

As noted earlier, an important reason financial education programs are relatively weak is that they are so fragmented. Can they somehow be linked, not institutionally but programmatically, to provide greater program coherence, mutual support, public identity and visibility, and attractiveness to the tens of millions of Americans with financial literacy needs? Unfortunately, general messages, even the tested, relatively effective ones of programs such as America Saves—“Build Wealth Not Debt” and “You Can Build Wealth”—are too diffuse to meaningfully link diverse financial education programs. A more effective linkage would involve a call to a specific action that is personally relevant to consumers. We believe the most effective call would urge consumers to estimate, and then periodically monitor, their net personal wealth.

As financial educators as diverse as columnist Michelle Singletary, the Financial Planning Association, and my own organization have concluded, awareness of net personal wealth is an important motivator for better money management, debt management, and savings accumulation. People who have a pretty accurate idea of their wealth—real and financial assets minus debts—are more likely to spend money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through 401(k) contributions, amortizing mortgage payments, and other savings strategies. In other words, if Americans were more aware of their net personal wealth, they would be receptive to a broad array of financial education programs that helped them monitor, conserve, and accumulate financial resources. In a recent column, Singletary noted the parallels between keeping track of your physical weight and your net personal wealth. While weight-watching does not always result in weight-restraint, for many it is a precondition and motivator for such restraint.

In such an initiative, there would be a great benefit to having one or two wealth estimators that financial educators would recommend and even help consumers use. The America Saves wealth estimator fairly easily helps one estimate their current net assets and their future wealth-building potential. But there are other useful asset estimators. Perhaps the most valuable would be one developed and promoted by a credible Federal agency, such as the Federal Reserve Board, which all other financial education organizations also promoted and linked to.

Would using such an estimator be too discouraging for the tens of millions of Americans with few assets, including nearly one-tenth of households with negative net wealth? In our view, that might be the case for some but not for most of these individuals and families. There is a simple reason. People tend to grossly underestimate their capability to build substantial personal wealth over time through the combined working of regular deposits and interest compounding. In a new America Saves pilot financial education program with National City Bank, in which a series of case study scenarios show how less affluent households can build six or even seven-figure assets, hundreds of participants with modest incomes have gained hope that they too can build personal wealth. In doing so, they have become more hopeful about their financial futures. When we begin to carefully study any related behavioral changes, we are confident we will learn that this “How to Save \$1 Million” program has also persuaded many participants to manage their money and debts more carefully.

What could the role of the Federal Government be in such an initiative? For it to collectively mobilize its resources behind a public/private initiative to encourage and assist all Americans to estimate and monitor their net personal wealth would give such an initiative a big boost. That boost could involve not only making available and promoting wealth estimators, but also encouraging and assisting a wide array of non-governmental organizations, especially financial institutions who serve virtually all American households, to join the initiative.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING  
FROM BEN S. BERNAKE**

**Q.1.** Do either of you think that the efforts by the Federal Government to educate investors will create an unrealistic sense of a government safety net when it comes to risk in investing?

**A.1.** Financial education efforts by the Federal Reserve System focus on the importance of consumers assessing their own personal financial circumstances to evaluate their goals and risk tolerances. As a result, these educational approaches stress the importance of creating a budget; identifying financially related goals, such as owning a home, starting a small business, or financing education; and understanding and managing credit. We believe that financial education with the greatest long-term value helps consumers develop the skills that enable them to create and adapt personal financial strategies that further their life goals.

Consistent with this, the Federal Reserve System is very careful to ensure that our programs do not endorse specific financial providers, products or vehicles. As such, the risk of our creating a sense of a government safety net for investment risk is minimal.

**Q.2.** It seems that any advice that the government would provide would point investors to lower risk investment choices. Is the government able to educate investors and remain neutral about specific products or investment sectors?

**A.2.** As indicated in response to the first question, the Federal Reserve System's financial education programs do not direct or recommend financial providers, products, or vehicles, but rather focus on acquiring knowledge to make informed financial decisions.

To best serve consumers, we provide high-quality, reliable, and unbiased information that does not direct consumers to choices, but rather provides them access to resources that can assist them in their decision-making process. I believe that the government education programs must remain neutral in education efforts in order to best serve consumers as well as financial markets.

**Q.3.** In your testimony, you stated that financial literacy has not really improved when it comes to our young people. Do you think this is something that our schools need to be spending time on? Is it more effective for that knowledge to trickle down in the home by educating parents?

**A.3.** Because understanding how to manage personal finances is so critical, I believe that there is value in directing educational efforts to a wide variety of audiences and age groups through multiple delivery channels to best accommodate learning preferences and needs. Schools are one venue for financial education, but there are also many others that offer different strategic advantages.

As a result, the Federal Reserve System employs financial education strategies that leverage opportunities to reach a wide range of populations through our publications and partnerships with community and educational organizations at the local, state, and national level. The appendix to my testimony detailed our involvement with such groups and the markets they reach.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING  
FROM CHRISTOPHER COX**

**Q.1.** Do either of you think that efforts by the Federal Government to educate investors will create an unrealistic sense of a government safety net when it comes to risk in investing?

**A.1.** The government's role as a "safety net" in our financial markets is a source of confusion for many Americans so it is imperative that financial literacy initiatives led by the Federal Government clearly explain that investing involves risk. Currently, the SEC's investor education materials explain basic information about investment risk, particularly noting that the SEC does not recommend, approve, or guarantee investments. In addition to providing useful information on investing and avoiding fraud, we believe these materials have helped clarify the SEC's role in the financial markets.

**Q.2.** It seems like any advice that the government would provide would point investors to lower risk investment choices. Is the government able to educate investors and remain neutral about specific products or investment sectors?

**A.2.** We think there is a key distinction between providing neutral, educational information on investing, and providing investment advice. In our investor education materials, we do not tell investors what products to buy, or take a position on investment strategies or choices. Instead, our materials are directed at helping people make wise investment decisions and avoid fraud. By keeping the focus of our materials on this type of information and allowing investors to use it to make their own decisions, we believe the SEC can continue to educate Americans with unbiased information about investing.

**Q.3.** I know the SEC website is a great resource for everyday investor tools such as the Mutual Fund Cost Calculator and investor information in plain English. However, I also know that these services do little good if no one uses them. Are investors taking advantage of these tools? How does the SEC monitor the success of its investor education program?

**A.3.** We believe that it is very important to monitor the performance of programs aimed at improving the financial literacy of Americans. We know that individuals are using our investor education tools and information because we regularly examine their use. Last year, the SEC's investor education web pages received approximately 8.5 million hits. In addition, our Office of Investor Education and Assistance also distributed about 476,000 brochures through the Federal Consumer Information Center. We look to other measures, such as the recent Jump\$tart Coalition survey, to determine whether the collective efforts among government agencies, industry groups, non-profit organizations, schools, and others to improve financial literacy are successful.