

Financial Fitness...It's Priceless Public Policy Deliberation Guide



2012 – 2nd Edition

**Produced by:
American Association of Family & Consumer Sciences**

**Developed by:
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What is Financial Literacy?... Financial Security?

In preparation for successful use of this guide, acquiring a conceptual definition for “financial literacy” will be helpful. In an article appearing in *The Journal of Consumer Affairs*, author David Remund makes a case for establishing a clearer definition of “financial literacy,” especially in the context of our increasingly complex economy. He notes that “scholars, policy officials, financial experts and consumer advocates have used the phrase loosely to describe the knowledge, skills, confidence and motivation necessary to effectively manage money. As a result, financial literacy has varying conceptual definitions..., as well as diverse operational definitions and values.”

After an extensive review and synthesis of the literature, Remund formulated the following definition, suggesting that it provides common ground for future work to devise better ways to properly operationalize the concept.

Financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions.

Though Remund’s definition implies financial literacy should lead to financial security, there are surely examples of situations when this is not the case. Nonetheless, it is certainly hoped persons who are well informed about issues and topics related to money management will use the insights and skills they have acquired to make personal financial decisions that will render themselves **financially fit**...of sound condition or good shape. As the term “security” in general usage is synonymous with “safety,” the ultimate outcome of being financially literate and fit is to have ensured that one’s financial well-being is protected against danger and loss.



How Was This Guide Developed?

During strategic planning sessions, members of the Public Policy Committee of the American Association of Family and Consumer Sciences (AAFCS) noted how well received and used the *Sizing Up America Deliberation Guide* and other accompanying materials have been and continue to be. Wishful of continuing such momentum, it was determined a second guide focusing on the problems of poor financial literacy and security be developed.

An advisory board composed of experts employed by relevant external entities, as well as members of AAFCS, was created. Members of this advisory group were consulted individually and collectively on numerous occasions. Their insights were invaluable to the process of analyzing the nature and scope of the problem of financial illiteracy. Equally important were their visions regarding possible solutions.

Advisory board members included:

- Jeanne Hogarth, Federal Reserve Board
- Kathleen Tesi, Federal Deposit Insurance Corp.
- Nancy Granovsky, Texas A & M University
- Faye Griffiths-Smith, University of Connecticut
- Nancy Gonzalez, National Council on Family Relations
- John Parfrey, National Endowment for Financial Education

- William Cheeks, Jump\$tart
- Jason Alderman, Visa USA
- Missy Tysinger, Wachovia Corporation
- Judy Allen, Texas State University

This publication is a revision of the original deliberative forum guide; a second edition.

How Will The Deliberation Guide Be Used?

The *Financial Fitness...It's Priceless* guide will be used as a basis for conducting deliberative forums across the United States. These forums are designed to discover common ground on the issues of financial literacy, education, and security.

The prerequisite to any legitimate public action is to base action on the public voice--judgments people make about the purposes and directions of their communities, states, and the nation. The public voice is obtained by carefully considering what people think about a given issue and, further, what they want to do to address it with any local, state, or national action or policy. Moving citizens to common ground often requires a positive catalyst.

A deliberative guide does not provide answers to challenging questions related to social problems, but instead provides a framework to help people thoughtfully and carefully consider a variety of policy directions designed to address the problem. It assists the public in coming to thoughtful judgment about what should be done about a challenging social issue.

Public deliberation is a means for citizens to make tough choices about the basic purpose and direction for their communities and country—a way of reasoning and talking together. It is neither a partisan argument where opposing sides try to win, nor a casual conversation conducted with superficial civility.

Deliberative forums provide a safe non-partisan venue for citizens to struggle with challenging

issues facing their communities and nation. These forums are based on the idea that, in a democracy, citizens have a responsibility to get together to talk through their common concerns, to weigh possible alternative actions to address these problems and to eventually send signals to officeholders and others about the desired direction for public action. This is how members of the public can put their social capital to work.

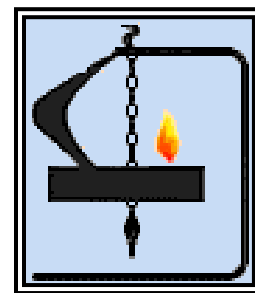
Deliberative action occurs when participants gain a sense of what steps may be taken on an issue as a result of the deliberative forum. Many outcomes, either products or actions, can result from forums. Some can be readily observed, while others cannot.

Deliberation is a long-term investment, not a “quick fix.” The process is not linear or orderly. Many things can be happening simultaneously.

There is no “right” path or action resulting from the deliberative process.

As a result of participating in deliberative forums, individuals might:

- Make personal use of ideas generated during the forum.
- Adopt the deliberative process in other areas of life.
- Work to articulate a public voice on the problem and its possible solutions. Then, distribute this information to the wider community, including public decision-makers; or
- Make a commitment to take action with other citizens or groups.



AAFCS Betty Lamp

Financial Fitness... It's Priceless: Public Policy Deliberation Guide

While financial literacy and financial security are indeed “priceless,” the possible costs to an individual of being financially illiterate are many. Among the most devastating are these “price tags”:

- Excessive debt
- No savings or emergency funds
- Poor credit rating
- Vulnerability to predatory lending and other scams
- Loans involving negative equity
- Personal bankruptcy
- Home foreclosure & car repossessions
- Few, if any, workplace benefits
- Inability to retire when desired, if at all

Such outcomes can negatively impact a person’s family members as well. When individuals and families experience monetary troubles that jeopardize their financial security, their ability to meaningfully contribute to the economic vitality of the community in which they live is also compromised.



Nature and scope of the problem

When all of the costs of financial illiteracy and poor financial decision-making are tallied, just how big is the bill?

Debt continues to be a problem among Americans of all adult age groups. **Consumer debt** in America is projected to be well into the trillions. The household debt service ratio (DSR) is an estimate of the ratio of debt payments to disposable income. In 2007, this figure reached a 27-year high, but has slowly improved to levels consistent with other recessionary times.



According to the Bureau of Economic Analysis within the U.S. Department of Commerce, the **personal savings rate** has been falling for 35 years. From a rate of 14.6 percent in 1975, the decline hit a significant low of 1.0 percent in 2005. Despite a bit of improvement in the rate since then, it still appears that many Americans have been spending nearly all of their earnings after paying taxes... and sometimes more. For those who are counting on continued employment, wealth derived from home and other equities, and/or inheritances, this trend may be less worrisome. However, results from recent studies conducted by the Pew Research Center suggest the situation among the young, unemployed, and poor is more tenuous. Persons in these groups say it is harder to save. Many report having dipped into savings, if they had any, during what is now being called the Great Recession.



How likely is it, then, that individuals and families can follow the oft-heard advice to create **emergency funds** capable of covering three or more months' living expenses? Emergency funds consist of liquid assets that can easily and quickly be converted to cash for needs when unexpected expenses arise. Studies on household emergency fund holdings indicate that most households do not abide by such advice. For example, only 36 percent of respondents for a 2011 study conducted by the National Foundation for Credit Counseling indicated they would be able to tap savings to cover a \$1,000 unplanned expense.



Significant, long-term indebtedness can affect one's **credit rating or credit score** as compiled and maintained by credit bureaus and credit reporting agencies. Individuals with poor credit ratings are deemed at risk of defaulting on loans. One growing trend among insurance companies is the use of credit scores to predict auto insurance risk. Additionally, many employers are seeking job applicants' permission to review their credit histories as these are thought to be indications of personal responsibility.

A recent study commissioned by Consumer Federation of America and VantageScore Solutions found nearly half of those surveyed do not regularly obtain their credit scores and do not fully understand how such scores are impacted, calculated, or used. With regard to one type of credit score known as FICO, an individual's rating could be as low as 300 or as high as 850. In 2010, approximately 25 percent of Americans were reported as falling

below 599, a range of credit worthiness that is considered "weak."

The U.S. Department of Housing and Urban Development has defined **predatory lending** as abusive lending practices, including excessive or hidden fees, refinancing at no benefit to the borrower, offering a loan knowing the borrower lacks the means to repay it, and high-pressure sales tactics. It is difficult to arrive at an accurate figure for the number of persons or households victimized by predatory lending and other scams each year, as many victims do not report their situation. While home buying is a common context for unfair, deceptive lending practices, car loans and payday loans are frequent contexts as well.

In the recent past, roughly 2004 to 2007, predatory loan practices were prevalent in the housing arena. In the fall of 2007, subprime adjustable-rate home mortgages (ARMs) made up only 6.8% of all US mortgages, yet they were associated with 43% of the foreclosures begun at that time. By October 2007, approximately 16% of subprime adjustable rate mortgages were either 90-days delinquent or the lender had begun foreclosure proceedings, roughly triple the rate of 2005. In January 2008, the delinquency rate had risen to 21% and by May 2008 it was 25%.



The 2006 U.S. Foreclosure Market Report stated that 1.2 million **foreclosure filings** were documented that year, up 42 percent from

the previous year. As the housing market collapse became more evident during the following year, foreclosure activity seemed to spiral upward and out of control. Perhaps, as a result of some counter measures being put in place, the picture is improving. In the early months of 2012, new data released by Realty Trac show foreclosure filings have returned to 2007 levels. While this is good news to some, California and Florida remain the top two states with regard to foreclosure filings.

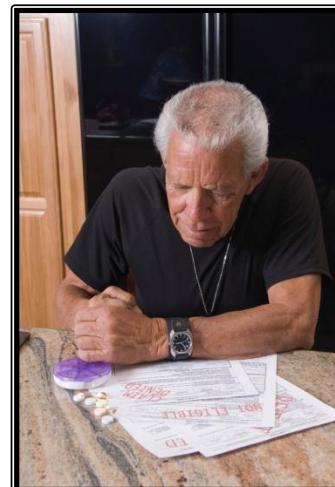
Those living in poor and minority neighbor-hoods are particularly vulnerable and the consequences reach beyond those that lose their homes. Efforts to revitalize neighborhoods and promote home ownership are weakened when numerous home foreclosures and repossessions occur as an outcome of predatory loan practices.



A closely related phenomenon is that of zero **or negative equity financing**. Also known as “upside down” or “underwater” equity, negative equity refers to owing more on a loan than the value of the asset (a house or a car, for example) for which the loan was secured. The owner of a home or car with negative equity is at risk of foreclosure or repossession when faced with a job loss, divorce, death, or other crisis event. First American CoreLogic, a provider of information, analytics, and business services routinely analyzes the distribution of equity for residential properties across the nation. Based on data regarding more than 48 million residential properties in December, 2011, CoreLogic reported 11.1 million, or 22.8 percent, had

mortgages in negative equity situations. Nevada, Arizona, and Florida were states with the highest numbers of negative equity mortgages.

Though the number of personal **bankruptcy filings** each quarter and year have fluctuated, the overall picture has been one of steady increase since the mid 1980s. According to figures maintained by the U.S. Courts, some improvement has taken place in recent times. In the 12-month period ending December 31, 2011, the number of non-business filings in federal courts was 1,362,847. Calendar year (CY) 2005 saw an historic high of over 2 million bankruptcy filings. While filings dropped in CY 2006, perhaps as the result of the enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, their number grew steadily each year after. CY2011 is the first to show a decrease in total filings since CY2006. Bankruptcy poses lasting repercussions for individuals and families. It typically takes considerable time to recover.

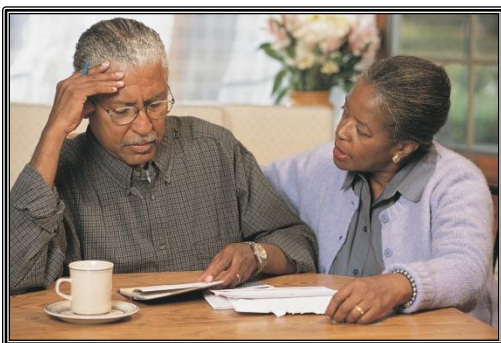


Many persons facing bankruptcy are also dealing with a medical crisis for which they have **little or no health insurance**. According to Census Bureau reports, the number of persons without health insurance benefits rose to 49.9 million in 2010, representing 16.3 percent of the nation’s population. As to children under the age of 18 specifically, 9.8 percent or 7.3 million are uninsured. Regions in the Northwest and Midwest had the lowest uninsured rates.

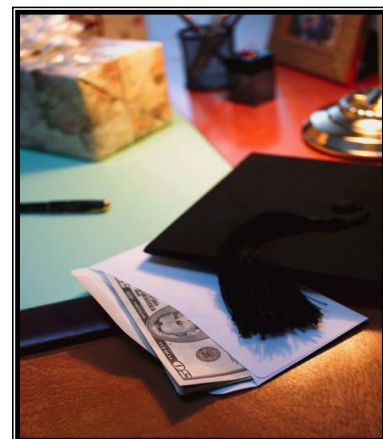
On a regular basis, Country Insurance and Financial Services surveys a segment of the American population regarding their perceived financial security and reports the findings in the form of the Country Financial Security Index. Results in April, 2012, were not reassuring. Slightly over 40 percent of those surveyed rated their personal level of financial security as excellent or good, down from 48 percent reported five years ago. Sixty-five (61) percent of respondents indicated they were very or somewhat confident they will have the resources to send their child to college. **Concerns about retirement** were also apparent, as only 57.2 percent said they were very or somewhat confident they will have the financial resources for a comfortable retirement. Many indicated they would likely delay retiring and would also likely work part-time jobs once retired in an effort to augment income and savings.

***Addressing these situations
presents serious and challenging
public policy questions.***

Concerns about retirement have also been documented by the Employee Benefit Research Institute whose 22nd annual Retirement Confidence Survey revealed in 2012 that 52 percent of employed workers surveyed were either very confident or somewhat confident of having enough money for a comfortable retirement. Sadly, 60 percent of workers saving for retirement reported total savings and investments (excluding the primary residence and defined benefit plans) of less than \$25,000.



From 1992 to 2004, the percentage of households headed by persons age 55 and older with overall debt grew faster than the rate of the overall population. In households headed by persons 65 and older, the average amount of credit card debt more than doubled during this time period reports Demos, a New York think tank. Much of such debt can be attributed to rising health care, housing, and energy costs. Excessive debt is forcing some seniors to delay retirement as well as nudging others who already exited the workforce to come back again. More and more older persons are filing for bankruptcy. Though many resist turning to their middle age children for assistance, those that do often find their offspring struggling with their own debt, especially if they are also assisting with underestimated and sky-rocketing college expenses for their own children.



According to the Federal Reserve Bank of New York, as well as Mark Kantrowitz, financial aid expert, total **student load debt** passed total credit card debt for the first time ever in late 2010. Depending upon the institution of higher education attended and for how long, graduating college students can find themselves facing student loan debt ranging from \$12,500 to \$200,000 or more. Coupled with credit card debt they may also have accumulated during their college years, many new professionals find it necessary to return home to live with their parents as well as postpone marrying, having children, or purchasing a home. Often shocked by the final debt figure they are facing, most

graduating students admit they were not diligent in tracking their accumulating debt during the years they pursued their education.

Companion problems add further complexity

Few problems exist in isolation. Though one behavior or situation may not be a direct cause of another, it can often be the case that when one occurs, the other does as well. These co-existing behaviors or situations are said to correlate with one another. So it is with the various manifestations of financial illiteracy. When individuals and families exhibit various signs and symptoms of poor financial fitness, many of the following problems may be present.

- Conditions of poverty
- Compulsive and impulsive behaviors related to spending and shopping
- Addictive behaviors related to alcohol misuse and gambling
- Physical and mental health problems, many of which spillover from home to the workplace
- Individual and family crises involving divorce, death, and job loss
- Being poorly networked with those who can provide professional assistance
- Cultural and societal barriers
- Lack of knowledge and skills

In each of the years associated with the recent recession, the poverty rate has risen. The official U.S. poverty rate, according to the U.S. Bureau of the Census, in 2010 was 15.1 percent, involving 46.2 million people. This figure is the largest in the 52 years for which poverty estimates have been published. The National Poverty Center notes there is considerable variation between subgroups. Poverty rates are typically higher among persons of color, children, and single female heads of households.

Sylvia Allegretto, author of an Economic Policy Institute briefing paper, says “the ability of families to meet their most basic needs is an important measure of economic stability and

well-being. While **poverty thresholds** are used to evaluate the extent of serious economic deprivation in our society, family budgets—that is, the income a family needs to secure safe and decent-yet-modest living standards in the community in which it resides—offer a broader measure of economic welfare.” Allegretto’s study of 400 U.S. communities and six family types found over three times more working families fall below the family budget levels as fall below the official poverty line. Of the various households studied, more than 14 million people lived in families with incomes below the basic family thresholds.



The reported incidence of **impulsive and compulsive shopping** varies across research studies. An often cited article by Koran et al estimates compulsive buying affects between 1.8 to 16 percent of the adult U.S. population. According to Sunghwan Yi, a marketing professor at the University of Guelph, impulse buyers find reasons to justify their spending, try to forget about the cash they just dropped, or hide the purchase from others. Compulsive shoppers have little control over their spending habits and will binge buy. The “rush” impulsive and compulsive shoppers get from buying an item is followed by feelings of regret, guilt, shame, and anxiety. Their only relief from this is to make yet another purchase. Tantalizing advertisements, easy access to credit, and the conveniences of shopping by phone or computer serve to enhance temptations.



While the recent recession has impacted the gaming industry, the American Gaming Association website reports the gaming industry experienced gross revenues of more than \$34.6 billion in 2010. According to figures posted on the website for the National Council on Problem Gambling, an estimated 2 million adults in the U.S. are pathological gamblers, while another 4 to 6 million are **problematic gamblers** whose personal, family, or vocational pursuits are compromised, disrupted, or damaged due to their gambling behaviors. Children and teenagers are becoming increasingly involved in gaming activities to the point that it impacts their well-being.



Though pathological and problematic gambling has emotional and psychological roots, there are often negative financial consequences. For example, results from a study conducted by Creighton University professors Ernie Goss and Edward Morse suggest gambling debts can contribute to the need to file for bankruptcy. U.S. counties that legalized casino gambling in the 1990s experienced a cumulative growth rate

in personal bankruptcy filings that was more than double the bankruptcy growth rate for corresponding non-casino counties.

As ancient Roman poet Virgil once said, and Barbara O'Neill, Rutgers University Extension Specialist, confirms regarding current times, "The greatest wealth is health." Many unhealthy habits have monetary costs that, upon halting them, can enhance a person's discretionary funds in new and positive ways. There are, however, many **costly health conditions** that are not arrived at by choice. Whether acute or chronic, such conditions can have a major, intertwining effect on household finances, workplace productivity, and future earnings.



Health care costs are rising faster than many other aspects of American life today. When medical bills mount and monetary resources to pay them are inadequate, many individuals and families put less in savings, defer attending to other basic needs, turn to sources of credit, or become delinquent in their payments. Results from the 2009 Health Confidence Survey, sponsored by the Employee Benefit Research Institute, provide illustration. Among those who responded, 32 percent indicated they decreased their contributions to a retirement savings plan in order to address the increased health care costs that were facing them, while 53 percent reported they reduced their contributions to other kinds of savings accounts.

According to researchers Himmelstein, Thorne, Warren, and Woolhandler, costly medical problems were found to be associated

with about 62 percent of the bankruptcies filed in 2007. The cycle is a vicious one. Financial distress also impacts health. In a study conducted by O'Neill and three associates, four in ten participants report their health has been compromised by their financial problems. Among the manifestations of ill-health that were noted were anxiety, depression, sleep problems, headaches, high blood pressure, digestive disorders, changes in appetite and weight, chronic fatigue, and substance use and abuse. All too often, when financial resources are in short supply, individuals and families economize by cutting back on recommended medical tests, screenings, and other health maintenance activities.



Financial distress among workers is widespread. A joint report issued by leading academic scholars and business experts in personal finance synthesized findings from 170 research studies, reports and media stories. They concluded that 1) thirty million workers (one in four) are suffering serious financial distress; 2) people who are financially distressed are often living paycheck-by-paycheck with no money for extras; 3) poor health and financial distress are related; 4) personal financial problems hurt workers' productivity; and 5) financial problems are not confined to lower income levels.

Loss of health is just one of many kinds of losses that can have personal finance ramifications. Loss of job and loss of spouse/partner due to death or divorce can take their toll as well. Among the scholars to investigate the relationship between **financial problems and divorce** is Paul Amato, Pennsylvania State University. While most

divorced persons do not, retrospectively, report that financial problems were a primary reason for their divorcing, longitudinal studies that have monitored married couple relationships over long periods of time have found financial problems emerge as a strong and consistent predictor of eventual divorce. Financial difficulties contribute to increased levels of stress for spouses and decreased levels of marital satisfaction.



Undertaking the process of obtaining a divorce can be costly. The services of attorneys, accountants, mediators, and other professionals can be steep. As debts and assets are divided at the close of the divorce process, it is often the case that both partners face a reduced standard of living as they rebuild their lives separate from one another. When minor children are involved, financial resources for their care are diminished as well. When faced with the loss of a spouse or parent as a result of death, many of the same financial challenges present themselves: legal costs, debt, loss of income, etc. For many adults and children, it takes considerable time before their level of financial stability improves after such losses. To cope with such times of personal and family crisis, it is helpful to be well networked with those who can provide professional advice and reliable information. Unfortunately, many persons do not have such connections.

In 2009, the FDIC conducted a survey of some 47,000 households. The results indicated 25.6 percent of these households, or close to 30 million, were unbanked or underbanked. Nearly 20 percent (or 7 million) of the households involved in the study that had annual earnings

below \$30,000 reported not having a bank account. Instead, the unbanked and underbanked conduct their financial transactions with such alternatives as check cashing stores, payday lenders, title lenders, rent-to-own stores, and tax preparers. Among low-to-moderate income households, the unbanked/underbanked tend to be minority, less educated, and more likely to be unemployed, renting their homes, and have young children to care for.



Many unbanked and underbanked persons reason that it is too costly to use mainstream banking services, especially if they do not write many checks, cannot maintain expected minimum balances, have had a previous account closed due to overdrafts or other problems, and/or cannot easily access such institutions. However, without a bank account, it is more difficult and costly to establish credit or qualify for a loan. For those inclined to try to save, traditional banks and credit unions offer far more safety than a shoebox or cookie jar. Alternative financial service providers also charge fees, often considerably higher than conventional institutions. For example, check cashing stores typically charge a 2-6 percent fee to cash payroll or government checks and, perhaps, as much as 15 percent for personal checks. Payday lenders typically charge 15-17 percent or more for a two-week loan, adding still further fees if the loan has to be rolled over into another subsequent time period.

With all the negative effects of persons/households operating at the margins...living paycheck to paycheck, what hope is there that this trend can be turned around?

Some individuals avoid dealing with mainstream financial service providers out of mistrust, especially for those wishing to remain “under the radar” of government and court officials. As the diversity of the nation increases, various **cultural factors serve as barriers** to banking for many persons. Some find language differences when conversing orally or when reading print materials bring about considerable frustration and misunderstanding. Others have cultural beliefs about the impropriety of discussing money matters with strangers. Lastly, though much progress has been made during the last five decades, various forms of structural discrimination continue to present roadblocks for numerous individuals and families in need of financial services.



An assortment of organizations, both for profit and not-for-profit, have sought to find out **how much Americans know and don't know about personal finance**. For example, in 2011, Charles Schwab & Company surveyed over 1,000 teens between the ages of 16 to 18 years of age. Results indicated teens overestimate their preparedness to deal with personal finance issues once they graduate from high school when compared to what they really know and, in practice, do about such matters. While 82 percent of the teen respondents said their parents have taught them the basics of money management and 77 percent also said their parents were great money management role models, a surprising number of teens, particularly 18-year-olds, did not know how credit card interest and fees work; how to write a check, balance a checkbook, and check the accuracy of a bank statement; how to go about insuring a car; or what a 401(k) plan is.

Two well-known non-profits, the Jump\$tart Coalition for Personal Financial Literacy and the American Association of Retired Persons (AARP), have focused their efforts on differing age groups. Jump\$tart, located in Washington, DC, seeks to improve the personal financial literacy of students in kindergarten through college. Among its efforts is a biennial survey of high school seniors and, more recently, college students from across the nation that features questions aimed at assessing respondents' knowledge of and behavioral practices related to money management.



The results of surveys conducted in 1997, 2000, 2002, 2004, 2006, and, most recently, 2008 have been analyzed and compared. While overall average scores for high school students have fluctuated over the course of the ten years, they have never been higher than 57.3 percent (in 1997) nor lower than 48.3 percent (in 2008). College students' overall average score in 2008 was more encouraging: 62.2 percent.

Also headquartered in Washington, DC, the AARP is an organization dedicated to making life better for people age 50 and over. In 2007, the organization conducted the AARP Bulletin Poll on Financial Literacy featuring questions related to benefits, credit, fraud, bankruptcy, and financial planning. The results were discouraging, says the study's executive summary. Not one of the 1,000-plus poll respondents correctly answered all of the questions. The average score was 50.3 percent. This is worrisome since scholars have noted that financial literacy is highly correlated with financial retirement planning which, in turn, is correlated with higher retirement wealth levels.



There are numerous entities (e.g., government agencies, businesses, corporations, schools, not-for-profit organizations and more) taking up this call to action...too many to adequately identify in the limited space of this guide. One federal government agency is attempting to facilitate communication and networking among the key players in this nationwide effort. The Financial Literacy and Education Improvement Act of 2003 established the Financial Literacy and Education Commission (FLEC), which is chaired by the U.S. Secretary of the Treasury and comprised of heads of 20 relevant entities such as the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; the Federal Trade Commission; and the Departments of Education, Agriculture, Defense, Health and Human Services, Housing and Urban Development, Labor and Veterans Affairs.

What can we, as concerned citizens, do personally, as a community, and as a nation, to promote financial literacy, education, and security?

Since its creation, FLEC has convened for quarterly meetings and hosted summits to discuss best practices; developed national strategies for financial literacy, the latest of which is entitled "Promoting Financial Success in the United States: National Strategy for Financial Literacy 2011," established a website (MyMoney.gov) to serve as a clearinghouse and coordinated point of entry to information about financial literacy and education programs, grants, and other resources; established an informational hotline available to the members

of the public seeking personal finance information; and helped to establish and convene the first meeting of the National Financial Education Network of State and Local Governments.

The same legislative act that created FLEC also mandated the U.S. Government Accountability Office (GAO) assess the Commission's effectiveness. During 2006, the GAO analyzed FLEC documents and products (national strategy, website, and hotline) and interviewed financial literacy representatives in an effort to benchmark the Commission's progress against the GAO's criteria for such undertakings. Upon analysis, the GAO stated in its report that the Commission's work thus far has provided useful first steps in focusing attention on financial literacy. However, the report noted numerous deficiencies and issued important recommendations for improvement, particularly in the areas of goal-setting, measuring performance outcomes, and documenting program effectiveness.



One step toward further improvement was taken at the close of President George W. Bush's tenure when he signed an executive order creating the President's Advisory Council on Financial Literacy. This diverse, 16-member council achieved a number of accomplishments, including the launching of the first-ever National Financial Literacy Challenge, a 35-question exam on personal finance issues administered by the Treasury Department on two occasions in 2008 to more than 121,000 American high school students. Various roundtable and town hall meetings were held. Fifteen recommenda-

tions were formulated and passed along to the next presidential administration, some of which are featured in coming pages of this guide.

In 2010, President Obama subsequently signed an executive order creating the President's Council on Financial Capability. While this council has evidenced its own unique emphases and priorities, it has continued to sponsor the Challenge exam (now called the National Financial Capability Challenge). In 2011, more than 84,000 high school students took the exam, the results of which were encouraging. The national average score was 69%. The number of students with perfect scores was 563, with 18,192 students placing in the top 20%. Five states with the top average scores were Idaho, Vermont, South Dakota, Oregon, and Maine. During March and April, 2012, the exam was administered again.



The financial literacy and education puzzle is still being solved. The goal of financial fitness for all Americans remains illusive. What more can be done, how soon, and by whom?

Possible Approaches to the Issue

This guide presents four approaches to address the issue of financial literacy/security.

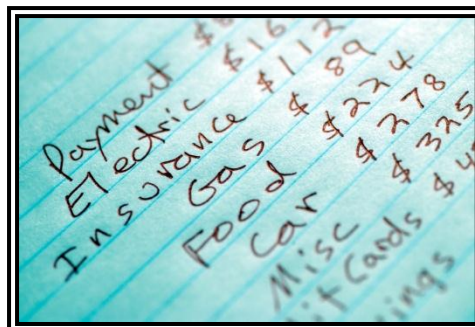
Approach One Prevention Through Education

Supporters of this approach posit that developing and delivering educational programs and materials related to personal finance management will remedy the problems of financial illiteracy and, thus, financial insecurity by preventing them from occurring in the first place. Coupled with skill-building exercises, good quality instruction can prepare individuals and families to make decisions in a variety of financial situations. Two of many providers of financial education are described below.

The National Financial Educators Council (NFEC) provides financial education solutions to individuals, schools, businesses, families, government and nonprofit organizations around the globe to improve financial literacy. After years of research, including interviews with over 20,000 people nationwide, the organization developed a 30-item Financial Literacy Quiz appropriate for persons age 12 and older. The questions assess motivation to learn personal finance topics, knowledge of money management topics, and the ability to identify the first steps to take toward reaching one's financial goals. The quiz can be used as a pre- and post-test in conjunction with NFEC's financial literacy curriculum or as a learning tool for purposes of determining someone's current financial capability.

According to its website, the National Endowment for Financial Education (NEFE) "provides financial education and practical information to people at all financial stages. NEFE believes that regardless of background or income level more financially informed individuals are better able to take control of their circumstances, improve their quality of life, and ensure a more stable future for themselves and their families...[it] began with the NEFE High School Financial Planning Program® (HSFPP)

and have since built numerous programs for consumers based on research and our expertise. All NEFE resources are available at no cost."



What can be done?

- Develop accurate, easy to understand, and easy to access information appropriate for persons of varying ages, life stages, and cultural backgrounds.
- Deliver educational programs and materials in a broad assortment of venues using multiple mediums at little or no cost to the audiences that partake of them.
- Deliver credible personal finance information online.
- Encourage collaboration among the various entities that develop and deliver personal finance education in an effort to ensure efficiency and prevent duplication.
- Establish a "Financial Literacy Corps" and accompanying volunteer service awards at the national, state, and local levels.
- Mandate the completion of a personal finance course for high school graduation. (See Jump\$tart website for listing of those states where such mandates already exist.)
- Establish a national level Post-Secondary Honor Roll program to recognize colleges and universities that are providing high quality financial education to students.
- Support legislation requiring states to provide financial education to Temporary Assistance for Families (TANF) recipients.
- Offer personal finance seminars in the workplace, including military bases, and in other community settings.

- Require pertinent financial instruction as a step in the process of securing loans, such as mortgages and college financial aid. Further take advantage of other “teachable moments” to provide financial education at the point when consumers are setting up a bank account or making arrangements for retirement savings.
- Ensure the continuation of the Community Financial Access Pilot program operated by the U.S. Department of the Treasury to increase access to financial services and financial education among low- and moderate-income families and individuals, especially individuals who have no bank or credit union account.
- Continue the recently launched national level Workplace Leaders in Financial Education Award.
- Design, implement, and publicize the results of high quality evaluation studies of educational programs and resources.
- Help consumers to distinguish between credible, reliable sources of information and those sources which are untrustworthy.



Concerns about this approach:

- Educational programs aimed at the general public are costly and their effectiveness unproven.
- There are already too many subject matter mandates the public schools must meet. There is no time left to attend to further requirements.
- There are too few qualified personal finance teachers to meet the instructional needs of children and youth in the public schools, let

alone to meet the instructional needs of adults of all ages.

- Lessons regarding money and money management should be taught within the home. Many persons consider these matters “common sense.”
- People who need personal finance information and skills often do not realize or admit their deficiencies and, thus, are not attracted to educational offerings.
- It is possible that individuals and families can be exposed to good quality information about finances and still not use it or apply it wisely.

Likely trade-offs:

- Do you support spending time and money on education to prevent financial illiteracy, even if this action takes time and money away from educational pursuits related to science, English, or history?
- Do you agree we should invest in education to prevent financial illiteracy, even if such action has its limitations?

Approach Two Provide Counseling/Advice

For many individuals and families for whom newly provided information comes too late, supporters of this approach say professional financial counseling and advice can help to remedy the monetary crises they currently face. For some persons, it is not a matter of inadequate information, but rather the need to modify their attitudes and behaviors regarding money and money management. Counseling can facilitate such adjustments.

Personal finance is, by definition, personal. A lot of consumers need help in personalizing the information they receive and customizing financial products and services to meet their specific circumstances, goals, and timelines. The features of many financial products are too complex for even the most sophisticated of consumers. Access to quality counseling/advice can help people to better

weigh their financial choices and arrive at sound decisions.

What can be done?

- Provide accessible, reasonable cost counseling/advisement services to individuals and families.
- Ensure financial counselors and advisors are well-trained, properly credentialed, and competent.
- Expand mandated counseling from situations such as bankruptcy to those related to foreclosure.
- Create a cadre of financial and tax advisors, similar in structure to SCORE or AmeriCorps, who volunteer their services at little or no cost to low-income persons and families.
- Award tax credits to financial planning providers to offset some of the costs of training personnel and advising low-income persons and families.
- Expand grants programs from which funds can be awarded to community-based organizations. In doing so, they can then hire and train financial counselors to serve community members.



Concerns about this approach:

- Some individuals cannot or do not want to accept responsibility for their problematic actions. They cannot or do not accept that they need to adjust their attitudes and lifestyle behaviors in the future.
- Some dysfunctional situations cannot be helped by counseling or advice.

- Many individuals and families resist undertaking counseling because of feelings of embarrassment and failure.
- Without standards/certification requirements, the market is potentially open to misfits, charlatans, and predators. Thus, consumers are vulnerable to fraud.
- Counseling and advising can be subjective endeavors. Many outcomes depend on the nature of the client, the counselor, and the organization providing the service and the intertwining relationship of these three components.
- Counseling and advisement provided by professionals can be expensive and resource intensive.
- Without frequent post-counseling follow-up, individuals and families can regress and resume old habits.

Likely tradeoffs:

- Would you be willing to subsidize the provision of free or low cost financial counseling and advising services to low-income individuals and families who cannot otherwise avail themselves of such assistance?
- Should we ensure counseling and advising services are available even though the outcome in some situations is not entirely successful or long-lasting?
- Do you agree that performance standards and certification requirements for financial counselors and advisors must be expanded and enforced, despite limitations to the market?
- If you faced a financial crisis, would you be willing to reveal intimate details of your situation to a counselor or advisor or would you see this to be an invasion of your privacy?

Approach Three Expanded and Improved Regulation

In several venues in early 2007, Elizabeth Warren, then a Harvard law professor, pointed out the U.S. has a Consumer Product Safety Commission that demands that all manufactured

goods sold in the country meet minimum safety standards. Yet, there is no equivalent entity that provides oversight over financial products. Instead, there are numerous local, state, and federal agencies that monitor industries that issue financial products. Warren advocated such a commission could respond more quickly and effectively to product innovations and a changing marketplace.

During this same time period, consumers were catching the attention of legislators as well. Many testified in hearings about difficulties they have gotten into with their mortgages and credit card loans. They attribute much of these problems to their inability to understand the lengthy, verbose wording of the terms of their loan agreements. Efforts on part of entities such as the Federal Reserve Board to bring about simplicity and clarity looked promising, but slow to come to fruition.

In July, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. One result of this legislation was the creation of the Consumer Financial Protection Bureau (CFPB). During its inaugural year, Elizabeth Warren guided the Bureau's early stages of implementation. The Office of Financial Education is housed within the CFPB. The tasks of the CFPB are to conduct rule-making, supervision, and enforcement for federal consumer financial protection laws; restrict unfair, deceptive, or abusive acts or practices; take consumer complaints; promote financial education; research consumer behavior; monitor financial markets for new risks to consumers; and enforce laws that outlaw discrimination and other unfair treatment in consumer finance.

What can be done?

- Urge state and federal legislators to authorize and fund financial product safety regulatory entities.
- Urge existing regulatory agencies that monitor issuers of mortgages, credit cards, auto loans, and insurance to revise and improve the products and services they offer.

- Devise means to ensure debt laden parents cannot open new credit accounts using a child's Social Security number.
- Require low income household mortgages to include escrow funds to cover taxes so homeowners are not caught ill-prepared when the tax bill arrives in the mail.
- Fund and carry out well-designed consumer research studies, employing focus groups and other methods, aimed at assessing the readability, clarity, and user-friendly qualities of disclosure information given to consumers of financial products and services.
- Establish a new Financial Services Oversight Council to identify emerging systems risks and enhance interagency cooperation. Perhaps also establish a new Consumer Financial Protection Agency.
- Conduct high quality research studies to evaluate the effectiveness of various existing financial education programs.



Concerns about this approach:

- Those opposed to this approach believe there is too much regulation and oversight already.
- Regulation can stifle innovation and create artificial constraints.
- While regulation is useful for assuring that a provider on whom consumers rely does not fail, regulations specific to financial products and services are neither necessary nor desirable for any other reasons.

- Like any other business, financial service firms will provide better products at lower cost when they are subject to market pressures imposed on them by informed consumers.
- Regulations do not always cover every offering in the marketplace. Some unregulated “bad apples” can still exist.

Likely tradeoffs:

- Are you willing to contribute to funding that would support the operation of state and federal regulatory agencies that would monitor financial product and service quality and safety?
- Are you willing to participate in consumer research studies for purposes of evaluating financial products and services?
- Can some marketplace freedoms be foregone in order to put minimal consumer protections in place with regard to financial products and services?

Approach Four Asset Building Strategies and Other Innovations

Many of us are familiar with the saying, “The road to hell is paved with good intentions.” Even if people recognize they would be more financially secure were they to save more or budget more wisely, we all know from personal experience that transforming good intentions into action can be difficult, especially for households with limited financial means.

Those who study behavioral economics are among those who support this approach. Studies about economic and financial decision-making from a psychological perspective are providing insight into consumer behavior and leading to recommendations about how to improve individuals’ and families’ financial management efforts.

In a speech by Ben S. Bernanke, Chairman of the Federal Reserve Board, to the Fifth Regional Issues Conference of the Fifteenth Congressional District of Texas, this

illustration was provided. Studies of individual choices in 401(k) savings plans indicate workers do not pay adequate attention to their saving and investment decisions. Despite the tax advantages of 401(k) contributions and, in some cases, a generous employer match, 25 percent of workers eligible for 401(k) plans do not participate. It has been shown, however, that if employers change the presentation of the plan from an “opt-in” choice to an “opt-out” choice, participation rates increase markedly, particularly among younger and lower-income workers who may have less financial expertise. Some employers have set the default investment option for their workers to a diversified portfolio that is rebalanced automatically as the worker ages or they have set contribution rates to rise automatically over time in line with salary increases.



Individual Development Accounts (IDAs) are one approach to asset building. They are matched savings accounts to enable those of modest means to save, build assets, and enter the financial mainstream. First proposed in the early 1990s by Michael Sherraden of Washington University in St. Louis, IDAs typically feature match rates of \$1:\$1 or \$2:\$1. Based in Washington, D.C., the Corporation for Enterprise Development (CFED) reports more than 85,000 IDAs have been opened in federal, state, corporate, and foundation sponsored programs in over a thousand sites across the nation during the last decade. These monies have been used by accountholders most often for home purchase, small business start-up or expansion, and post-secondary education.

Increased awareness and utilization of the Earned Income Tax Credit (EITC) would assist limited resource, working households to achieve

important financial goals, including paying off debt and saving for the future. Working families' incomes often fail to meet basic expenses regardless of region of the country. By claiming and utilizing the EITC, working households could increase their financial security. Currently, community involvement in campaigns to increase awareness of this tax credit is being undertaken by many organizations.

What can be done?

- Employers should devise worker savings plans that feature opt-out mechanisms.
- Similarly, employers should have workers' pay automatically deposited in a bank account unless the employee opts-out. One outcome may be increased numbers of workers leaving the ranks of the unbanked.
- Promote Asset Building for Children (ABCs) or Children's Savings Accounts (CSAs) the setting up of savings accounts for infants, children, and youth. For example, consider these proposed and existing opportunities:
 - The ASPIRE Act – KIDS Accounts would have every child born that was issued a Social Security number have a KIDS Account opened for them automatically.
 - Roth at Birth accounts.
 - Coverdell Education Savings Accounts and 529 plans.
 - Young Saver's Accounts, or Roth IRAs for kids, would allow parents to direct contributions to Roth IRA accounts for their children, not just for themselves.



- Promote Individual Development Account programs, especially at the local level, to enable families of limited means to reach financial goals.
- Encourage, as has been considered for military personnel, automatic payroll deductions of \$25 each month until a certain level is reached in a personal emergency reserve fund. Once the optimal level is attained, no more payroll deductions would be taken out. If the emergency reserve is tapped, the payroll deductions begin again.
- Facilitate research and development activities aimed at creating a credit card that lets consumers set restrictions for its use. For example, disallowing cash advances.
- Additionally, alerts could be sent out by mobile phone e-mail if a major change in the credit card account took place, thus thwarting possible thievery.



Concerns about this approach:

- This approach reduces free will.
- This approach may be perceived as patronizing by many consumers.
- The behavior modification involved in this approach seems rather Orwellian.
- Default options must be selected wisely. Will all employers exercise sufficient wisdom?
- Default options cannot be truly customized for each person or situation.

Likely tradeoffs:

- Acknowledging your own tendencies to procrastinate or postpone taking action, are you willing to have your employer make some financial decisions on your behalf?
- Are you willing to divert current funds that could be used for immediate needs and wants to contribute to a...
 - personal savings or emergency account built from automatic deposited funds from paychecks and/or
 - children's savings account of one kind or another?
- Are you willing to forego some of your tax contributions going toward current day government expenditures to instead go to fund a baby bonds program that promotes savings for all children, though you may not have children of your own who will directly benefit?

Closing Remarks

The intertwining issues of poor financial literacy and tenuous financial security are complex. Identifying possible solutions to related problems and assessing their suitability requires careful and collaborative attention. It is hoped, as a result of using this deliberative guide, readers have engaged in meaningful dialogue resulting in commitment to take action.



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For additional policy materials see:

American Association of Family & Consumer Sciences. See <http://www.aafcs.org/policy/index.html>

American Association of Retired Persons. See <http://www.aarp.org/>

Demos: A Network for Ideas and Action. See <http://www.demos.org/>

Jump\$tart Coalition for Personal Financial Literacy. See <http://www.jumpstart.org/>

Kettering Foundation. See <http://www.kettering.org/>

National Council on Family Relations. See <http://www.ncfr.com/pubpol/index.asp>

National Issues Forums. See <http://www.nifi.org/>

New America Foundation. See <http://www.newamerica.net/#>

Policy Institute for Family Impact Seminars. See <http://familyimpactseminars.org/>

The Brookings Institution. See <http://www.brookings.edu/>

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