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FINANCIAL LITERACY: THE STARTING POINT FOR A SECURE RETIREMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON PRIMARY HEALTH AND RETIREMENT SECURITY

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING FINANCIAL LITERACY, FOCUSING ON THE STARTING POINT FOR A SECURE RETIREMENT

AUGUST 21, 2018

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C O N T E N T S

STATEMENTS

TUESDAY, AUGUST 21, 2018

FINANCIAL LITERACY: THE STARTING POINT FOR A SECURE RETIREMENT

Tuesday, August 21, 2018

U.S. SENATE,
SUBCOMMITTEE ON PRIMARY HEALTH AND RETIREMENT SECURITY,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m. in room SD–430, Dirksen Senate Office Building, Hon. Michael Enzi, Chairman of the Subcommittee, presiding.

Present: Senators Enzi [presiding], Young, Scott, and Jones.

OPENING STATEMENT OF SENATOR ENZI

The CHAIRMAN. Good afternoon and welcome to the Subcommittee on Primary Health and Retirement Security. The hearing we are having today is, "Financial Literacy: The Starting Point for a Secure Retirement."

To begin with, I want to extend my gratitude to Senator Jones for agreeing to host this hearing with me. I appreciate the bipartisan way that this roundtable was organized.

Roundtables are a little different than hearings. They are a little more relaxed and we have a series of things that we want to learn about that we hope you will talk about. We limit, a little bit, the amount of opening statements.

The card you have in front of you will stand on end. So any time a question is asked and you want to comment on it as well, stand it on end and we will recognize you also.

There is not the normal set order of the questioning because we jointly agreed on all the panel Members and we jointly agreed on a number of questions.

We do have today before us an important issue that I have been engaged in since I was the Mayor of Gillette, and that is financial literacy. I even had headed up the Financial Literacy Caucus for a long time. I always asked the questions, "What are we trying to do?" And, "How will we know if we got it done or to what extent we have gotten it done?"

As Mayor of Gillette, I remember seeing firsthand the power that individuals had over their finances when purchasing a home and the impact that transaction could have on a family and a community. When they got a home, they were a participant. Up to that time, they were a worker.

The reality is that in the time since I was mayor, peoples' personal finances have only become more complicated. Financial literacy, just like standard literacy, is fundamental to successfully navigating our world and yet, we appear to be failing in our efforts to expand this knowledge.

According to the most recent financial capability study, financial illiteracy is as high as 63 percent among adults.

As if navigating the universe of savings options was not difficult enough, it seems that a majority of adults lack an understanding of the core concepts that underlie money management, such as basic budgeting, and that "Eighth Wonder of the World," which is compounding interest and returns.

The importance of teaching these lessons to children early is well understood. In fact, just over 5 years ago, I joined my friend, former Senator Kay Hagan, in this very room in a hearing on just that topic.

The conversation I would like to have today, however, is one about the efforts that are currently underway to promote financial literacy specifically as it relates to retirement security—the title of our Committee—retirement security among working adults, and how current resources are being deployed, and how we can improve those efforts.

To further underscore the importance of this conversation, Price Waterhouse Coopers, an accounting firm, published the results of an employee survey which found that nearly half of the Baby Boomers had $100,000 or less set aside for retirement, an amount that may be expected to yield about $4,000 in annual cash-flow, maybe.

Even more astounding, when asked whether they were stressed about their finances, only 21 percent of the Boomers indicated that they were.

Individuals cannot be expected to make prudent decisions or correct an existing problem if they are unaware that the problem exists at all. Luckily, if there are any benefits of the 2008 financial crisis, it is that it served as an awakening for many, including employers.

Since the crisis, employers have recognized that not unlike physical and mental health, employee financial health can have significant impacts on productivity. A person cannot be expected to give 100 percent when they are trying to resolve their own financial crisis, particularly when they do not have the tools to do so.

Of course, developing financial literacy resources, or a full financial wellness program, takes significant expertise. Luckily, benefit providers have recognized the necessity of promoting financial literacy and have begun to innovate new solutions for plan sponsors and their participants.

Third parties, too, are stepping up and innovating in this area as well.

I have long been a fan of the financial discipline advocated by Dave Ramsey. In addition to providing advice through his writings and radio show, he has developed an employer-based financial literacy program called SmartDollar that has been adopted by over 2,000 companies, ranging from small businesses to firms as large as Costco.

He makes the case, and provides the way, to get to zero debt. Yes, no debt. I have even seen that work with a number of couples.

Finally, nonprofit organizations of all sizes and missions are active in promoting financial literacy. A study by the Consumer Financial Protection Bureau estimated that in 2012 alone, nonprofits spent more than $472 million in direct financial literacy services.

What of the Federal role? This, too, is something that I have been interested in for quite some time. In fact, in 2003, I cosponsored legislation that was largely adopted in the Fair and Accurate Credit Transactions Act creating the Financial Literacy and Education Commission, or FLEC, which we will talk about more later.

FLEC was created to develop a national strategy on financial literacy efforts, and to promote private and state and local efforts. Unfortunately, despite some significant progress in coordination and building of partnerships, significant overlap and ineffective resource allocation persists, a fact that has not gone unnoticed by the current Administration.

That is why I am looking forward to introducing the current U.S. Treasurer who has been tasked with leading the effort to streamline our Government and its financial literacy programs to ensure that we are not only promoting these skills as effectively as possible, but also better able to measure their effectiveness.

I would now like to invite Senator Jones to offer his opening remarks and then we will do a brief introduction of the witnesses.

OPENING STATEMENT OF SENATOR JONES

Senator JONES. Thank you, Mr. Chairman, and I very much appreciate you and your staff pulling this roundtable together today to focus on this, what I think is a vitally important issue.

I also want to thank each of the witnesses for your appearance today. Each of you comes at this issue and problem from different perspectives, and that is also very important that we hear.

I truly believe that there is no single, silver bullet to solving the retirement crisis we face in our country. It has to be all hands on deck. We are going to need the private sector, Government, nonprofits, and advocacy organizations to all be part of the solution.

I want to emphasize, I do believe that we are facing a retirement crisis. I do not say that just to be an alarmist, but I do believe it is important to place the proper emphasis on the challenges that we are facing.

For the generation nearing retirement, which until December of this past year, I included myself, they have seen the retirement industry change considerably since folks like my parents retired. There are less pensions, less defined benefit plans, less opportunities for wealth accumulation, health care costs have risen dramatically, and there was a financial crisis a few years ago to boot.

For the generation now in their early careers, I fear that student loans are taking the place of critical years of retirement savings. While we face challenges, there are also incredible opportunities.

There are more options available for savers. Congress and the private sector are both working to provide more access to savings plans and investment opportunities have become more and more affordable.

But with more choice than ever in the marketplace, I believe it is absolutely critical, more now than ever, that we make choices to keep people informed. I believe it starts early and I am working on legislation to help enable more young people to receive personal financial education.

We know that retirement planning is about continued education: when to save, how to save, what to invest in. Lifelong learning in this arena is key and I hope we hear more from you today about all of those issues.

Again, Mr. Chairman, thank you for this roundtable, but also for your continued work and interest in this very, very important area.

Thank you.

The CHAIRMAN. Thank you, Senator Jones.

I would now like to briefly introduce our witnesses, ask them to give a 3 minute opening statement on the topic, and then we will begin the discussion.

However, before I introduce the panel, I would remind Members of the Committee and our panel that our focus today is retirement security. Financial literacy is a broad topic that affects all parts of peoples' lives. However, for the sake of this conversation, I hope we can concentrate mostly on retirement.

Also, we are fortunate to have a representative of the Administration here in Treasurer Carranza. I would ask my friends, again, to keep their questions to the topic at hand.

With that said, I will begin by introducing the United States Treasurer, Jovita Carranza. Treasurer Carranza has extensive experience in both the private sector and in government, having served as Deputy Administrator of the Small Business Administration under President Bush.

As I mentioned earlier, her office has been tasked with leading the reform of Federal financial literacy programs, and I look forward to discussing her findings so far.

I would also like to congratulate Treasurer Carranza on her recent nomination to be a member of the Women's Suffrage Centennial Commission. I am always proud to remind folks that Louisa Swain, the first woman in the United States to cast a general election ballot, did so in Laramie, Wyoming, part of the effort that gave women the right to vote, to own property, and to hold office.

Ms. CARRANZA. She did vote for you, did she not?

[Laughter.]

The CHAIRMAN. Unfortunately not, and she was actually from Maryland, but she was in Wyoming and registered to vote.

Also, I would mention that if any of you get a new dollar bill or a new bill of any denomination, you will probably find her signature on the bottom left-hand side. You might also be able to get her to sign a dollar for you.

Next, I want to welcome Vishal Jain, who is the Financial Wellness Officer in Prudential's Workforce Solutions Group. As both an employer and a financial services firm, Prudential has been a leader in providing innovative financial wellness resources to its employees and customers.

Next is Lynn Dudley, a senior Vice President with the American Benefits Council. Lynn is one of the foremost experts in retirement and compensation policy. I appreciate the Council, again, lending its expertise through her to one of our roundtables.

Finally, we have Mr. Scott Astrada here from the Center for Responsible Lending, where he serves as the Federal Advocacy Director. I am looking forward to his testimony.

Thank you all, again, for joining us in this discussion. After our witnesses give a brief opening statement, Members will be able to pose questions to them. We want this roundtable to be discussion focused. If anybody has a comment on what somebody else said, that is why we do a roundtable.

At the conclusion, those that are not here, as well as those that are here, will be able to pose additional questions, which I hope you will be willing to respond to.

With that, we will begin with Treasurer Carranza.

STATEMENT OF JOVITA CARRANZA, TREASURER, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Ms. CARRANZA. Chairman Enzi, Senator Jones, and Members of the Subcommittee.

Thank you for the opportunity to testify on Treasury's efforts to improve the Federal Government's financial literacy and education programs.

One of the highest priorities in this Administration, and the Department of the Treasury, is to promote economic growth in America. Our economic success is predicated on the financial well-being of individual consumers and households. As we enhance economic opportunities across our Nation, we must also improve and expand access to quality financial literacy tools necessary to properly manage economic prosperity.

Treasury leads the Financial Literacy and Education Commission. The FLEC was created by statute in 2003, and comprises 23 Federal entities with the unifying purpose of developing a national strategy for improving financial literacy in the United States.

The Office of Consumer Policy, which administers the FLEC, reports directly to the Office of the United States Treasurer.

Although the FLEC was established to centralize and coordinate Federal financial literacy efforts, many agencies continue to administer their own standalone programs and educational tools. In 2017, the FLEC agencies collectively spent an estimated $250 million on financial literacy and education activities; some of these efforts were duplicative and lacked clear measures of effectiveness.

Since assuming leadership of Treasury, Secretary Mnuchin has prioritized the need to revise our national strategy on financial literacy in order to better meet the needs of our communities. FLEC reform is focused on merging duplicative programs and initiatives, implementing best-in-class financial education tools, setting assessment standards for financial literacy, and developing a new governance structure that will facilitate the FLEC's central role in coordinating resources and financial literacy efforts.

While consolidation and allocation of resources are key themes of the proposed FLEC reform, there are a number of cases where consolidation may not be the best solution.

The FLEC reform is assessing existing programs to make strategic decisions about when consolidation is most beneficial. Coordination among agencies is the best path to promote and create effective financial literacy efforts.

In the coming months, Treasury will make recommendations to OMB on strategies for improving Federal financial literacy and education. We hope to work closely with Members of this Committee to better prepare our communities through effective financial literacy and education tools.

Thank you, Chairman Enzi, and Members of the Subcommittee, for the opportunity to participate in today's roundtable discussion.

[The prepared statement of Ms. Carranza follows:]

PREPARED STATEMENT OF JOVITA CARRANZA

Chairman Enzi, Ranking Member Sanders, and Members of the Subcommittee, thank you for the opportunity to submit written testimony on Treasury's efforts to improve the Federal Government's financial literacy and education programs.

One of the highest priorities in this administration, and the Department of the Treasury (Treasury), is to promote economic growth in America. Our economic success is predicated on the financial well-being of individual consumers and households. As we enhance economic opportunities across our Nation, we must also improve and expand access to quality financial literacy tools necessary to properly manage economic prosperity.

Treasury leads the Financial Literacy and Education Commission ("FLEC"). The FLEC was created by statute in 2003, and comprises 23 Federal entities with the unifying purpose of developing a national strategy for improving financial literacy in the United States. The FLEC is chaired by the Secretary of the Treasury and the Vice Chair is the Director of the Bureau of Consumer Financial Protection. The Office of Consumer Policy, which administers the FLEC, reports directly to the Office of the United States Treasurer.

Although the FLEC was established to centralize and coordinate Federal financial literacy efforts, many agencies continue to administer their own standalone programs and educational tools. In 2017, the FLEC agencies collectively spent an estimated $250 million dollars on financial literacy and education activities; some of these efforts were duplicative and lacked clear measures of effectiveness.

Since assuming leadership of Treasury, Secretary Mnuchin has prioritized the need to revise our national strategy on financial literacy in order to better meet the needs of our communities. FLEC reform is focused on merging duplicative programs and initiatives, implementing best-in-class financial education tools, setting assessment standards for financial literacy, and developing a new governance structure that will facilitate the FLEC's central role in coordinating resources and financial literacy efforts.

Significant engagement among internal and external stakeholders was involved in developing the reform recommendations that Treasury is planning to share with the Office of Management and Budget this year. The reform effort was initiated by creating a steering committee of FLEC agencies to assess the effectiveness of existing programs. Treasury then formed internal staff working groups to examine high impact areas of financial literacy. These working groups cover seven functional areas: savings and retirement, credit and borrowing, homeownership, student loans, unbanked and underbanked, wealth preservation and financial education for entrepreneurs. To-date, the staff working groups have met with over 60 stakeholders, including academics, nonprofits, financial services firms, and state and local governments.

Although FLEC reform is still ongoing, I can share with you that we have identified several recommendations related to merging websites, programs, and research. With respect to websites, the Federal Government currently operates 40 websites with an array of financial literacy and educational content; 25 percent of these websites are duplicative. As part of FLEC reform Treasury is exploring consolidation of certain Federal financial literacy and educational content onto a single web platform.

While consolidation and allocation of resources are key themes of the proposed FLEC reform, there are a number of cases where consolidation may not be the best solution. Some agencies have profound institutional knowledge and experience addressing a specific area (e.g. HUD and housing issues), and are natural conduits for providing information to certain populations (e.g. DoD and service members, HHS and senior citizens). The FLEC reform is assessing existing programs to make strategic decisions about when consolidation is most beneficial. The crosscutting nature of financial literacy renders it nearly impossible for one agency alone to address the issue entirely. Coordination among agencies is the best path to promote and create effective financial literacy tools.

In the coming months Treasury will make recommendations to OMB on strategies for improving Federal financial literacy and education. We hope to work closely with Members of this Committee to better prepare our communities through effective financial literacy and education tools.

The CHAIRMAN. Thank you and I want you to know that buzzer was not for you. That was actually a signal that there is a quorum call on the floor, which is where we have to formally give ourselves permission not to talk.

Ms. CARRANZA. All right. Very good.

The CHAIRMAN. Thank you.

Mr. Jain.

STATEMENT OF VISHAL JAIN, FINANCIAL WELLNESS OFFICER, WORKPLACE SOLUTIONS, PRUDENTIAL FINANCIAL, INC., NEW YORK, NEW YORK

Mr. JAIN. On behalf of Prudential, I want to thank you, Chairman Enzi, Senator Jones, and the Members of the Subcommittee for your commitment to improving the financial security of working Americans, and for the opportunity to participate in this roundtable discussion.

The evolution of retirement and health care benefit offerings today has led to today's workers bearing more responsibility for their financial security. When coupled with other pressing financial obligations, such as mortgages and student loan debt, it is easy to understand why employees may be experiencing higher levels of stress about their financial situation.

Employees' financial stress can negatively impact employers through higher health care costs, lower productivity, and poorer morale.

Workplace financial wellness programs can play a significant role in helping individuals improve their financial security for two key reasons.

First, many individuals' financial lives are centered to the workplace through the retirement, health care, and protection benefits offered by their employers.

Second, the workplace provides a valuable opportunity to engage employees through a wide range of channels and around important life milestones such as marriage, starting a new job, or the birth of a child.

We define financial wellness as helping individuals adopt the behaviors that enable them to manage their day to day finances, achieve long term financial goals, and protect themselves from key financial risks.

This definition reflects the importance of the right behaviors in optimizing an individual's financial situation, as well as how interconnected financial wellness is across a wide range of issues, from budgeting to investing for the long term.

Workplace financial wellness programs aim to improve each employee's financial wellness through diagnostics, multichannel financial education and engagement services, careful benefits plan design, and new solutions to address needs such as budgeting or managing debt.

Sophisticated participant engagement strategies are critical to driving robust behavior change and action at the individual level.

As an employer as well as a financial services provider, Prudential has introduced comprehensive financial wellness for our own employees that include enhancing childcare and adult care benefits, introducing retirement plan design changes such as auto escalation and an automatic tune up for our company match, providing access to budgeting coaching, and implementing a comprehensive, onsite, free financial education program.

Prudential's program has reduced the reported levels of financial stress across its employees by almost 50 percent, which also positively impacts health care costs, disability costs, and productivity based on the historical correlations that we have measured between financial stress and these factors.

Beyond Prudential, close to 400 organizations have adopted our onsite financial education programs and nearly 200 organizations are using our digital financial wellness platform, evidence of employers' strong interest in implementing financial wellness programs.

Although we are in the early stages of assessing the impact of these programs, initial results are encouraging. For example, internal Prudential data suggests that more than 30 percent of individuals who access digital financial wellness tools during benefits enrollment take action to close the gaps in their coverage. And more than 90 percent of individuals who have engaged in onsite financial education programs say that they plan to take at least one concrete step to improve their financial wellness.

While we recognize the successes of today's workplace financial wellness programs and benefit programs, we also applaud and support legislative efforts, such as the Retirement Enhancement and Security Act, to further improve financial security for today's working Americans.

Legislation that further encourages and facilitates the use of auto-enrollment and auto-escalation provisions can enhance both retirement plan participation and savings rates.

Provisions that remove impediments to the inclusion of guaranteed lifetime and group solutions as part of a retirement plan can better ensure that employees have access to the products that they need to effectively manage investments and longevity risks during their retirement years, which may last anywhere from a few years to a few decades.

We also support legislation that would support the offering of emergency savings opportunities in conjunction with a 401(k) plan similar to the bipartisan bill Strengthening Financial Security Through Short-Term Savings Accounts Act introduced by Senators Young, Heitkamp, Cotton, and Booker.

In closing, I again want to thank Chairman Enzi and Members of the Subcommittee for this opportunity to participate in this roundtable, and I look forward to our discussion.

[The prepared statement of Mr. Jain follows:]

PREPARED STATEMENT OF VISHAL JAIN

INTRODUCTION

Good afternoon, I am Vishal Jain. I am a vice president with Prudential Financial, Inc.'s Workplace Solutions Group.

On behalf of Prudential, I want to thank you, Chairman Enzi and Ranking Member Sanders, for your commitment to improving the financial security of working Americans and for the opportunity to participate in this roundtable discussion.

It should come as no surprise that, with the evolution of retirement and healthcare benefit offerings, today's workers are having to assume increased responsibility for their financial security. When coupled with day-to-day financial obligations, such as mortgages and student loan debt, it is easy to understand why employees may be experiencing higher levels of stress about their financial situation.[1] Employee financial stress can lead to physical health problems and increased healthcare costs, as well as increased absenteeism, decreased productivity, and low morale.[2]

Building upon employers' recognition of the value of employees' health wellness over the past decade, there is a growing realization on the part of employers that there is significant value in employees' financial wellness.

My goal today is to share Prudential's experience with financial wellness from the perspective of an employer and as a leading benefits provider, with an expertise in both retirement and group benefits. To this end, I'll briefly discuss how Prudential defines financial wellness, why we believe it is so important today, the critical role that the worksite can have in improving financial wellness, and how we are bringing financial wellness capabilities to a wide range of organizations.

FINANCIAL WELLNESS

We believe that financial wellness is about helping individuals adopt the behaviors that enable them to manage their day-to-day finances, achieve long-term financial goals, and protect themselves from key financial risks. This definition reflects the importance of the right behaviors and decisions in optimizing an individual's financial situation, as well as how interconnected financial wellness is across a wide range of issues from budgeting to investing for long-term goals, such as retirement.

Financial wellness challenges are growing, in part because individuals face more complexity and risk in managing their financial lives than they did twenty or thirty years ago.

For example, today more individuals own the responsibility for saving for retirement, investing their savings wisely, and ensuring that these savings last through a retirement that could span a few years to a few decades. While recognizing the successes of the current system, we applaud and support legislative efforts, such as the Retirement Enhancement and Security Act (RESA),[3] to mitigate these challenges for today's working Americans. In particular, legislation that further encourages and facilitates the use of auto-enrollment and auto-escalation provisions can enhance both retirement plan participation and savings rates. And, provisions that remove impediments to the inclusion of guaranteed lifetime income solutions as part of a retirement plan can better ensure employees have access to the products they need to effectively manage investment and longevity risks during their retirement years.[4]

In addition to retirement-related challenges, more families, even insured families, must carefully manage healthcare expenses due to higher deductibles which may require families to annually fund the first several thousand dollars of health expenses. Finally, continued growth in the cost of higher education means that many families must juggle a complex mix of financial aid, student loans, and personal loans to fund a college education for themselves or their children.

We believe the worksite can have a significant role in helping individuals improve financial wellness for two key reasons. First, many individuals' financial lives are

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[1] Prudential found that 57 percent of U.S. workers are very or somewhat stressed about their financial situation. See Prudential's survey entitled "The State of Financial Wellness in American," 2017, at: *https://www.prudential.com/media/managed/documents/rp/Financial__Wellness__Self-Assessment.pdf*.

[2] See the International Foundation of Employee Benefit Plan's "Financial Education for Today's Workforce: 2016 Survey Results" at *http://www.ifebp.orn/pdf/financial-education-201__6-survey-results.pdf*.

[3] See S. 2526, H.R. 5282.

[4] See Sections 111 (Portability of lifetime income option) and 204 (Fiduciary safe harbor for selection of lifetime income provider) in S. 2526 and H.R. 5282.

centered at the worksite through the retirement, healthcare, and protection benefits that they access at work. Second, the worksite provides an opportunity to engage employees through a wide range of channels and around important life milestones, such as marriage or the birth of a child.[5]

Prudential started measuring the financial stress of its employees about ten years ago. With the goal to reduce the determined financial stress levels of our employees, Prudential developed a comprehensive financial wellness program that included enhancing child care and adult care benefits, introducing retirement plan design changes such as auto-escalation and an automatic true-up feature for our company match, providing access to budgeting coaching, and implementing comprehensive free onsite financial education programs, called Prudential Pathways. This program has been extremely popular, with over 5,000 employees participating in at least one session by the end of 2017.

Prudential's financial wellness program has significantly improved reported levels of stress among employees. The percentage of Prudential's employees reporting financial stress has been cut in half-from a high of 34 percent in 2009 to 17 percent in 2018. This improvement also impacts healthcare costs, disability costs and productivity, based on the historical correlations that we have measured between financial stress and these factors.[6]

Beyond Prudential, we are seeing an increasing number of employers begin to focus on financial wellness, both to help employees and to address key employer outcomes such as productivity and workforce engagement. In a recent survey of financial executives, 82 percent agreed that their companies would benefit from having a workforce that is financially secure, and 78 percent felt that employers should assist in achieving financial wellness during working years.[7]

In response to this growing interest, Prudential is now offering organizations a comprehensive set of capabilities to implement financial wellness programs including:

- Diagnostics to prioritize financial wellness needs.
- Solutions to address specific financial wellness needs. These solutions include a wide range of traditional BRISA-based employee benefit products, as well as new solutions such as student loan assistance capabilities and budgeting tools. In addition, we have developed capabilities that leverage existing benefits to address unmet financial wellness needs, such as incorporating an emergency savings feature into retirement plans.[8]
- Multi-channel capabilities to engage individuals about their financial needs, provide education and guidance, and motivate action.

To date, close to 400 organizations have adopted our onsite financial education programs and nearly 200 organizations are using our digital financial wellness platform, evidence of employers' strong interest in implementing financial wellness programs. Although we are in the early stages of assessing the impact of these programs, we are seeing encouraging results in terms of both engagement and the actions individuals take to improve their financial wellness after engaging with digital and/or onsite financial wellness services.

In fact, internal Prudential data suggests that more than 30 percent of individuals who access financial wellness resources during benefits enrollment take action to close gaps in their coverage, and more than 90 percent of individuals who have engaged in onsite financial education programs say they plan to take at least one step to improve their financial wellness.

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[5] For background on financial wellness generally, see Prudential's "The Power of the Wellness Effect—Seeing the Real Value of Employee Financial Health" at: *http://research.prudential.com/documents/rp/SI25__Financial__Wellness__Whitepaper__Final__ADA__1-11-17.pdf.*

[6] An overview of Prudential's journey along the financial wellness path is set forth in "Pioneering Workplace Financial Wellness" at: *http://research.prudential.com/documents/rp/SI25__Financial__Wellness__Whitepaper__Final__ADA__1-11-17.pdf https://www.prudential.com/media/managed/documents/rp/Pioneering__Workplace__Financial__Wellness.pdf* (copy attached).

[7] See CFO Research/Prudential Financial, Inc. "Value of Employees Financial Wellness" 2016 at: *http://www.prudential.com/media/managed/documents/rp/CFO-Employee-Financial-Wellness-012516.pdf.*

[8] Recognizing the role of emergency savings as part of a holistic approach to financial wellness, Prudential recently released a white paper entitled "Increasing Financial Security with Workplace Emergency Savings, available at: *https://www.prudential.com/media/managed/documents/rp/Building__Employer__Aided__Emergency__Savings.pdf* (copy attached).

COVERAGE

Finally, we would be remiss if we did not acknowledge that, while workplace-based retirement plans—a critical component to overall financial wellness—are helping tens of millions of working Americans, tens of millions more of today's workers do not have access to retirement savings plans in the workplace. This gap in retirement plan coverage is particularly problematic for workers employed by small employers and "gig economy" workers. Small businesses often do not sponsor a plan due to concerns about costs, administrative complexities, and fiduciary liability. And, the nature of gig work typically doesn't afford access to a quality retirement plan. Multiple employer plans (MEPs), in our view, offer a promising means of narrowing the retirement coverage gap for both small business and gig workers. For this reason, Prudential has been a strong supporter of RESA, as well as similar legislation, that would promote both sponsorship of and participation in MEPs. [9]

CLOSING

In closing, I, again, want to thank Chairman Enzi and Ranking Member Sanders for the opportunity to participate in this roundtable. We hope you will view Prudential as a valuable resource as you continue to consider these issues so critical to working Americans. I look forward to today's discussion.

Chairman ENZI. Thank you.
Ms. Dudley.

STATEMENT OF LYNN DUDLEY, SENIOR VICE PRESIDENT, GLOBAL RETIREMENT AND COMPENSATION POLICY, AMERICAN BENEFITS COUNCIL, WASHINGTON, DC

Ms. DUDLEY. I am Lynn Dudley with the American Benefits Council.

The American Benefits Council, for those who are not familiar with our organization, is a public policy organization. Our members are Fortune 500 plans, sponsors, and providers that service plans of all sizes. So we really run the gamut in terms of size of employer.

Our members tend to be best of class and strive for best of class. They are leaders in innovation. In a recent survey of our plan sponsors, we learned that more than 95 percent of them offer financial education and tools that are directed at accumulating retirement savings.

Over 73 percent of them responded that they also provide financial tools and education around retirement income and managing money in retirement.

A significant and growing number of them have expanded their financial education programs to include basic financial education and budgeting, which we found was lacking amongst many of our workers today and helping them to address barriers to savings.

Our employers feel so strongly about this issue, and have such terrific stories to share, I included a number of the stories in my written testimony, but we also have initiated something called the IDEA Institute. It is housed on our Website.

We hold forums and panels for our members to exchange information and learn from each other. By sharing their stories, and being able to post them on our Website, our members are able to learn from each other and expand their programs, and learn what works and what they could try next.

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[9] See Prudential's "Multiple Employer Plans—Expanding Retirement Savings Opportunities" at: *http://research.prudential.com/documents/rp/mep_paper_final_2015.pdf*.

Some of the things that they are doing, with respect to barriers, relate to concerns about student loans and other barriers by helping employees know how to go about paying their student loans, helping them deal with the large amount of debt that they have with respect to student loans. Helping them utilize educational programs for their children, such as 529 plans and other tuition assistance programs that the companies offer also, something that we find helpful.

We also are spending more and more time helping people develop emergency savings funds and helping them have a pocket of money to deal with problems as they come up, and to address leakage. We oftentimes find that some of the same people have leakage over and over again through loans or hardship distributions, and it is because they do not have an emergency savings fund.

We also are helping our employees understand the interrelationship between health and financial security. Many of our health well-being programs or wellness programs now include a financial stress test to help people recognize that your financial health is part of your overall well-being and it is important to address that. We have financial stress tests as part of our health assessment. Likewise, health care costs are an important thing to prepare for in retirement.

We try to use diagnostics. You will see in some of our stories where companies have used diagnostics to really zero in and target on the problem areas. We typically test our programs and then we refine them further. We oftentimes try to monitor what we are doing to see if behavior changes, and who it changes, and what kind of changes they have, and then we refine the programs further.

We really want to always ask ourselves: how can we do better? We strongly believe in a public-private partnership with respect to financial literacy and retirement planning.

We want to be careful of our fiduciary duties, but we also want to be able to offer programs across the country and across state lines.

[The prepared statement of Ms. Dudley follows:]

PREPARED STATEMENT OF LYNN DUDLEY

My name is Lynn Dudley and I am the senior vice president, global retirement and compensation policy for the American Benefits Council (the "Council"). Thank you for the opportunity to share the American Benefits Council's perspectives on financial well-being, the innovations being undertaken by plan sponsors on behalf of their employees and ways that public policy can support the success of those efforts.

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans that cover more than 100 million Americans.

Many Council members engage in efforts to provide financial education and support programs for their employees. One reason companies do this is because they want their employees to get full value out of the retirement plans they offer. Budgeting and basic financial skills often help to remove barriers to savings in retirement programs and those have become increasingly included in programs offered by companies. And it is not just improved savings that results from helping employees achieve greater personal financial security, but such efforts also contribute to better health, less stress in and outside of the workplace and greater productivity.

As these other aspects of financial well-being have emerged and the interrelationships between them have become clearer, many have expanded their programs to not only improve basic financial skills, but to more effectively deploy health care dollars and understand the use of and risks of income during their retirement years. Understanding the potential long-term outcomes for employees and employers, plan sponsors and providers who service employment-based retirement plans have taken the initiative and have been important innovators in the development of workplace financial well-being programs.

It should be noted that financial well-being programs are founded on research that supports its value. Research in this area is growing as more attention is given to it.

As part of an initiative undertaken by the Council to highlight successful innovations by plan sponsors in both the retirement and health areas, the Council has begun to collect examples of programs offered by Council members. The innovative practices described below demonstrate the positive difference employers are making in helping workers, retirees and families achieve financial security.

For example, the Council recently conducted an informal survey of its members regarding lifetime income options and included a question concerning the use of financial tools and/or education in connection with their plans. The responses exceeded expectations. Over 95 percent of respondents use tools or education that help participants plan for accumulating assets and over 73 percent use tools and/or education that help participants plan for distributions. Other features used by member companies included entire retirement portfolio evaluation, education on longevity risk, investment advice, onsite meetings with financial advisors, financial management, basic budgeting and financial plans and financial planning seminars and webinars.

Using Technology to Make Retirement Saving Easier

One large, multinational member company has been innovative in combining a strong retirement savings plan design with a comprehensive communication approach to achieve notable results for its employees. This company offers its regular U.S. employees the opportunity for immediate enrollment and full vesting with a 50 percent match of regular contributions, well above the average match formula for most 401(k) type plans. Partnering with its service provider, the company is able to offer simplified enrollment, comprehensive communications and coaching to maximize participation and savings levels.

The company's simplified enrollment is comprised of three main components that address the key behavioral elements driving positive outcomes. This is a technically advanced company and in keeping with its digital culture, it has adopted the service provider's "Easy Enroll" program that offers new hires a simple "three-click" enrollment process which places them in a pre-established framework of a high default savings rate, automatic annual increases in salary deferral, and investment in low cost age appropriate target date funds. A standard enrollment process that enables participants to opt for higher rates or tailor specifics to their particular circumstances is offered as an alternative for those seeking greater engagement. More than half of new employees are now using this simplified enrollment process which has resulted in a significant increase in both the speed with which new hires are enrolled and their resulting savings rates.

This underlying framework is supported through a coordinated suite of information and consultation programs. This includes targeted and personalized communications to ensure employees understand the potential value of the plan to their particular circumstances, individualized assessment and tracking of results using customized online tools that enable workers to define their financial goals and track progress, personalized onsite coaching by licensed advisors from the service provider, onsite and virtual workshops and weekly question and answer sessions, and the availability of phone advice and online planning resources to all employees.

This integrated approach has enabled the company to demonstrate how technology and integration of communications can leverage a strong program design. In 2017 the company was able to achieve a 92 percent participation rate in its US 401(k) plan (up from an already very high 87 percent in 2012) with a median deferral rate of 10 percent (up from 7 percent in 2012). A strong indication of the effectiveness of the combined enrollment and communications program is indicated by the 58 percent of participants that were maximizing the matching contribution, nearly twice the level of 31 percent just 5 years earlier. A quarter of participants had signed up for automatic increases by early 2017, more than four times the share than just 4 years earlier, and the average account balance reached $205,584 during the year.

Achieving Synergies in Communications and Behavior Change

Another large multinational member company has demonstrated how employer-sponsored retirement plans can serve as effective cornerstones to broader financial well-being education programs. In partnership with a service provider that is a federally registered investment advisor, the company uses communications, personal conversations, and in-person and online resources to help employees evaluate their personal financial situation and take steps to improve it—both today and in the future.

This second company has provided employees with access to retirement planning resources through the investment advisor for 8 years, with a focus on 401(k) savings and investments. In response to employees' requests for more holistic financial planning support, the company enhanced its educational offerings in late 2017. Through the expansion, the company had both short-term and long-term goals: First, it wanted to help employees address their day-to-day financial needs—building a budget, saving for college, and getting ready for retirement, for example. Second, the company ultimately wanted to improve employees' overall financial picture through reduced financial stress and greater financial confidence.

In addition to the online planning tools already provided by the investment advisor, the company rolled out new "retirement checkups"—one-on-one discussions with investment advisors that enable employees to take a more comprehensive look at their overall financial goals and progress.

To drive awareness of the new retirement checkup program and to encourage employees to sign up for an appointment, the company distributed comprehensive communications across a variety of print, email and online channels. The company also offered onsite live events and advisor sessions so employees could further discuss a range of important topics, including debt management, college planning, Social Security payment strategies, estimating health care costs, estate planning, and saving for retirement.

The communications and onsite support drove very strong engagement across the company's population. In just the first 3 days following the retirement checkup rollout, 700 employees signed up for an appointment—and by the end of the first quarter of 2018, over 2,700 employees had. Additionally, over 2,000 employees participated in a live event in the first 2 months they were offered, more than 1,000 employees became new users of the investment advisor's online advice service and 600 employees received personal advice from an advisor for the first time. Both the company and its investment adviser are closely monitoring a range of metrics to monitor engagement and measure ongoing success. These metrics include overall program utilization rates as well as changes to employee behavior, such as increased 401(k) contribution rates and/or improved 401(k) investment allocations. To maintain momentum over time, the investment advisor's offerings are also being promoted through a web-based well-being program offered by the company through which employees and their eligible spouses can earn points for completing healthy behaviors.

This company's innovative partnership with its investment advisor illustrates how employer-sponsored financial well-being programs tied to available retirement plans can be instrumental in helping employees navigate complex financial needs. It also demonstrates the importance of taking a holistic approach to communications strategies, planning tools, and ongoing financial discussions. Together, technology and personal conversations can help employees define and reach their financial goals.

Customizing Education and Information to the Specific Needs of Employees

Another large company with thousands of employees throughout the United States and globally has partnered with another service provider to provide an example of how employer sponsorship creates powerful synergies to enhance financial wellness. After undertaking an assessment of the behavior and perceptions of engagement with its retirement savings programs in 2015 and 2016, this Fortune 500 company was able to identify specific areas in which retirement savings outcomes were below a national baseline or its workers expressed a need for financial capability support. This diagnostic analysis was then matched to a suite of financial education and behavior enhancement programs developed by the service provider who was providing the investment management and other services underlying the company's employee savings programs.

This resulted in a targeted deployment of educational modules through webinars and onsite seminars tailored to the identified needs of the workforce that were delivered in May and June 2017. Nearly 3,000 workers participated in these sessions delivered by the company's in-house education and outreach team and service provider staff. These were designed to raise awareness and understanding of the savings plans offered, increase the level of funds directed to these plans, teach effective debt management methods, introduce the concept of emergency funds, and motivate employees to update their beneficiary designations.

About a quarter of the roughly 2,000 participants in the webinars and onsite sessions were tracked over the ensuing 30 day period to assess changes in behavior. A meaningful proportion of these participating in a webinar (16 percent) increased their elective deferrals from an average of 10 percent of earnings to 14.3 percent and a similar proportion of participants in onsite sessions (12 percent) increased their savings rate in the plan from 8.7 percent to 11.4 percent. A somewhat smaller proportion added or enhanced the automatic annual increase in the share of their earnings directed into the plan. Among the nearly 900 employees who participated in sessions presented by the sponsor's team, similar proportions (8.5 percent for onsite sessions and 12.2 percent for webinars) increased their savings allocations. Webinar participants making a change moved to an average of 17.2 percent of earnings directed into the plan. Nearly one in ten participants in these sessions changed their investment fund allocations within 30 days of the program and many increased automatic escalation and updated beneficiary information.

These substantial improvements in savings and financial behavior illustrate some of the unique advantages of employment-based savings programs in improving financial well-being. Large employers are particularly well positioned to undertake the diagnostic work necessary to target interventions in a cost-effective manner. Employers are then able to deploy well-developed programs and complete timely impact assessments with a large enough sample to validate outcomes. The company partnered with its service provider to provide participants with a personalized retirement journey that is rooted in behavioral finance, adult learning theory and participant analytics. The monitoring and evaluation undertaken in conjunction with the programs has had the additional advantage of informing the strategy going forward. In their assessment of the experience, workers articulated a need for a personalized and holistic approach to enhancing their financial skills that adjusted to the evolving needs across life stages. The company is developing are developing the next phase of the program that is reflective of this learning.

Providing Guidance to and Through Retirement

Enabling and empowering plan participants to make the most effective use of the opportunities provided by employer-sponsored retirement plans has always been a central challenge as defined contribution and hybrid plans become the source of new coverage. In 2014, another large member company found that only 17 percent of its plan members were on pace to retire with suitable income replacement. Despite a generous employer contribution, most members were not saving enough toward retirement, with fewer than 20 percent of plan members making their own pre-tax retirement contributions. While employees were offered access to external financial planners and planning tools, very few took advantage of these offerings.

The company addressed this challenge by requiring its members to more frequently consider and update their retirement savings plan, providing easy access to expert guidance and extending the plan sponsors' support through the equally important years in retirement. Beginning in 2013, plan members were required to annually complete a new benefits enrollment process, including reconsidering and specifying their pre-tax retirement contribution. In late 2016, the company implemented a customized retirement planning tool designed for active plan members along with an in-house financial planning service.

Credentialed planners who understand the investment and distribution options help individuals make best use of the planning tool at no out-of-pocket cost to the member. This enables them to easily generate a comprehensive retirement plan, project any potential income gap or surplus and adjust their future contributions and investments accordingly by recommending a specific pretax contribution amount and asset allocation strategy. To maximize participation the company offers active members a $200 wellness incentive if they implement a retirement plan.

In early 2018, the company extended support to participants by implementing a planning tool that enables retirees to better manage retirement income. This allows them to plan for expenses while they are in retirement, model lifetime income options, plan for a financial legacy, as well as generate and adjust an asset allocation and withdrawal strategy consistent with their evolving needs.

The combination of these enhancements has achieved remarkable results. In 2017, 65 percent of members made pre-tax retirement contributions—representing a 329 percent increase from 2012. Over 7,000 active members have benefited from using the retirement planning tool to create a plan. Of those who have implemented a plan, 51 percent increased their pre-tax contributions and, perhaps even more importantly, 61 percent of those previously not making pretax contributions started saving toward retirement. Over 3,500 members have worked with a company-provided financial planner with 100 percent of the planners receiving high satisfaction scores from members. As a result, the percentage of active members on pace to retire well has nearly doubled since 2014. Incentivizing participation, making guidance cost free and extending access to planning expertise throughout the entire retirement process is shown by this innovation to be a very effective integration of essential elements that are linked to a long-term employment relationship.

Preserving Savings in Retirement Plans

Like many other plan sponsors, another multinational company member was concerned about the potential for employee loans to result in leakage from their 401(k) plan and diminish the retirement savings of their workers. To address this challenge the company introduced a number of innovations in the design of the plan by adding educational content through pop-up messages in the automated transaction flow through which a loan request is processed. During the application and approval process through the plan website a message now appears telling the participant the estimated dollar reduction in their account balance and expected reduction in monthly income at retirement that is likely to result from taking the loan. A second pop-up message asks if the participant has considered other options and repeats that they will have less money in retirement if they are unable to completely repay the loan. The participant must click through each of these messages to request a loan. In addition to the pop-up messages, there are links to more educational content about plan loans, their costs and the consequences of taking a loan. In conjunction with the timely availability of this information, the interest rate on loans was increased by 1 percentage point and a flat loan fee was imposed regardless of the amount or duration.

The website's educational content is specific to the participant's requested loan amount and other parameters, giving them a dollar impact on their retirement that is more meaningful than a generic educational piece could provide. The higher interest rate increases the total loan repayments to the plan, with a goal of also increasing the participant's account balance at retirement. The loan fee is added to the principal amount the participant repays, to avoid reducing the retirement account balance permanently by the fee amount. All three of these features are intended to cause participants to limit plan loans or seek other sources of funds, or if they do take a loan to end up with a higher account balance after repayment than might be otherwise.

In the first 11 months after these three features were implemented, the plan saw reductions in average monthly loan amounts for each month compared with the same period in the prior year. These reductions were as high as 20.7 percent between comparable months. The average loan balance also decreased. The reduction in loan amounts indicates that participants are giving more deliberation to taking plan loans that will reduce their account balance at retirement. This coordinated set of innovations demonstrates how employers can take advantage of timely individualized information to improve retirement savings outcomes in a way that would not be feasible in another environment.

In addition to these examples, other Council members have initiated other programs such as one that provides a 401(k) match based on student loan repayment, maintaining a not-for-profit trust that serves as an employee emergency fund for employees that have encountered immediate financial difficulty, educational programs to help employees obtain their high school equivalency or associate degrees and trade certificates. Employers have integrated features of health and retirement, by including financial well-being as a component of their health assessments and providing a wide range of employee assistance programs, all of which have an impact on the overall financial security of the employee and their families.

While plan sponsors and their service providers report significant progress, there is more that can and should be achieved. The need for public and private sector partnership is critical in order to help Americans and their families achieve personal financial security. While we have talked about the value to the employer and the employee, the government is also an important stakeholder.

For example, tax favored employer retirement plans provide an efficient way to complement Social Security benefits. Employer-sponsored retirement benefits are something of a bargain for the Federal Government. The Council calculates that for every $1 of wages deferred retirees will take into *taxable income* at retirement $7.18. Likewise, the tax expenditure for health insurance provides a similarly high ratio of benefits in relation to the value of the exclusion of employer payments for group health insurance. Employees gain $4.45 in health benefits from every $1 in health tax expenditures.

The Council's strategic report, *A 2020 Vision: Flexibility and the Future of Employee Benefits*, outlines goals and provides recommendations that we believe will lead to greater personal financial security for Americans. Given the focus of this roundtable on financial well-being we would like to offer the following policy suggestions:

1. Protect the ability of employers and providers to innovate in the workplace. ERISA preemption is a critical component for employers who have operations in multiple states and want to provide programs on a national basis.
2. Make it easier to use technology to provide information in the workplace and to use technology as it becomes available.
3. Allow people to make up savings they may have missed.
4. One of the big challenges for Americans in retirement is how to calculate the amount of money they will need to have on hand to meet healthcare needs and risks. Recognizing the interrelationship between health care risk and financial security is key to important component of financial education. Integrating information from Medicare and Social Security also would help people think about their retirement income more holistically.
5. Many struggle with understanding the risk of longevity and how to plan for retirement and managing their money to last through retirement. Employers report that there continue to be significant barriers to offering lifetime income products as part of the defined contribution plans. Let's work together on the most fundamental of these challenges—educating about the importance of saving, the need to prepare and how to prepare for longevity and the impact of leakage. Providing fiduciary safe-harbors and innovation in products that are practical, affordable, explainable and portable is critical.

Thank you for the opportunity to share the Council's views. We are confident that together we can more effectively meet the retirement policy challenges we face.

Chairman ENZI. Thank you.
Mr. Astrada.

STATEMENT OF SCOTT ASTRADA, FEDERAL ADVOCACY DIRECTOR, CENTER FOR RESPONSIBLE LENDING, WASHINGTON, DC

Mr. ASTRADA. Thank you, Chairman Enzi, Ranking Member Jones, and the Members of the Committee for inviting me to today's roundtable.

I would like to open with a statistic that shows just what we are up against when it comes to closing the wealth gap and its impact on retirement security.

If current trends continue, it will take 228 years for the average Black family to reach the level of wealth that white families own today. For Latin X families, it will take 84. This important hearing provides a timely discussion on the challenges facing Americans as they plan for retirement and the role financial literacy has in that preparation.

In my written remarks, I discuss in detail the barriers faced by millions of Americans that result in an uncertain and precarious retirement future. The underlying conclusion of that analysis is that financial literacy as a tool to drive equity and financial capability is unequivocally limited as the primary solution for retirement planning needs. Both as a consumer tool, but also in its lack of efficiencies to empower vulnerable Americans as they struggle against systemic and historic inequity.

To be more specific, the complex interconnectedness of race discrimination and equity require a fundamental reassessment of the underlying narrative of personal responsibility, opportunity, and financial literacy in their roles in retirement planning.

The stark inequities that plagued the financial market and threaten retirement security present the conclusion that financial literacy is not a substitute for meaningful oversight of abusive lending practices, many of which target individuals and push them into products using deception and misinformation.

It is my hope to present as a starting point on how to rethink financial literacy and consumer savings in the role in complementing but not replacing policies that build the foundation for equity and inclusion.

This discussion is complicated because unfortunately when it comes to financial literacy, the first step of our approach is riddled with paradoxes. Those that need a savings buffer the most are the ones that cannot afford it. The idea of a rigidly defined level playing field by definition excludes the realities of systemic and historical disenfranchisement. In the age of big data, economic theories that do not reflect evolving economic research still dominate the policy narrative of many proposals.

What I hope to accomplish in my written testimony and discussion here today is outline the challenges faced by Americans every day as they face hard decisions about their finances, and oftentimes, no matter what they do, they fall farther behind.

Ultimately, the limits of financial literacy in the context of this discussion bring us into direct view of the biggest threats to retirement security, burdensome student loan debt, predatory lending, and homeownership disparities.

These threats to retirement security underscore the fact that strong regulators and sound consumer protection policy must remain at the heart of retirement readiness.

While these threats can be quite overwhelming for policymakers, advocates, and employers as they try to formulate discreet collaborative policy solutions, I am sure this frustration pales in comparison to the fear, anxiety, and despair facing millions of Americans as they look toward a financial future plagued with uncertainty and loss.

Therefore, I am unreservedly committed to working with this Committee, and the other participants here today, to build a pathway to a secure and dignified retirement.

Thank you.

[The prepared statement of Mr. Astrada follows:]

PREPARED STATEMENT OF SCOTT B. ASTRADA

Thank you, Chairman Enzi, Ranking Member Jones, and the members of the Subcommittee for inviting me today to discuss the importance of financial literacy and its role in planning for a secure retirement. This hearing could not be timelier as we are facing numerous debates over policies that will determine the future of economic equity and retirement readiness for millions of Americans. I am the Director of Federal Advocacy at the Center for Responsible Lending (CRL), a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a nonprofit community development financial institution. For thirty years, Self-Help has focused on creating asset building opportunities for low-income, rural, women-headed, and minority families. In total, Self-Help has provided over $6 billion in financing to 70,000 homebuyers, small businesses, and nonprofits, and currently serves more than 80,000 mostly low- and moderate-income families through 30 retail credit union branches in North Carolina, California, and Illinois.

This important hearing provides a timely discussion on financial literacy and its role in meeting the challenges faced by millions of Americans planning for their retirement. In my remarks, I will begin by briefly exploring financial literacy, its role in the financial marketplace, and in individual consumer lives as a tool for long term economic prosperity. Secondly, I will briefly discuss federal financial literacy initiatives that are currently being implemented. Lastly, and where I will spend most of the discussion, I will identify gaps and limits of relying on financial literacy as the primary solution for retirement planning needs— both as a consumer tool in its pragmatic application, but also where it lacks efficiency to empower millions of Americans as they struggle with systemic and historical inequity and face an increasingly complex financial system that requires them to make decisions that have implications for future generations. To be more specific, the complex interconnectedness of race, discrimination, and the emerging research of behavioral economics, specifically as it relates to predatory lending, all require a fundamental reassessment of the underlying narrative of personal responsibility, financial literacy and its role in retirement savings. Further, financial literacy is not a substitute for meaningful oversight of abusive lending practices, many of which target vulnerable individuals and push them into products using deception and misinformation. A rigorous analysis of all these factors goes well beyond the scope and time allotment of this hearing, so I am in no way proposing a comprehensive discussion of these concepts, but it is my hope to present a starting point on how to rethink financial literacy and consumer savings, and their role in complimenting, but not replacing, policies that build the foundation for equity and inclusion.

Unfortunately, when it comes to financial literacy and its role in retirement planning, the first step is riddled with paradoxes – those that need a savings buffer are the ones that cannot afford to build one; the idea of a rigidly defined "level playing field" by definition excludes the realities of systemic historical disenfranchisement; and, in the age of big data, economic theories that do not reflect evolving research still dominate the policy narrative of many proposals for retirement reform. While these challenges can be quite overwhelming for policy makers, advocates, and employers as they try to formulate discrete collaborative policy solutions, I am sure this frustration pales in comparison to the fear, anxiety and despair facing millions of Americas as they look toward a financial future plagued with uncertainty and loss. Therefore, I am unreservedly committed to working with this committee, and the other participants here today, to begin the search for solutions, and provide a social and economic equity lens to this discussion.

I. What is Financial Literacy?

Financial literacy can be an overly broad term, but a helpful starting point is the Organisation for Economic Cooperation and Development's (OECD) definition of financial education: "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."[1] This general definition has been adopted by G20 leaders, and serves as an accurate overall conceptualization of financial literacy as it is commonly used. One of the agencies that provides the most extensive resources for financial literacy is the

[1] OECD (2014), PISA 2012 Results: Students and Money: Financial Literacy Skills for the 21st Century (Volume VI), PISA, OECD Publishing, at 32

Consumer Financial Protection Bureau (CFPB), which has a broad collection of materials on its website for a variety of stakeholders.[2] These resources provide financial know-how and information for consumers as they face major life choices in the financial marketplace — whether buying a house, taking out loans to pay for college, or opening a credit card. The resources also provide materials for how to talk about money with children or older adults. In addition, the CFPB has engaged in extensive consumer research to ensure that its tools are useful and understandable for the typical consumer, and the insights the Bureau has generated have been valuable to the field. Financial literacy provides one tool for consumers to assess financial products, but there is a fair amount of debate as to how it can be the most effective for all consumers in influencing savings behavior, and whether or not it is sufficient to meet the challenges of financial inclusion and equity by itself.[3]

II. The Financial Literacy and Education Commission (FLEC)

One of the longest running and established financial literacy initiatives of the federal government is the Financial Literacy and Education Commission (FLEC), comprised of 23 federal government entities, that serves as the central driver of the federal government's efforts to promote financial literacy, financial capability, and individual financial well-being. According to its website, "[t]he FLEC members have pursued a variety of financial literacy and education approaches to provide information, instruction, and guidance to help American households meet their financial goals. The FLEC provides a platform for its member agencies to collaborate and share those approaches, as well as ideas, research findings, and experiences that inform financial education policies and practices." [4] The Commission was tasked "to develop a national financial education web site (MyMoney.gov) and a national strategy on financial

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[2] See for example, *Measuring financial well-being: A guide to using the CFPB Financial Well-Being Scale*, available at https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-scale/ (accessed 8/16/18); *Booklets to help talk about money*, available at https://www.consumerfinance.gov/practitioner-resources/your-money-your-goals/booklets-talk-about-money/ (accessed 8/16/18); *Book club discussion guides*, available at https://www.consumerfinance.gov/consumer-tools/money-as-you-grow/book-club/discussion-guides/ (accessed 8/16/18)

[3] See, William Gale and Ruth Levine, *Financial Literacy: What Works? How Could It Be More Effective?* Brookings Institute, October 1, 2010. https://www.brookings.edu/research/financial-literacy-what-works-how-could-it-be-more-effective/

[4] *Financial Literacy and Education Commission Website*, https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission

education."[5] The original 2011 FLEC goals were to "(1) Increase awareness of and access to effective financial education; (2) Determine and integrate core financial competencies; (3) Improve financial education infrastructure; and (4) Identify, enhance, and share effective practices."[6]

In the 2016 update to its national strategy,[7] the report insightfully notes "[a]s the country continues to emerge from the aftermath of the financial crisis, Americans are, on average, experiencing less financial stress and improved satisfaction with their financial condition. However, large segments of society continue to face financial difficulties [...] In the years ahead this work will need to be responsive to trends shaping Americans' financial security, including inequality of financial status; increasing diversity; longevity and the need for long-term financial security; and the power of technology."[8] A significant note in the 2016 update is the recognition and alignment with a growing body of research[9] that concludes "factual knowledge alone is not sufficient to drive behavior or behavior change."[10] The report goes on to note "...the financial education field is increasingly focused on understanding the context in which people make financial decisions [...]" and "[r]ecent research suggests that interventions and support should be *appropriately matched to an individual's specific financial challenges, goals, background and circumstances in order to make a meaningful difference in their financial behavior and outcomes* [...] to be most effective, financial capability programs and interventions must be designed and marketed with a clear understanding of the real obstacles blocking participants from achieving their financial objectives."[11] This statement is one that I wholeheartedly agree with. So, in the reminder of my remarks I would like to explore the history of these specific "obstacles blocking participants from achieving their financial objectives" that persist with

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[5] *Id.*
[6] Financial Literacy and Education Committee, *Promoting Financial Success in the United States: National Strategy for financial literacy, 2016 update*, (2016), at 3. Available at https://www.treasury.gov/resource-center/financial-education/Documents/National%20Strategy%202016%20Update.pdf
[7] *Id.*
[8] *Id.* at 3
[9] See, Fernandes, Daniel and Lynch, John G. and Netemeyer, Richard G., Financial Literacy, Financial Education and Downstream Financial Behaviors (full paper and web appendix) (January 6, 2014). Management Science . Available at SSRN: https://ssrn.com/abstract=2333898; Ted Beck and Brent Neiser, Learning and Growing:
Lessons Learned in Financial Education, *National Endowment for Financial Education*. (2009) Available at https://www.frbsf.org/community-development/publications/community-investments/2009/august/financial-education-lessons/
[10] 2016 Update Report, supra n. 6, at 8
[11] 2016 Update Report, supra n. 6, at 10

communities that have been explicitly excluded from a financial system that provides tools to build a secure future. The history of these obstacles provides a substantial explanation for the current state of retirement readiness (or lack of), especially among communities of color and low- and moderate- income (LMI) families. Only by recognizing and understanding the context of individuals living in the economic legacy of this discrimination, can we show we are committed to ensuring all Americans can have a stable and dignified retirement, by implementing relevant, proactive and historically competent policies.

III. Why are so few people ready to retire? Financial literacy and the legacy of exclusion

The current economic picture is unequivocally a tale of two countries. Historical and growing equity gaps continue to persist as obdurate obstacles to the goal of creating a fair and equitable financial market place that provides broad access to affordable and wealth building financial products. When considering the empirical realties facing communities of color, immigrant communities and rural residents, as they plan and build their financial future, there are stark inequities when it comes to accessing opportunities to access financial products that build wealth, provide affordable credit, and construct a pathway to homeownership. Parsing out each element in a vastly interconnected financial marketplace will situate the starting point to identify and remediate the obstacles millions of Americans face when navigating the financial services marketplace and planning for their financial future.

Why are so few Americans ready to retire?

Many adults feel they lack a plan or are behind in savings for their retirement. Even among those individuals who have savings, many lack financial knowledge about investments and are uncomfortable making investment decisions.[12] Less than two-fifths of adults feel that they are on track to retire with adequate savings, and one fourth have no retirement savings at all.[13] Three-fifths of adults with self-directed

[12] Federal Reserve Board, *Report on the Economic Well-Being of U.S. Households in 2017*, (May 2018), at 2 https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf.
[13] *Id.* at 2

retirement savings accounts (i.e. a 401(k) or an IRA) state that they have no or little comfort in their ability to make investment decisions.[14] Taken as a whole, these numbers are quite disheartening, and policy makers are still trying to determine root causes and possible solutions. However, it is critical to acknowledge that legacies of discrimination can account for a significant reason for this unpreparedness, especially for communities of color.

For African Americans, this lack of savings, or the historical lack of access to retirement plans has its roots in discriminatory policies implemented by the federal government. In 1935, the foundation of the nation's safety net and retirement plans were being built with the passage of the Social Security Act. Yet, at the outset, the Social Security Act of 1935 excluded almost a third of all American workers, including farmworkers and domestic workers from coverage.[15] The majority of workers in these sectors were people of color.[16] According to some estimates, this exclusion cost a cumulative loss of benefits totaling approximately $143 billion (in 2016 dollars).[17] The economic devastation carried forward by the lack of retirement savings, and its corresponding growth and transfer to the next generation, provides an explanation for the data showing such a stark gap in retirement readiness and a growing wealth gap.

The resulting retirement readiness gap that resulted from this exclusion, can account for part of the reason why Social Security is central to millions of Americans' financial well-being. Social Security provides slightly more than half of the income that sustains older couples of all races, and nearly three quarters of the income that sustains older individuals of all races.[18] Over one in five couples, and almost half of single seniors, rely on social security for the majority (90%) of their incomes, with almost a third of African American single seniors relying entirely on Social Security for their income.[19] And 37.3% of Latinx seniors get all of their income from Social Security.[20] This central reliance on Social Security is also the

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[14] *Id.* at 2
[15] Prosperity Now and the Institute for Policy Studies, *The Road to Zero Wealth* (September 2017), at 15. Available at https://prosperitynow.org/sites/default/files/PDFs/road_to_zero_wealth.pdf
[16] Id. at 15
[17] Id. at 15
[18] Thomas Shapiro, *Toxic Inequality*, Basic Books (2017), at 115.
[19] Id. at 115
[20] Id. at 116

result of inequities in access to retirement plans when individuals are in the early years of joining the workforce. On average, only about half of the American workforce is enrolled in a pension plan, and while 57% of wage and salary employees, aged 25 to 64, work for an employer that provides a retirement plan, only 48% of them actually participate.[21] This access also varies by race, with 62% of White workers having access to employer provided retirement plan, while African American and Latinx workers have much less access — 54% and 38%, respectively. [22]

In addition to retirement plan access, another central contributor to retirement savings is homeownership, which continues to be the way that most middle-class families build wealth and secure a stable financial future. However, a brief review of homeownership rate data reveals a bleak picture, and an uncertain future for many.[23]

With no pathway to homeownership, retirement may be delayed or out of the question

Disparities in homeownership rates account for a large portion of the racial wealth divide.[24] Over many generations White families have benefited from access to wealth that has been denied for their African American counterparts. Between 1994 and 2017, White homeownership rates increased to 76%, while the homeownership rate for African Americans was at 49%.[25] Since 2006, the homeownership rate has declined gradually for everyone, losses have been larger for households of color. The homeownership rate among African American households fell from 48% in 2005 to below 42% in late 2016, while the Latinx homeownership rate declined from 50% to 46% during the same time period.[26] Meanwhile, White homeownership dropped from 76% to 72%.[27]

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[21] Id. at 116
[22] Id. at 116
[23] See Melissa Stegman and Pete Smith, *Repairing a two-tiered system, the crucial but complex role of FHA*, Center for Responsible Lending (2018). Available at https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-repairing-two-tiered-system-fha-may2018.pdf
[24] *Road to Zero Wealth*, Supra n. 15
[25] *Road to Zero Wealth*, Supra n. 15, at 8
[26] *Id.* At 8
[27] *Id.* at 8

Turing again the recent history, the gap in homeownership rates can, at least in part, be explained by federally sanctioned housing discrimination carried out by the federal government. Between 1934 and 1968, the Federal Housing Administration (FHA), among other public and private sector actors explicitly shut out communities of color from access to subsidies for home purchases — known as redlining.[28] During the first 35 years of the FHA, only 2% of those receiving government-backed mortgages were people of color.[29] In cities like Chicago, where redlining was widespread, this discrimination stripped more than $500 million of wealth (about $3 billion in 2017 dollars) from families of color over a 30-year period.[30] As a result of redlining, homeownership disparities became one of the largest drivers of the racial wealth gap.[31] The harm of homeownership disparities is especially clear when considering that two thirds of the net wealth that is held by the middle 60% of families is in the form of home equity, resulting from, among other factors, invested wealth and appreciation.[32] Recent investigative reporting has shown that communities still live in the legacy of redlining, and that widespread discrimination is still prevalent in the current finical marketplace. [33]

Homeownership disparities are a main driver of the overall wealth gap. This growing wealth gap compromises the ability for millions of Americans to ever have the opportunity to have a stable and sufficient retirement. The next step is to consider the overall wealth gap in terms of its impact on retirement readiness.

The growing wealth gap compromises the American Dream for millions of Americans

Housing disparities fuel wealth disparities. A recent OECD study found that while the top 10% of income earners in United States receive almost 30% of the nation's income, the wealthiest 10% own an

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[28] *FHA Report*, supra n. 23, at 3-4; See also, Richard Rothstein, *The Color of Law: A forgotten history of how our government segregated America*, W.W. Norton and Co. (2017)
[29] *See, Road to Zero Wealth*, Supra n. 15
[30] *Id.* at 15
[31] *Id.* at 15
[32] Shapiro, supra n. 18, at 45
[33] See, Aaron Glantz and Emmanuel Martinez, *For people of color, banks are shutting the door to homeownership*, The Center for Investigative Reporting (2018) https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/

astounding 76% of the country's wealth.[34] This translates into a racial wealth divide where the median net worth of African American and Latinx families stands at just $11,000 and $14,000, respectively.[35] This is a small fraction of White family wealth —a median worth of $134,000.[36] When consumer durable goods such as automobiles, electronics and furniture are subtracted, median wealth plummets to $1,700 for African American families, and $2,000 for Latinx families.[37] This is in comparison to $116,800 for White households.[38] This troubling trend will have significant macro-economic effects, as the U.S. moves to a majority minority population.[39] An example of this impact (one that will increase in size) is that during the past 30 years, African American and Latinx median wealth has decreased, White wealth slowly increased.[40] The result was that the overall median wealth of Americans has decreased from $78,000 in 1983 to $64,000 in 2013.[41] These trends have persisted before the financial crash of 2008. The Great Recession exacerbated this trend of stagnation, and in fact, it disproportionately impacted households of color.[42] For households of color, the Great Recession erased the economic progress made over the past three decades in their entirety (see figure below).[43]

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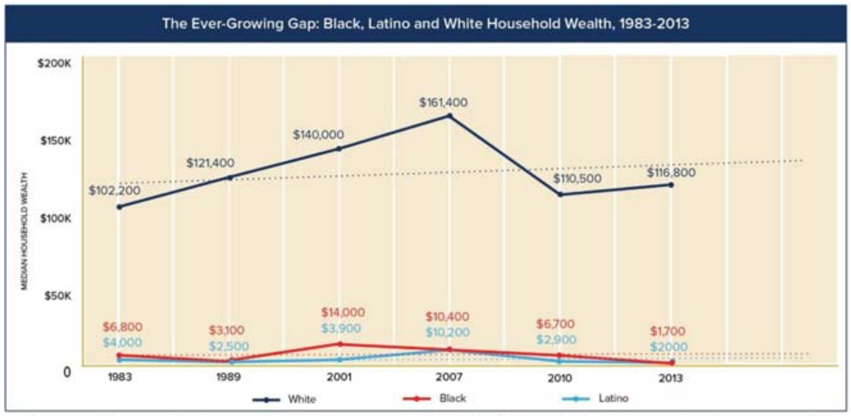
[34] *Road to Zero Wealth*, Supra n. 15, at 6
[35] *Id.* at 6
[36] *Id.* at 6
[37] *Id.* at 6
[38] *Id.* at 6
[39] William H. Frey, The US will become 'minority white' in 2045, Census projects, Brookings Institute (2018). Available at https://www.brookings.edu/blog/the-avenue/2018/03/14/the-us-will-become-minority-white-in-2045-census-projects/
[40] *Road to Zero Wealth*, supra n. 15, at 8
[41] *Id.* at 8
[42] *Id.* at 8
[43] *Id.* at 8



Source: Edward N. Wolff: "Household Wealth Trends In The United States, 1962-2013: What Happened Over The Great Recession?" Figures depicted above are in 2013 dollars and exclude durable goods.

If current trends continue, it will take 228 years for the average Black family to reach the level of wealth White families own today. For the average Latinx family, matching the wealth of White families will take 84 years.[44]

Ultimately, if current trends continue African American household wealth is on the path to hit zero by 2053, followed by a similar bottoming out of Latinx median wealth twenty years later —well after the country has become a majority minority nation.[45] Conversely, over the same period of time, White wealth will rise to $137,000 by 2053 and $147,000 by 2073.[46] This can partially be explained by not only the loss of wealth (subtracting durable consumer goods), but also by the fact that income gains for Whites and African Americans manifest in very different ways when it comes to wealth accumulation. Research has shown that every $1 increase in average income over a 25-year period, translated in to $5.19 of wealth for White

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[44] *Id.* at 5; ("White households in the middle-income quintile (those earning $37,201-$61,328 annually) own nearly eight times as much wealth ($86,100) as middle-income Black earners ($11,000) and ten times as much wealth as middle-income Latino earners ($8,600). This disconnect in income earned and wealth owned is visible across the entire income spectrum between these groups […] Between 1983 and 2013, the wealth of median Black and Latino households decreased by 75% (from $6,800 to $1,700) and 50% (from $4,000 to $2,000), respectively, while median White household wealth rose by 14% (from $102,200 to $116,800). If current trends continue, by 2020 median Black and Latino households stand to lose nearly 18% and 12%, respectively, of the wealth they held in 2013. In that same timeframe, median White household wealth would see an increase of 3%. *Put differently, in just under four years from now, median White households are projected to own 86 and 68 times more wealth than Black and Latino households, respectively*") *Id.* at 5 (emphasis Added)

[45] *Id.* at 5

[46] *Id.* at 5

households, but translated to only $0.69 of wealth for African Americans over the same time period.[47] This has been attributed to discrimination in hiring or promotions, training, and access to benefits that have made it much harder to African Americans to build assets.[48]

Without adequate savings for retirement, a pathway to homeownership, and a lack of wealth to sustain individuals through fluctuations of expenses, families are left solely relying on income to meet daily expenses and costs. A closer look at income trends and data provides a further step in appreciating the obstacles millions of Americans face.

Income inequality and income volatility leave millions of Americans on the edge of financial ruin

Income inequality has risen across the entire U.S., in every state, since the 1970s and, in most states, it has grown in years following the Great Recession.[49] A report from the Economic Policy Institute found that, "[f]rom 2009 to 2015, the incomes of the top one percent grew faster than the incomes of the bottom 99 percent in 43 states and the District of Columbia. The top 1 percent captured half or more of all income growth in nine states."[50] Disaggregating the general statistics, we again see the subgroup performance varies widely. For example, according to research by the Economic Policy Institute, in 2016 "the median black worker earned 75 percent of what the median White worker earned in an hour; the median black household earned 61 percent of the income the median White household earned in a year; and the value of net worth for the median black family was just 10 percent of the value for the median White family. [...] the difference in median household income is tens of thousands of dollars ($39,490 for black households, $65,041 for White households), and the difference in median family net worth is hundreds of thousands of dollars ($17,600 for black families, $171,000 for White families)." [51]

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[47] Shapiro, supra n. 18, at 107
[48] *Id.* at 107
[49] Estelle Sommeiller and Mark Price, ***The new gilded age***, Economic Policy Institute, (2018). Available at https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/
[50] *Id.*
[51] Valerie Wilson, ***Racial inequalities in wages, income, and wealth show that MLK's work remains unfinished***, Economic Policy Institute (2018) https://www.epi.org/publication/racial-inequalities-in-wages-income-and-wealth-show-that-mlks-work-remains-unfinished/

On top of this growing income gap between Whites and non-Whites access to banking services, one of the fundamental starting points to building financial literacy, is not uniform. Overall, access to bank accounts increased in 2017. However, substantial gaps in access to banking and credit products and services are prevalent among minority communities and those with low incomes.[52] Even though almost 95 percent of all adults had a bank account in 2017, this rate varies by race and ethnicity. One in 10 African-Americans and Latinx individuals do not have any access to a bank account, and an additional 3 in 10 have a bank account but also use alternative credit products such as money orders and check cashing services.[53] Many individuals that are without access to a bank account, and broader banking relationship, are left without access to financial mainstream products that provide affordable credit, so the income they do have is often targeted by predatory lenders.

Predatory lending has siphoned billions of dollars from LMI and middle-class Americans.[54] Communities of color, LMI communities, servicemembers, are among a few of the groups that predatory lenders target and ensnare in debt traps.[55] This is particularly important because financial strain stems from both inadequate income *AND* financial volatility. Research has shown that the growth of income over a life cycle is not a smooth upward glide but a series of spikes and dips.[56] This volatility is a fundamental challenge when matching cash flows with expenses, and this plagues many families.[57] One way to calculate volatility and income swings is to take the difference in income between the highest month and the lowest month as a percentage of average household income. The average swing for a poorer household was as high as 126% (meaning that if average month income was $1,000 families saw at least one month with income of $1,730 and one month with income of $470).[58] According the same research, among households

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[52] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[53] Id. at 2
[54] See *The State of Lending: The Cumulative Costs of Predatory Practices*, Center for Responsible Lending, (2015) https://www.responsiblelending.org/state-lending/cumulative
[55] See, *Shark-Free Waters: States are Better Off without Payday Lending*, Center for Responsible Lending (2016) https://www.responsiblelending.org/research-publication/shark-free-waters-states-are-better-without-payday-lending
[56] Jonathan Morduch & Rachel Schneider, *The Financial Diaries*, Princeton University Press (2017), at 9
[57] *Id.* at 12
[58] *Id.* at 28

earning less than $25,000 for the year, almost 20 percent experienced extreme income volatility.[59] Instability of family income has actually risen faster than inequality over the last few decades, topping out at 30%.[60] This partially explains why nearly 40 percent of American families would have to resort to selling assets or taking short term loans to obtain $400 quickly.[61] Individuals cannot simply save and borrow as necessary to smooth dips and spikes without access to affordable and wealth building credit. Predatory lending ensnares families already in emergency situations.[62] This dynamic is particularly important when considering traditional narratives of consumer choice in a financial literacy context. Emerging studies in behavioral economics demonstrate that "even in life's most important decisions, [people's choices] are influenced in ways that would not be anticipated in a standard economic framework."[63] This decision making at the consumer level also must be understood by the economics of microfinance, that requires a closer look on the lending market when it comes to small dollar loans and how competition works in relation to price and incentive.[64]

Policy narratives used to understand consumer choice, the goals of financial literacy, and the best way to protect consumers from predatory lending must consider the emerging research on the growing complexity of consumer decisions in the financial marketplace.[65]

Without adequate retirement savings, limited access to homeownership, decreasing wealth, and volatile incomes, communities of color have traditionally looked to higher education as the pathway to economic prosperity that will lead to a future of financial security. Unfortunately, even with documented increase in lifetimes earning from a college degree, students of color still face numerous obstacles, including over burdensome student loan debt and limited job prospects because of degrees from unscrupulous institutions.

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[59] *Id.* at 35
[60] *Id.* 10-11
[61] *Id.* at 72
[62] *Id.* at 45; See also https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-finfairness-payday-jul2017.pdf
[63] Richard H. Thaler and Cass R. Sunstein, *Nudge*, Penguin Press (2009) at 37
[64] For a comprehensive summary of this research see, Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance*, MIT Press (2005), 1-57; 128-129
[65] For a summary of these developments see, Sanjit Dhami, *The Foundations of Behavioral Economics*, Oxford University Press (*2016*), Introductory Chapter; pp 1-65

Is higher education the great equalizer? Not always the case for students of color

Generally, economic well-being rises with higher levels of educational attainment, and the majority of adults who completed a postsecondary degree think their college degree was worth it.[66] However, the benefits of education are less apparent among adults who did not complete a post-secondary degree or attended for-profit schools.[67] Two-thirds of individuals who completed a bachelor's degree felt that their investment paid off, but less than one-third who started a bachelor's degree but did not finish felt the same way.[68] In fact, more than half of those adults who attended a for-profit institution say that they would attend a different school if they had a chance to choose again.[69]

Even when students graduate they face an uphill battle to save for retirement. Student loans continue to present a growing impediment to financial success and long term wealth growth.[70] In 2017, more than half of college students under age 30 took on some type of debt to pay for their tuition.[71] Generally, most borrowers are current on the repayment of their loans, however adults who did not complete a degree and those who attended for-profit institutions are more likely to have defaulted or fallen behind.[72] Almost 25% of borrowers who attended for-profit schools are behind on their payments, compared to less than one-tenth of adults who attended public or private not-for-profit schools.[73] Research from the Center for Responsible Lending has found that "students of color enroll more frequently in for-profit colleges than other students, graduate at lower rates, and are left with more debt. Some schools have been accused of deliberately targeting students of color for enrollment in their predatory programs."[74] This not only compromises student

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[66] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[67] *Id.* at 3
[68] *Id.* at 3
[69] *Id.* at 3
[70] Judith Scott-Clayton, *The looming student loan default crisis is worse than we thought*, Brookings Institute (January 2018) https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/
[71] *Report on the Economic Well-Being of U.S. Households in* 2017, supra n. 12, at 2
[72] *Id.* at 2
[73] *Id.* at 2
[74] *Drowning in Debt*, Center for Responsible Lending (2017) https://www.responsiblelending.org/research-publication/drowning-student-debt

success during matriculation, but also forecloses on a future of gainful employment, increased wages, and retirement readiness.

Generally, educational attainment is often considered the "great equalizer" between wealthy and low and moderate income (LMI) families, and between families of different races and ethnicities. However, White families whose head of household hold a high school diploma have almost enough wealth ($64,200) to be middle class.[75] In contrast, African American and Latinx families, similarly situated, own just $37,600 and $32,600, respectively.[76] Only the median of African American and Latinx households with an advanced degree have enough wealth to be defined as middle class, while every White household education groups except those without a high school diploma, can be considered middle class.[77]

The burdensome debt that many students of color end up taking on by enrolling in for profit schools, is usually what pushes the first domino over that leads to limited job prospects, stagnant income and wealth, with no pathway to homeownership, and results in an extremely vulnerable position when they have to start planning for retirement.

IV. Conclusion: Building a more comprehensive and equity-based retirement plan

The scope of the obstacles and inequities outlined above require a multi-stakeholder and collaborative approach to target disparities with effective and comprehensive solutions. This is a full agenda to say the least. For the purposes of this hearing, I want to underscore that financial literacy cannot, by any means, solve everything. But this is perhaps asking too much in the first place. Rather, what I hope to have accomplished by outlining the challenges faced by millions of Americans, is to outline an accurate and honest context that can drive financial literacy *AND* access to financial products aimed at specific historical and pervasive inequities. Furthermore, the limits of financial literacy, in the context of the above discussion, require that strong regulators and sound consumer protection policy remain at the root for retirement readiness.

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[75] *Road to Zero* Wealth, supra n. 15
[76] *Id.* at 10
[77] *Id.* at 10

I look forward to a productive discussion, and I hope that this perspective in the dialogue on retirement readiness will provide the starting point for collaborative and comprehensive solutions.

Chairman ENZI. Thank you. Thank all of you for your brief presentation of testimony. I appreciate even more the extensive testimony that you provided, which will all be part of the record as well.

To kickoff the first question, I will start, and that is in reforming the Federal financial literacy programs, Treasurer Carranza and the Administration are focused on increasing program effectiveness. That is something I have been asking questions about since I first got here. Unfortunately, measuring effectiveness can be difficult and requires selecting the appropriate metrics and collecting relevant and reliable data.

Can each of you, or any of you, describe the metrics you use in evaluating wellness effect programs and how these metrics are evaluated? Mr. Jain, you mentioned them. Ms. Dudley, you mentioned them.

We will start with Mr. Jain.

Mr. JAIN. Thank you.

Absolutely, I think overall we believe we are in the early innings of the worksite financial wellness trend and the majority of these programs. And as a result, certainly the early stages of defining the metrics that need to be used.

But in our view, the metrics should really be in three areas. One is first measuring engagement, so how engaged are employees with the financial wellness services being offered to them, whether that be educational services, coaching, or digital capabilities? Are they engaged with them? Are they using these capabilities because that is a first threshold that needs to be evaluated?

The second layer, we think, is to look at what actions do these financial wellness services motivate? Do people change their benefit selection? Do they save more for retirement? Do they create a budget? Do they stick to a budget? Because that is ultimately a measure of what impact we actually are having on the individual.

Then the last of the metrics that we think will be very important to the employers that are ultimately sponsoring these financial wellness programs is, how does financial wellness and improved financial wellness lead to better outcomes for the employer in terms of improved productivity, lower absenteeism, lower health care costs?

There are employers today that are connecting the dots across all of these levels. It does require a fair amount of data work to do that, but we are hopeful over time, as these programs and capabilities and technology mature, that it will be easier to connect the dots across these various types of metrics.

The CHAIRMAN. Thank you.

Ms. Dudley.

Ms. DUDLEY. I actually agree with everything Mr. Jain said. It is, first and foremost, engagement. Then you look to see how their behavior is changing.

Just by way of example, one of our plan sponsors went in and looked at how many people were not on track with what they thought was the right amount that they should be saving in order to reach a retirement goal if they were to retire from the company. And they found only 17 percent were meeting that goal.

The first thing they did was try to engage those people. Then they refined when they go back and they look at how many more people are participating, and then they refined it and added a customized tool where people could have one-on-one attention. Then that lifted it further. Then they added a retirement planning tool.

There are no definite metrics. There is nothing out there that says, "This is the way you do it." So a little bit of it is trial and error, but they refine, refine, refine.

Typically, it is not unusual to look at a 5-year period to see how peoples' behavior is changing. It is not instantaneous.

The CHAIRMAN. But you mentioned a financial stress test.

Ms. DUDLEY. Yes.

The CHAIRMAN. Can you tell me a little bit more about that?

Ms. DUDLEY. Sure, I would be glad to.

A financial stress test will go in; typically it evaluates how much debt you have. That is first and foremost.

It will ask you questions like, "Do you own your own home? What is your mortgage? What is your income?" It will look at how much debt you have relative to your income. It will look at your savings rate and it will even look at your monthly payment on your student loan.

What we have found quite often is that people shift their money to payoff their student loan, and then do not max out what they can put into their retirement plan, and then they miss out on their matching contribution. Right then, they know they need to talk to this person so that they are paying the right amount down on their student loan at the right pace, so that they are not losing out on their cumulative savings for retirement.

It will also look at how much pressure you feel. It will ask you some questions about productivity, whether you have taken days off to deal with financial issues, things like that, to get a sense of whether it is affecting you from a health standpoint.

The CHAIRMAN. Is that what you are referring to with diagnostics as well?

Ms. DUDLEY. Yes. Part of the diagnostics is evaluating who in your employee base needs help. You do have to go in and look. Maybe it is the same group of people.

Maybe you have 2,000 employees or 10,000 employees and 20 percent of them are the ones that seem to be taking a loan all the time or they have taken repeated loans. The financial assessment stress test will ask you how many loans have you taken. Whether you have had a hardship, have you experienced a natural disaster, those kinds of things? So that they know if multiple things are happening to you, then they can target the help directly to those problems.

The CHAIRMAN. If it is in at the leakage that you also mentioned.

Ms. DUDLEY. Right.

The CHAIRMAN. Does anyone else want to comment on that?

Senator JONES. Mr. Astrada, I would just like to focus, we talked about the student debt. People focus a lot on the student debt and they think that this is a problem, and it is, for younger folks who are shifting to try to pay it and they are not starting early enough.

But the statistics that I have seen show that there are a lot of people over age 60 that are still paying on student debt and it is like billions and billions of dollars.

What can we do to focus to try to help? That is a shorter term problem for people of my generation and completely different than the stress test for a younger person to try to help them and give them the good basics.

I will start with Mr. Astrada, but anybody please chime in on that.

Mr. ASTRADA. Thank you for that question. That is a growing issue that we have seen and a lot of it is either related to kind of the parent plus loans as cosigners for borrowers, or the parents who take out loans in their own name to provide tuition assistance for their children.

Again, I want to keep it focused, but I think you have to realize where the wealth gap plays into this whereas it is kind of the average white family with about $114,000 of median wealth versus under 20 for minority communities. So that will not even cover 1 year at most public universities including tuition and books. So it drives the need to take on debt.

The interest rates on the Government loans not only cuts into the expense of overall discretionary income for the home but, again, it is that kind of anchor on the balance sheet that will carry generations, we can see in this instance. And that also for those families that might have that extra discretionary wealth will cut the ability to provide other support systems for other children in college.

I think to kind of come back to a direct answer is that it is really a systemic issue in terms of the wealth divide that drives the need to take on loans from the parent. But it is also an issue that threatens retirement security because many times as you get closer to the age where you are considering retirement, if you still have student loan debt for your children that provides a huge anchor on any type of growth that might threaten current assets in terms of housing, if that goes into default and then there is a whole other slew of data about who is defaulting and why. I will not go off into a tangent on that, but I think those are questions of equity that have to be asked in that context as well.

Senator JONES. Anybody else want to add to that? That must have touched a nerve.

Ms. DUDLEY. Well, the one thing that I would add, sir, is that one of the things that we are seeing more of in our financial education program is helping parents plan for college a little bit more and to know what their options are, and to utilize some of the resources. Some companies have even expanded their tuition assistance to accommodate family members and things like that. So there is some good thinking.

It is a big problem, even for the older. It is a significant problem for older workers as well, but we are trying to help address that problem a little bit through trying to help people know what the options are.

Mr. JONES. Mr. Jain.

Mr. JAIN. I would echo Ms. Dudley's comment that there is an opportunity to help people before they even take on the debt, evaluate either for themselves or for their children, which colleges to choose, how to navigate the financial aid process, how to navigate those negotiations which can certainly help older workers in the workforce today who have children that are going to college.

But I would agree completely with the comment that I think the outstanding student loan debt issue applies across all generations. Obviously, it is most acute, certainly, for younger, but it applies for many workers who are 20, 30 years into their career. I think there is a positive trend that more and more employers are seeking to help their employees with this.

The solutions, I think, can range everything from just basic guidance to helping employees potentially explore refinancing options that may provide more attractive terms.

Ultimately, helping particularly older workers, who might be navigating a range of financial issues, really think through what is the right way to pay down the outstanding debt they have. How do they manage paying down debt versus saving for retirement? Making those tradeoffs which offer the right decision will likely vary from individual to individual based on their circumstances.

But that is where we think there is an opportunity to provide people with personalized help and guidance at the workplace to help them navigate those decisions based on their needs.

Senator JONES. Great. Thank you.

Ms. CARRANZA. Yes, Senator. As part of the FLEC reform what we have recognized is that there is that particular issue. As we are developing strategies for senior protection and security of their retirement savings, that is going to be an area of focus for the FLEC reform as well, so that we can also work with and partner with the private sector who already are ahead with some of the solutions.

Senator JONES. Great, thank you.

Ms. DUDLEY. Not to delay this topic or extend it even more, but it is such an important issue.

I do think it is worth calling to folks' attention that more and more companies, as Mr. Jain said, are trying to help their employees with student debt. One of the ways that they are doing that is really seeing how they can provide matching contributions when a student loan is being paid.

Just recently, the IRS issued a private letter ruling giving guidance on how to go about doing that. So you will probably see more uptake on that.

Senator JONES. Good, thank you.

The CHAIRMAN. Senator Young, did you have a question you wanted to ask?

Senator YOUNG. I do, Chairman. Thank you to you and the Ranking Member for helping to convene this hearing. It is a really important issue.

My staff brought to my attention, just some weeks ago, a statistic I found pretty sobering. The Employee Benefit Research Institute predicts that over 40 percent of Gen Xers are going to run short of money in retirement. And just under half of all private sector workers are not participating in a retirement savings plan through their employer. So that actually came from BLS data.

I think it is really important that we continue to elicit more ideas from experts like yourselves on this. I have offered legislation to create a commission that would deeply study some of these issues and assess our current retirement system, make recommendations to Congress. I will just ask each of you.

Is this something worth exploring? We set up a lot of commissions and studies around here, but this one strikes me as fertile for our exploration as Members of Congress.

Ms. Carranza, do you support this?

Ms. CARRANZA. Yes, absolutely. We have workgroups and one of them is dedicated for retirement and we have savings protection.

We have also reached out to not-for-profits that are focused on senior citizens. One example is AARP that has already highlighted that particular stat. That is to say, seniors are very committed to financing their families' college. And so now, less of them will be able to address what they call outliving their retirement funds because they are already expended.

It is an area of concern that we will be focused on.

Senator YOUNG. Would you recommend that we focus on those? I refer to those eight different working groups and what each of them is focused on is, I think, about what key issues the commission should focus on?

Ms. CARRANZA. I would like to address that by indicating that we have met with about 60 different entities throughout the United States. Anywhere from not-for-profit, the private sector, academics. They have assisted us in identifying problematic areas or barriers to success on savings, improving credit scores, saving long term for retirement.

I believe that there is going to be ample opportunity to address those particular areas of concern from K to 12, to homeownership, to entrepreneurs, to retirement. So we are covering the entire gamut.

Senator YOUNG. Fantastic. Thank you.

Mr. Jain, do you have anything to add? I think you nodded affirmatively with the rest of the panel that you support the notion of creating a commission to provide recommendations to Congress.

What key issues should such a commission focus on?

Mr. JAIN. Sure, absolutely. I think you touched on a lot of the key issues which is in addition to the fact that many individuals are not saving enough for retirement, many individuals do not have access to the vehicles to save for retirement.

Senator YOUNG. Yes.

Mr. JAIN. We believe that is an area where legislation can significantly help.

In particular, we believe the RESA legislation by providing more flexibility to creating multiple employer retirement plans will allow more individuals—particularly those working for smaller businesses that typically do not start a retirement plan due to cost or complexity considerations—to more easily offer those plans and expand retirement access.

Senator YOUNG. Thank you.

Ms. Dudley, do you have something to add?

Ms. DUDLEY. I completely agree with that and I would add looking at automation to the extent that automatic enrollment, automatic escalation does not fit and RESA also includes some improvements in that area as well.

But if it does not fit a particular employer, looking at what we call easy enrollment, “quick click” enrollment so that people can enroll by clicking on an icon.

Senator YOUNG. Thank you.

The CHAIRMAN. Since this is a roundtable, I am going to jump in here and ask a question too.

Senator YOUNG. Yes, please.

The CHAIRMAN. Both you and Mr. Jain mentioned auto-escalation.

Could you explain that a little bit?

Ms. DUDLEY. Sure, I am happy to.

Right now, when someone enters into a plan, sometimes they have automatic enrollment and they are automatically put in a plan.

The CHAIRMAN. Yes.

Ms. DUDLEY. Sometimes they have to actually enroll in the plan. But once they are in the plan, they are asked periodically if they want to increase their contribution level. But in some cases, it automatically increases. You get a salary increase, your contribution to your plan increases.

There is a current safe harbor that caps how much you can escalate someone up to 10 percent and legislation included in RESA would lift that cap and allow you to continue escalating people because people really actually need to save more than 10 percent to reach their retirement goals, particularly when they do not save over their whole career.

Senator YOUNG. Mr. Astrada.

Mr. ASTRADA. Thank you. One of the things we work a lot with at CRL is predatory lending and I would think that would be a key focus of the commission. Just some idea of how much is extracted from peoples’ savings, bank accounts, it is something to the tune of $8 billion a year in fees.

According to the CFPB, it shows a systemic issue in terms of cash-flow and expenses because something about 80 percent of all payday loans are renewed within 14 days and are usually in a series of ten in a row, which shows a more systemic shortfall.

Those states, 15 plus the District of Columbia that have limited the cap on what you can charge in small dollar loans to 36 percent or less, have saved over $2 billion a year in fees. If you include the amount from car title loans, that is another two-point-three. So that is $5 billion a year that can go directly back to consumers and can provide some of the options that financial literacy is geared toward solving in terms of money that can be invested, saved, or put toward retirement.

Senator YOUNG. Well, thank you for all of those ideas.

Mr. Chairman, I of course have more questions, but I want to give others an opportunity to chime in.

The CHAIRMAN. Senator Scott, do you want to take a turn?

Senator SCOTT. Thank you, sir. Thank you and the Ranking Member for holding this very important hearing or roundtable discussion on a very important topic.

I remember my days back in the insurance and financial services arena there was a book. It was called, “The Number: What Do You Need for the Rest of Your Life and What Will It Cost?” There was a number that you were supposed to have so that you could live comfortably in retirement.

I wish someone had written a book called, "The Magic of Compounding Interest." It would be a far better book for us to understand and appreciate the impact, long term, of starting early and not later.

Someone gave me an example one time a while back where a person who saves money over the first 10 years from 25 to 35, they save like $30,000 and they compound it at 7 percent. By the time they are 65 years old, it is worth $335,000.

A person who starts at 35 instead of 25, and saves from 35 to 65, $90,000 they invest in. That same 7 percent only has about $315,000.

The first 10 years were more valuable than your last 30 years and you only saved for 10 on the first example, and you saved for 30 on the second example, and you save $30,000 on the first example, and you save $90,000 on the second example, and you have 7 percent return on both examples. And yet, on the first 10 years, because of the magic of compounding interest or the appreciation of the time and value of money, you end up with more money accumulated than you did on the second example that took you literally 30 years versus 10.

How do we get people to understand and appreciate that important distinction or delineation?

What I have seen happen was a partnership between the NFL and Visa to teach financial football or financial literacy in high schools throughout South Carolina. I brought them to my old high school and we played a game against football players from the NFL from the Carolina Panthers. It turned out to be a really good opportunity for folks, high school students, to know the importance of financial literacy.

To know the difference between a savings account and a checking account. To know the difference between a mortgage, a no interest, low interest 30-year mortgage versus something that goes up every three or 4 years.

They are receptive if we can find the right environment or the right vehicle to communicate this message of financial literacy. And so I would ask a question.

What positive, constructive, and perhaps entertaining examples have you run into that have been meaningful in getting people to have the spark? When the light comes on, it rarely goes off if you fully appreciate the importance of financial literacy. I know that there are a number of examples.

I and Joe Donnelly have worked on—although he is not here—financial literacy as it relates to college education. What do you get for a political science degree? I got lucky the last 5 years, but for the first 20 years I was in business not using a political science degree.

Understanding the value of each degree is incredibly important and that should be a part of the financial literacy conversation, since we are spending so much time on this trillion dollar student loan debt that we have as a country. Perhaps some of that could have been solved if we understood the ROI on different degrees.

Happy to hear any examples that you may have of constructive programs that are entertaining that would get younger people involved and create headwinds for the natural inclination to buy things that you cannot afford with money you do not have to impress people who are not going to be impressed.

Ms. DUDLEY. Should I start?

Senator SCOTT. Thank you, ma'am.

Ms. DUDLEY. I will start with a couple of them. Since you mentioned the football one, I am from the great State of Alabama.

I do not know if you have noticed, but whenever Alabama is playing on television, Coach Nick Saban does a commercial that talks a student out of buying a very expensive dress. In that commercial, he talks her out of buying the dress and tells her why she should save that money instead.

One thing that I highly recommend is that we reach out to as many of our universities and our schools to see if we cannot start a public-private partnership to get more of those educational messages out there.

There are some other terrific things that employers are doing. They are playing some team games and what we find is that employees like being on a team and they like to win. They particularly like to win tee shirts, but they will also take other things like money and other things too, gift cards, but playing games that teach them some of these kinds of basic financial concepts.

The other thing that we have seen success in is online, some video gaming and incorporating gaming in the financial education.

Senator SCOTT. Thank you.

Mr. ASTRADA. I think that is the perfect question to kind of illustrate not if financial literacy works, because there are plenty of examples that it does, but that who it works for.

I think that when you have individuals kind of making tradeoffs between rent, medical care, or food even 20 or 30 bucks on the frontend is going to be impossible to come up with. And I think that any savings that you are able to make, and if you account for kind of income volatility and unexpected expenses are always going to be in danger of being moved from the savings account to the checking account even if you have full knowledge of what that is.

I think if you are in an auto-enrollment or in a retirement plan, it might actually be more expensive to have to pullout that money or if you have to go to more higher cost payday alternative loans.

I think that the financial literacy to create that spark really needs to be more nuanced in terms of which communities that are being targeted. And that, like, compound interest is a phenomenal tool if you have $50 a month and this is not strictly for individuals that are living under the poverty line. This is increasingly an LMI, a rule even in the middle class issue because of income volatility itself.

I think that access to that kind of income smooth impact as whether it is to an employer, an employee benefits package one not directly related to this Committee and its jurisdiction but, like, public benefits usually have an asset threshold which, by its logic, punishes individuals for not saving for retirement.

I think that creating competent and relevant financial literacy curricula for communities broken down by the challenges they are facing you will have no shortage of individuals ready for that knowledge coupled with an actual tool.

Senator SCOTT. Target marketing works.

Mr. Jain.

Mr. JAIN. Thank you. I would echo and support the comments of my colleagues and add two things.

One is I think technology is giving us more flexibility in how we engage with individuals to deliver messages that are more personalized, more just-in-time so that we are catching somebody maybe when they are first starting a job. That is that critical moment where if we can engage with them, we can set them on a path that will be very productive from a retirement savings perspective.

Then second, I think there is a lot of opportunity around how we apply real finance and what drives the interchange. In particular, we have seen showing people what their savings will translate into as in income in retirement and how that compares to what income they likely will need can be quite motivating in driving people to save more for retirement just because it makes it very simple.

It takes all the math that is hiding behind the scenes and boils it down into a number which says, "You are going to need an income of X, but this is really what you are on track for." And, "What do you want to do about it?"

Senator SCOTT. I know I am way out of time.

That is such an important point because the reality of it is that so many people think that their savings will match their retirement. The quality of life that they are experiencing when they are working will be the same uninterrupted.

When, in fact, in South Carolina, and I think it is true around the country, that the average person in their 401(k) has about 1 year of income that is in the 401(k). Take $60,000 or $100,000 as an average income and at 3 percent that produces $3,000. At 7 percent, it produces $7,000. And if you are making $30,000 or $40,000 it is obvious that the pieces do not fit very well.

But one of the challenges, I think, we are going to face with the current dynamics is that the average person coming out of college today will have between seven and nine different jobs. So unless we are creating a transition auto-portability of those smaller 401(k)'s or savings and retirement dollars to be able to transition the transfer without being exposed to the 10 percent penalty in ordinary income, then we are going to find ourselves having to explain why the dollar does not go any further.

To the extent that we can also understand and appreciate the nuance of multiple employers, multiple retirement plans, if you are working for a large company, a smaller company, they have simple filing 401(k)'s, we are going to miss a golden opportunity for two-thirds or more of our workers.

Ms. CARRANZA. Senator, Treasury has identified eight best practices, and I will just target on three that you have referred to.

That is, not only knowing your population, which demographic do you really want to target, not only the underserved, the served, the military, we have the entrepreneurs. But understanding the population that we want to serve, reach, and identify the gaps.

The other is not just provide programs, literacy programs that inform, but actually change the behavior. What skill sets they have developed and develop some metrics.

The agencies that currently have metrics measure more, how many strokes on the Website, what information access has been reached by the particular communities. But more importantly, what we are looking to promote is evidence-based, much like what you have cited. And not buying the dress on the commercial, but some other very tangible evidence that they now consider credit scores and student loan debt as a family liability not just individual choice or condition.

The other is not only make it easy to make good decisions, when I say "make it easy," it is automation. We have talked about automation, the facilitation of applications have been discussed in some of the roundtables that we have participated with.

Then finally, it is about evaluating the impact. So without metrics, without particular analytics, it is all talk. And so we are looking and addressing with the private sector what best practices there are. What mechanisms, what frameworks are available to promote.

Thank you.

Senator SCOTT. Thank you.

Can I continue this conversation? I would just say——

The CHAIRMAN. Ms. Dudley wanted to comment yet.

Senator SCOTT. I have to say this. It cannot wait, sir. I will say that had it been a Clemson television commercial about the dress, it would have had more credibility. Crimson Tide has won too many national championships already.

Thank you very much.

Ms. DUDLEY. A couple of things. I would like to underscore Mr. Astrada's point about not letting the accumulation of assets interfere with subsidies.

We have run across that with some of our employers where the employees were really reluctant to be automatically enrolled out of fear of the impact that would have on other things that they might be taking advantage of or need. And so, making that very clear is something that we would strongly support as well because it is really true.

You need to target your population, and you really need to look at and know your population, and be evidence-based, and look to see and monitor whether behavior is being changed or not.

But we could help people a lot with technology and with just access, the Multiple Employer Plan provision. Just access and automatic enrollment would help people. But we have to make sure that people are not perceiving that there is a barrier even if it is not there.

Senator SCOTT. That is excellent. Yes, ma'am.

The CHAIRMAN. I have a question that Senator Alexander thought he would be here for, but he is not. He wanted to have the question asked about something that is in the RETIRE Act, which is Receiving Electronic Statements to Improve Retiree Earnings that would allow the electronic delivery of required retirement plan documents.

As individuals receive more and more information online, it only seems reasonable that the way the retirement plan documents are delivered should keep up with the times with robust consumer protections, of course. Unfortunately, not everyone sees it that way, but I am hopeful that Congress will pass the legislation.

I am speaking on behalf of Senator Alexander, and I agree with him, which not only provide plans with hundreds of billions of dollars in annual savings, but would be environmentally friendly.

Can any of you comment on allowing electronic delivery or E-delivery of plan documents? And how it might complement or complicate current and future efforts for financial literacy?

Ms. Dudley, do you want to start?

Ms. DUDLEY. Yes, I will start, but I do not want to take away from other people.

We feel very strongly about harnessing technology. Technology you can see in the examples that I included in the testimony. Employers are embracing technology to deliver tools to our employees and they are asking for more tools. I feel very confident.

I have worked in this business for a long, long time now, many decades, and I really feel this is something that we can find common ground on with everyone. This is a bipartisan initiative to take advantage of technology in delivering information and in utilizing applications on telephones to facilitate peoples' access to information.

One of the things that we have discovered is people like to be able to find things quickly and they want to be able to do it in any hour of the day, and they do not want to dig through a box to find the document. They want to be able to just go online and find it.

We would strongly support. We think the need is there, the time is right to do this.

The CHAIRMAN. Anyone else wish to comment on that? Thank you.

Senator Jones.

Senator JONES. I would like to go back for a moment to something Mr. Astrada said and some of the three tiers of problems. We talked about student loan debt, but you all mentioned predatory lending. That is a particular problem in Alabama, and I know it is in other states as well, and something I have been really interested in even before I got to the Senate.

I would like for you to just talk about that a little bit and how that affects potential retirees because in Alabama the numbers are staggering, the amount of loans being taken, the number of loans per person.

It seems like the consumer financial protection bureaus have not been as aggressively pursuing predatory lending as I would like. It is rolling back some now and it is leaving the state.

If you would just discuss a little bit and I know it is a little bit beyond the jurisdiction of this Committee, but other committees are looking too.

What is it that we can do that might help? What can we do? What tools can we give to states, if necessary? What can we give here in Congress to try to help this problem? Because it is a snowballing effect, it really just damages so many people.

I will let everybody answer, but you brought it up particularly, I think.

Mr. ASTRADA. Thank you for that question and I will try to keep it as tailored to this Committee, or at least the issues on retirement. But that is a foundational threat to retirement security as we see it.

As I mentioned, it is billions of dollars a year siphoned off by these predatory loan products. The most concerning aspect is that this kind of flies in the face of any type of responsible lending or how credit should work.

The very business model of a payday loan is reliant on the inability of the borrower to payback the principle and that it is never just kind of one and done. It is unequivocal. The research is there. We have done it. Our coalition partners have done it. The first payday loan is really just the first in a debt trap cycle.

We have seen in our research report, we just put one out today in Michigan, but we have done it in Colorado, the real impacts of this because it is a domino effect. Another big aspect of the loan is that they have a superior lien against your bank account through an ACH, so that comes out first before anything like rent or bills.

We have seen the domino effect of you get overdraft, and then your bank account closes, and then you lose. You cannot pay your car. We have seen it escalate all the way into bankruptcy. It really is a parasitic product because any savings, any discretionary income is automatically eaten away with these products.

The reality is that you can make affordable products in the regulatory framework we have now. This speaks again to the economic rethinking that we need on how to regulate this space. Competitive markets do not function in this industry. Usually, that is the big driver for bringing down prices. You compete on service.

But in every single case in every single state the more actors you have, in fact, it is worse because everyone charges right up to what the competitors are, the state interest rate caps are.

A lot of what we relied upon in the past is the CFPB's aggressive regulation of this, especially in the culmination of the payday rule that is being implemented next summer.

One of our big concerns is that under the current leadership, a lot of that has been scaled back not only with indications from the director to the late implementation reopen rule, but also concerning actions such as dropping lawsuits against payday lenders that have been proven to be defrauding customers or charging more than legally permissible.

The director has also joined a lawsuit against or did join a lawsuit against the bureau itself to stay the rule. So we have definitely seen a shift in the direction of the CFPB's priority of payday lending and we are very much concerned with that.

To kind of just bring it back to what we can do especially on the state level is that one of the biggest protections we have against predatory lending is state interest rate caps. It is the ability for states to police their own consumers and to determine what works for them. And many states like South Dakota, by popular referendum, the citizens have already spoken to push out these predatory lenders and limit a loan.

The integrity of the state interest rate caps that are there must remain intact and for those states that do not, it is really, and I do not want to get too in the weeds with Dodd.

Dodd-Frank allows state attorney generals to implement certain parts of Dodd-Frank, and where they can kind of fill in the gap, and then have the rule go into effect as planned with continued work on the long term a rule of 45 days or more.

A really long answer, but a short summary is that it is one of the biggest detriments to financial security and it has a domino effect of siphoning off any ability of savings before we even have the privilege of asking, "Should I spend or should I save?" These products prevent you from ever arriving at that question because you are constantly behind and you are constantly threatened.

The CHAIRMAN. As kind of a follow-up on that, in your testimony you mentioned your organization's affiliation with Self-Help Credit Union.

Can you describe what that is, and what services it provides, and how widespread it is?

Mr. ASTRADA. Correct. So CRL is an affiliate of Self-Help Credit Union based in Durham. It is a CDFI primarily geared toward low income, rural, female headed families to provide access to credit.

We have provided $6 billion to nonprofits, small businesses, LMI customers and serve through retail branches consumers in about five or six states now including Wisconsin, North Carolina, Florida, California.

It was really started in itself as a credit union in the 1980's as a response to the lack of lending to African-Americans in the Durham area. And that the legacy of red lining was real, and it was undisputable, and our CEO started this credit union with that mission.

We are very much carrying through that mission on the policy side and have had that kind of input from an industry perspective of kind of what works, what products have worked, what products do not, what is kind of a threat to financial stability, and what would directly compromise that.

The CHAIRMAN. Good step. Good, positive action.

Ms. Dudley.

Ms. DUDLEY. I just wanted to add one thing. I would underscore the importance of addressing the issue of these lending practices, but as a barrier to retirement savings and bring it back a little bit to retirement savings.

We recognize that this serves as a barrier to savings and employers have increasingly embraced this by trying to address the emergency savings funds or trying to help people address problems where they are caught up in payday loan cycle.

One of our members—and really many more of them have this—but one of our members even established a not-for-profit trust to provide emergency payments so people did not have to go to a payday loan. They would like to see some public policy support, particularly from a tax standpoint, for the individuals that may have to utilize it.

Senator JONES. Would that be in the form of a grant?

Ms. DUDLEY. Or it could be like a grant or it could be something——

Well, typically they are just, they do not have to pay it back. They rely on contributions.

Senator JONES. Okay.

Ms. DUDLEY. But facilitating those contributions where people maybe can make those contributions on a tax deductible basis to encourage more employees to contribute, or helping the person who gets a payment, instead of going to a payday loan, by giving them a tax break if they do have to take it. There are a variety of ideas that we could explore if people wanted to.

But they find that maintaining this trust through the contributions of all employees helps to push down the number of their employees that are caught up in the payday cycle.

Senator JONES. Interesting.

The CHAIRMAN. Mr. Jain.

Mr. JAIN. I would echo Ms. Dudley's comment that I think one of the root causes for payday lending is a lack of emergency savings. A number of consumer surveys have pointed to roughly half of Americans cannot fund a few hundred dollars in an emergency expense.

From a worksite financial loans perspective, we think there are some really interesting opportunities to leverage existing retirement plans to create emergency savings funds for individuals. What that does is it leverages the convenience of existing payroll deductions. Participants are already familiar with these plans. It is easy for the employer.

But it is a way to help employees build a buffer of $1,000 or $2,000 in savings that when an emergency hits that they have to fix their car, or there is a medical expense, they can tap that source of savings instead of going to a source such as a payday lender.

We also think that will have the benefit of reducing retirement plan leakage because in addition to accessing payday lenders, many individuals take loans from their 401(k) plans, which often then permanently impacts their retirement preparedness.

The CHAIRMAN. Do you have an additional question?

Mr. ASTRADA. I do not want to monopolize the time, but I just wanted to give some context also that every year we, along with our coalition partners, do a nonpartisan poll. That this regulation and concern over predatory lending is a nonpartisan, broadly supported issue like across Republican, Democrat, independent on a sense of equity. This is something that everybody supports across the political spectrum and we work widely with our faith community across many denominations that this is a very broad and unified coalition in terms of our concern.

Senator JONES. One thing, before we get to Senator Scott, one thing that I have got a concern about at least the statistics that I have seen in Alabama, we can talk about emergency loans, but so many of them are not, it just depends on your emergency.

I mean, paying the power bill sometimes, and just making ends meet, and putting food on the table for your children, in many instances, is what a lot of people, how this starts. As opposed to the car that breaks down and you cannot get to work, or you have emergency medical bills.

Ms. DUDLEY. We recognize that. We know that.

In fact, this one employer that I was mentioning, they can pay out in 24 hours. They have a group of folks that are employees with the same company, and they administer it, and they meet typically almost every day because somebody has almost always got something. And they have it down to about 24 hours, but it is a real problem.

The CHAIRMAN. I will shift the gears a little bit again, because I know the American Benefits Council has some enthusiasm for the open Multiple Employer Plans, small businesses can pool their retirement plans.

We have a couple of glitches with that yet, but I think they hold a lot of promise for expanding access to retirement savings options for employees of small businesses, which is usually the administrative part of that creates a lot of difficulties and a lot of additional expense. But if we can group them together, they can do something with it.

Under these plans, would sponsors have greater access to the financial literacy resources for 401(k)'s that you talked about today?

Ms. DUDLEY. That is a great question and I am so glad you mentioned those. We are huge fans of the Multiple Employer Plan and it is included in RESA as well.

The reason we are is because we do think it will reduce costs and make it easier for people to have access. Not only small employers, but individuals, people that maybe have multiple jobs can treat themselves as if they are self-employed and can participate.

We have a lot of companies that are poised to provide Multiple Employer Plans including financial education, financial tools, financial tools in budgeting, basic budgeting information to work with people that are participating in Multiple Employer Plans. And also, to address the lifetime income, the period of time in retirement to help people understand those options as well.

It is actually a door that we need to find a way to open and let people in.

The CHAIRMAN. Thank you.

For Treasurer Carranza, the role of nonprofits, I know you will be looking at in promoting financial literacy in retirement security. They have a variety of missions, as many as the organizations themselves, I think.

But based on any of your work so far, is there any consistent coordination between Federal agencies and nonprofits?

Ms. CARRANZA. Yes, the term duplicative I use very cautiously, but most definitely we have agencies that do very, very good work in that area, but it is done between several agencies. We are looking to try to better collaborate and coordinate those efforts.

One, because I believe that some of the agencies design their particular programs or products based on the constituency they may have. I will just give one big example which is D.O.D. They are very unique. They have different services. They have portals for the Navy and the Army and Air Force, and each one has a unique need.

However, our reform efforts are to take advantage of the best practices and the best tools that are in place, measurements as well, and consider the population with the greatest need and focus in on those areas.

But yes, it is a plethora of opportunities for us to improve the work, the body of work of the Financial Literacy and Education Commission.

The CHAIRMAN. Well, I am really excited that you are in charge of this task force. I have seen your good work with the Small Business Administration and look forward to the results from it.

Ms. CARRANZA. Thank you.

Senator JONES. I think Senator Scott has——

The CHAIRMAN. Senator Scott.

Senator SCOTT. Thank you.

I hope that we do not forget that while the Government can play a significant role in helping to educate the public, the reality of it is that there are a lot of private sector tools that are already available. So we are, in a way, trying to solve a problem that we cannot solve with our tools.

One of the old sayings, “Ignorance is bliss;” ignorance is not bliss. The fact of the matter is in the private sector today, small employers—which two out of three new jobs are being created by small employers not by Government anywhere—you can get a simplified 401(k) plan started for under $1,000.

It is not that the expense is so high; sometimes the information that is being disseminated to the small businesses does not get to the desk of the guy or the gal who has to be the business owner/widget maker/human resources/the legal department.

Part of our problem is disseminating information in a consistent way that allows a small business owner, and perhaps as part of our target market what we should be looking at is the small business owners, and so many of the folks who will be challenged in retirement will come from one of those businesses.

But there is also an important role in the entire financial literacy conversation around certainty and predictability. There are a number of programs today, and I am not sure if you are familiar with them, but I would love to hear your perspectives on it if you are, that during the annuitization phase, you have a guaranteed return on the dollar; so 5 percent, 6 percent, 7 percent.

I think it is rather the Allstate’s of the world, the Prudential’s of the world guaranteeing the outcome, the money going out will be at 7 percent. So if you have $100,000 accumulated, you can have a 5 percent, or a 6 percent, or a 7 percent guarantee. That is part of the answer to, “How do I know how much money I will have in my retirement?” It is having a fixed dollar amount, a fixed interest rate that is guaranteed for the lifetime of the individual.

If you want a lifetime income, typically the interest rate is lower. If you want a 20-year payout, the interest rate may be higher. But those types of plans and the dissemination of that information is critical for us to have the certainty and predictability that the average person is looking for.

Mr. JAIN. Thank you.

I absolutely agree and just to build on or to respond to the Senator’s comments, I think one of the key issues from a retirement preparedness standpoint is the very varying longevity outcomes that retirement participants are going to have.

Some individuals might live until their late sixties, some might live until their late nineties. How do you then plan for a retirement that might last anywhere from 5 years to 30 years?

Providing private sector solutions that help spread longevity risk across many individuals, we think, is going to be critical to helping maximize individuals' retirement assets. We think there is an opportunity to provide more of these solutions within worksite retirement plans. We think RESA can help with addressing some of the obstacles that currently prevent some plan sponsors from introducing these types of solutions.

Senator SCOTT. Ms. Dudley, do you have a question or a response to that?

Ms. DUDLEY. I would just underscore Mr. Jain's point.

We also think that there are some real opportunities to address the concerns about longevity risk, which very few people really understand. When they retire, they do not really have an appreciation of the impact of longevity risk and the interrelationship of health care costs and longevity risk, and how those fit together.

But we do think retirement plans, here is a wonderful opportunity to help people start preparing for that with their first dollar by embedding some of these solutions in the investment option. There are some barriers to doing that, but we think that together we can perhaps break down some of those barriers and help employers.

A lot of employers are reluctant to put them in there because of their concerns about the fiduciary issues around it.

Senator SCOTT. As I am running out of time in this question phase, which obviously I have not been phased about running out of time since I was 7 minutes over last time, so I will be a little more sensitive this time, Mr. Jones.

Two final thoughts No. 1, our final market for this conversation is not the simple, default, those living in poverty or those in the bottom quintile of earners.

The reality of it is that your target market for this conversation is the middle income earner because those living closer to poverty, the Social Security benefits included in, they are at the lowest risk of all of our folks, and we do not typically appreciate that.

The folks who are actually the target market for us from a financial literacy perspective on retirement should be the average earner, not necessarily those folks who may be exposed to payday lending and other things that we are mostly concerned about or very concerned about.

The second thing I would say is that because of that first comment the long term care aspect of retirement is one of the major concerns of any one in Middle America because the ability to outlive your income is one thing.

If you find yourself needing assistance in your retirement through a long term care facility, if we are looking at complementary or harmonizing benefits that need to work together, your 401(k), your long term care planning or the lack of it could implode your entire financial plan if, in fact, it costs you $200 to $300 a day in a long term care facility.

Once again, those folks at the threshold, right above the threshold of poverty, Medicaid is going to respond quicker than the person who has to deplete their assets down to $3,000 and totally destroy their financial plan.

I am not sure if that is a question, but it certainly is a comment. I would say that if there was a question, how do we fuse together the important reality of long term care, providing for long term care and the 401(k)/financial literacy concerns that we have over just retirement, as if it is not a health care conversation as well?

Ms. DUDLEY. Well, we think it is a health care conversation as well because as you age, health care takes up a bigger portion. And by health care, I am including personalized care, just help getting around, just physically getting around, and those kinds of tools that you need to get around. Those things take an increasing amount of your money and so, being prepared for that.

That is one of the reasons that we have tried to integrate in our health well-being programs, the financial security includes addressing health care and vice versa. In our financial planning, we try to include health care.

The other thing that we really think that we need to do all together, besides just educating people and we have a number of ideas about that, but also we need to let some of these products evolve a little bit. We need to give enough flexibility. We want to break down the barriers so companies can put these different investment options in the plans, but you do not want them to be limited in their innovation, so that they can evolve to do more things, if that makes sense.

Senator SCOTT. Absolutely, we see that on the life insurance side already where you have seen the ability to use a part of the benefit before you pass away to pay for some of the long term care challenges.

Ms. DUDLEY. Right and maybe there is a way to take some of the health care dollars and help you use that for retirement in retirement.

Senator SCOTT. Only 3 minutes over, so I apologize, but thank you very much.

The CHAIRMAN. That is fine.

Mr. Astrada, I think, wanted to comment.

Mr. ASTRADA. I just wanted to share some of our research especially to your first comment. A lot of the impact and dangers of payday lending is, in fact, for middle income individuals that have an income and a bank account. So it is, we are seeing the negative impacts across the full spectrum.

Senator SCOTT. No doubt. When you study the figures, one of the things that I think manifests fairly quickly is the bottom two quintiles is where you see the greatest exposure and the damage from the payday lending cycle, the cycle that never ends.

As you move up the income strata, you find that impact plateaus at some point in the top end or heading toward that middle income, that $55,000 to $58,000 you start seeing a different utilization, from my understanding, of the payday lending. Not to suggest that it does not exist there.

That the most powerful impact that we see, especially in studying our troops to folks living in poverty is that E2, 3, 4 and the folks under that $45,000 to $50,000 range is the research that we have done on that. But I am not here to debate that point.

My point was simply that if you are looking at a target audience for this conversation, let us not forget Middle America. Not that you do not have a target audience beyond that or below that or above it, but that is an area that we see that Social Security that was designed for someone to live on for about 3 years in retirement because they are going to die 3 years after they retired. We now have a situation where the average age is 15 years into retirement.

Factoring all of that in to financial literacy and having a conversation about other things other than what that looks like, I think, is important to bring the focus back.

That was only my point. Thanks.

The CHAIRMAN. I want to thank everybody for their participation, your time, your insights and hopefully some answers to some questions that will also be submitted that will wind up with us doing some additional legislation or perhaps Ms. Carranza's committee will come up with the solutions for us and we will not have to do that. But I think we have the right person heading that up.

I want to thank the Members of the Committee who participated today. I think we got a lot of information and ideas. I even have a few memories that I wrote down that are a little peripheral to all of it.

When we were doing education planning, I took my oldest daughter to college and they found out that she had savings, because we made our children work. They said, "You know you would have been better off if you would have bought a car with that." She would have qualified better for financial help. Then they suggested since we owned a shoe store that we could sell one-fourth of our store each year and pay for her college tuition. That did not work with our financial plans either.

I will ask that the hearing record stay open for 10 days to accommodate additional questions that other Senators may have for the witnesses.

The CHAIRMAN. If there is no further business to come before the Subcommittee, it stands adjourned.

[Whereupon, at 4:04 p.m., the hearing was adjourned.]

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