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POLICY OPTIONS TO IMPROVE FINANCIAL EDUCATION:

Equipping Families for their Financial Futures

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Sorting through credit card offers, deciding how to invest retirement funds in the stock market, picking the right mortgage from a myriad of options, deciding how to save for a child's college tuition—the scope and diversity of the financial decisions a family has to make has grown exponentially. Former Federal Reserve Chair Alan Greenspan observed, "Today's financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a checking and savings account at local banks and savings institutions may have been sufficient. Now, consumers must be able to differentiate between a wide range of financial products and services, and providers of those products and services." (Greenspan, 2003).

The lack of sufficient information needed to make good financial decisions is a problem for many families up and down the income scale. But the consequences are particularly acute for families with lower incomes and fewer resources. Financial education needs to be taught to both children and adults to help fill this knowledge and skills gap.

Policy Options to Improve Financial Education:
Equipping Families for their Financial Futures

Financial education is needed now more than ever because:

- Children and adults have low levels of financial education.
- The financial services landscape has become increasingly complicated.
- Individuals are now much more responsible for making financial decisions that will affect their economic futures.
- Americans are not saving, and bankruptcy rates and debt are growing.

Financial education initiatives should:

- Be taught at 'teachable moments' starting at an early age.
- Be offered in conjunction with an account for greater relevance.
- Address both the supply of and, especially, the demand for financial knowledge.

Recommendations include:

- Requiring completion of a personal finance course for high school graduation.
- Establishing a savings and investment account for every child born in America.
- Creating opportunities for adults to receive financial education in conjunction with an account.
- Encouraging states to provide financial education to TANF recipients.
- Supporting public awareness campaigns that build demand for financial education.
- Creating new funding sources generated by predatory lenders' financial penalties.
- Supporting efforts to provide financial education in the workplace.
- Creating a "Financial Services Corps" to broaden access to financial planning.

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Financial education programs, when delivered effectively, arm individuals with critical knowledge that enables them to foster positive financial behaviors and navigate a complex financial environment. These behaviors include saving, shopping for credit, maintaining appropriate levels of insurance, and avoiding unscrupulous financial services firms. We use the definition of financial literacy developed by Vitt et al. (2005):

> Personal financial literacy is the ability to read, analyze, manage and write about the personal financial conditions that affect material well being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

A growing recognition of the need for a more financially-educated public resulted in the formation of the Treasury-led Financial Literacy and Education Commission (FLEC), which recently released a publication laying out the first glimpses at a national strategy to address this issue. This brief takes the next step of proposing several specific actions that policymakers could take to ensure all children and adults have access to at least a basic level of knowledge about finances to make sound decisions in planning for their futures. It also seeks to address the main challenge of the financial education field—increasing the demand for, and effectiveness of, financial education programs, in particular, linking financial education programs to accounts people own and manage.

RATIONALE

For a number of reasons, the need for financial education has increased in recent years.

Children and adults have low levels of financial education. Adults and children alike lack knowledge of personal financial basics. The JumpStart Coalition for Youth Financial Literacy conducts a survey every few years to test high school seniors on their financial education levels. These students—who will soon begin receiving loan and credit card offers—consistently receive failing grades. For example, the latest survey revealed that only 14 percent of all respondents knew that a stock tends to have higher growth over a long period of time compared to a U.S. savings bond, savings account, or checking account (JumpStart, 2006).

Similar studies show that adults do not have the financial knowledge necessary to plan for their futures. Bankrate.com conducted a financial literacy survey targeting adults in 2004. The average adult received a "D" grade when answering questions on basic financial knowledge and good financial behavior. In many cases, survey respondents knew what they should be doing, such as building an emergency savings funds, transferring credit card debt to lower interest cards, and shopping around to find the best terms on a mortgage. However, even those with good financial knowledge failed to take the appropriate actions. For example, while 61 percent of respondents said it was important to comparison shop when purchasing insurance, only 39 percent actually did so (Bankrate.com, 2004). A similar disconnect is also apparent in retirement planning. While 70 percent of adults are at least somewhat confident that they will have enough money during their retirement years, only 42 percent have actually calculated what they will need to save in order to have a comfortable retirement. Additionally, 22 percent of adults are very confident about having a financially secure retirement, but are not even saving for it (Employee Benefits Research Institute, 2006). Disconnects between perception and reality such as these illustrate how many adults do not realize their need for financial education.

The financial services landscape has become increasingly complicated. For example, mortgage options are far more complex than they used to be. Consumers are not only faced with the growing complexity of existing and new financial products, but also with the entry of relatively new fringe financial service providers that do not always have their best interests in mind. These fringe financial services include check cashing firms, payday lenders, and rent-to-own businesses. Fringe financial service providers often locate in low-income neighborhoods and target poor people with little financial literacy. Some prey upon military personnel. As a result, those with the most to lose often find themselves caught in a cycle of debt that makes it nearly impossible to get out, let alone accumulate assets and exit poverty. Although fringe providers undeniably serve a market need, their growth and approach raises critical policy issues. As Carr and Schuetz (2001) assert:

> First, because fringe lenders do not provide savings accounts, households that rely exclusively on them lack both the incentive and option to save. Second, the heavy concentration of fringe lenders in minority communities means that those areas are disproportionately burdened with second-class financial services options. Finally, reliance on fringe lenders, even to the extent they provided needed financial services, routinely comes at a very high cost.

Individuals are now much more responsible for making decisions that will affect their economic futures. Increasingly, Americans are faced with a wider range of responsibilities and choices involving health care, pensions and retirement savings, financing college, and buying a home. For example, a shift is underway from traditional pensions, where employees could count on a specific retirement income, to defined contribution plans such as 401(k)s, where employees do not have a guaranteed return but instead must carefully navigate their investment options (Jacob et al., 2000; Madrian and Shea, 1997). According to the Federal Reserve's Survey for Consumer Finances, nearly 60 percent of workers age 25 to 34 had a defined benefit pension in 1989. By 2001, this had dropped by almost half to 31 percent.

Americans are not saving, and bankruptcy rates and debt levels are growing. According to the Bureau of Economic Analysis, the personal savings rate has hovered at or below 0-1% of disposable income for several years, down from 8 percent in the 1980s and early 1990s. This low savings rate has recently trended even lower, with the BEA reporting a negative 0.5% savings rate for 2005, the first time this rate has entered negative territory since the Depression-era 1930s. The *Wall Street Journal* reports that nearly 70 percent of consumers live paycheck to paycheck. Bankruptcy rates and debt levels are also on the rise. According to the American Bankruptcy Institute, one in every 60 households filed for bankruptcy in 2005. Further, Cardweb.com's most recent survey finds that the average debt for households with at least one credit card has risen to over $11,000, not including mortgage debt.[2] Savings is important for families because it can help to both buffer them from unplanned events such as job loss, and enable them to accumulate assets such as a home or a college education. Some researchers argue that a lack of savings is attributable to individuals' "failure to appreciate economic vulnerabilities" (Bayer et al., 1996; Bernheim, 1994); if this is true, financial education could help people gain this appreciation and lead to better decision-making. Sherraden et al. (2002) posit that quality information, which is delivered through targeted financial education, is one of six institutional variables that help promote saving, and that low-income households are "substantially less likely to have access to these institutions."[3]

Financial education is particularly important for low-income families, as research indicates that financial knowledge likely varies with socio-economic status (Sherraden et al., 2002). Existing studies have shown that education level, in particular, is an indication of financial sophistication, and education is highly correlated with income level.[4] Unfortunately, research also shows that current financial education programs largely fail to reach the low-income people who need them the most (Jacob et al., 2000).

CURRENT STATE OF FINANCIAL EDUCATION

Alongside the growing need for financial education, resources and programs have proliferated in recent years, with offerings from the public, private, and non-profit sectors. Although some headway has been made in elevating the importance of financial education through the distribution of these materials, less has been done to effectively implement these programs and gauge their impacts on financial behavior. As Hughes and Brinkman (2004) note, "there is a difference between availability and accessibility." Materials can be effective only if they are used.

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[2] See http://www.cardweb.com/cardtrak/news/2006/may/30a.html.
[3] The other five variables Sherraden et al. identify are access, incentives, facilitation, expectations, and limits.
[4] Solomon (1975), Kaufmann (1984) and Bernheim and Scholz (1993) cited in Sherraden et al. (2002).

The two primary audiences for financial education addressed in this paper are youth and adults. The vast majority of literature, curricula, and programs are targeted to youth, largely because this group is easiest to reach through schools. Adults are more often difficult to locate and to attract into programs.

Financial Education for Youth

Regardless of income, race, or other socioeconomic characteristics, children do not receive adequate financial education from their parents. This is likely because the parents themselves do not know enough about good financial behavior to serve as role models and teachers for their children. As noted earlier, high school seniors got an average of a little over half of the questions right on a JumpStart survey on financial basics, and a survey from the American Savings Education Council revealed that only 15 percent of students had a good understanding, 67 percent had a fair understanding, and 18 percent had no understanding at all of financial matters. Although minorities and children of families with lower incomes did slightly worse on the JumpStart survey, no group of students—regardless of socioeconomic status—received even a passing grade.

To meet this need, financial education resources and programs have proliferated in recent years, with offerings from the public, private, and non-profit sectors targeting every group imaginable. The following table highlights some of the larger financial education curricula for youth.

Financial Curricula for Youth

Curriculum Name	Sponsoring Organization(s)	Number Served
High School Financial Planning Program	National Endowment for Financial Education	Over two million children have been taught financial education through this program.
Money Matters: Make it Count	Boys & Girls Clubs of America, Schwab Foundation	Used in more than 450 clubs, approximately 36,000 teens will complete the program in the next two years.
Practical Money Skills for Life	Visa	Reaches more than 300,000 teachers and six million students in 28 states.
Banking on our Future	Operation Hope, Citigroup	Current program in 7 cities reaches 10,000 youth; their goal is to expand program to reach five million urban youth in five years.
Teach Children to Save/ Get Smart About Credit/Money in Motion	American Bankers Association Educational Foundation	Since 1997, over 1.25 million students have participated in the Teach Children to Save Day program, taught by banking industry volunteers every April. Get Smart About Credit Day is held every October. The Money in Motion curricula is available for teachers' use.
Financial Fitness for Life	National Council on Economic Education, Bank of America Foundation	This program has been taught to teachers and parents in over 300 workshops.
Junior Achievement Programs for Elementary, Middle, and High School	Junior Achievement, Goldman Sachs Foundation	JA has a variety of modules that incorporate elements of financial education into a comprehensive economic training program that reaches approximately four million students annually.
Investing Pays Off	Merrill Lynch	Merrill Lynch distributes this curriculum through a series of non-profit partners in three age-appropriate modules.

A consensus is emerging that children should have access to financial education as part of their K-12 education. However, curricula vary widely in terms of format, content, and depth, and there is little consensus on standards. In addition, only a fraction of existing programs have been independently evaluated for effectiveness.

Many experts suggest that financial education be integrated into existing subjects such as Math, Social Studies, and English in lower grades and a stand-alone course in High School that is a graduation requirement. Ideally, this course would be taught during the first two years of high school, since some students may drop out after this time and many more financial decisions will be made in later years, such as working, buying a car, saving for college, and applying for financial aid. Since teachers understandably put greater emphasis on what will be tested, any standardized tests should incorporate personal finance questions. Financial education experts also recommend that this education be active, rather than passive. For example, children could learn by opening a bank account and keeping up with their transactions. School-based bank branches have opened in high schools to meet this need and teach teenagers how to manage checking and savings accounts. For example, there are 125 credit unions operating 401 student-run bank branches in schools (Morton, 2005). Ensuring all students have a savings or investment account could potentially serve a role here, with children tracking their investments and setting savings goals. Financial activities could also be a way to incorporate parents into their children's' financial education, enabling them to learn together.

Adult Financial Literacy

Designing financial literacy programs for adults may be far more challenging than for kids, as they do not have a single institution, such as a school, in which they are a captive audience. Most adults do not want to attend generic money management courses. Instead, adults are generally the most receptive to financial education offerings at "teachable moments" when the information is especially applicable to their lives (NEFE, 2004). Therefore, financial education taught while receiving public assistance, during a student loan exit interview, when filing for bankruptcy or in need or credit repair, filing taxes, or before buying a home is likely to be more positively received.

A growing body of research has begun to document the link between workers' financial stability and productivity (Quinn, 2000; Kim and Garman, 2003; Garman, 1998). Leading edge corporate actors have begun to recognize that providing financial education programs benefit them as well as their employees. Other firms may offer financial counseling indirectly through part of an Employee Assistance Program. In addition, the federal government will soon offer financial counseling for retirement to all of its employees. Still, many employers do not offer financial education, with some perceiving that these programs are unaffordable, even though financial education is relatively inexpensive.[5] Another reason firms may choose not to offer financial education is their fear of being liable for providing poor advice.

RESEARCH FINDINGS

Experts generally agree that youth and adults need to be more knowledgeable about their personal finances, and there is a growing consensus that financial education helps to achieve this goal. It is now important to determine what kinds of financial education are most effective not only at increasing knowledge but also at changing financial behavior. While some research has shown that financial education leads to account ownership and savings, it could also be that owning an account of some kind and beginning to save actually spurs people to seek out financial education. Findings described below are from a mixture of programs—some provide financial education in advance of opportunities to save, while others introduce financial education in conjunction with an account. Although more evaluations are needed to determine the best content and delivery methods for youth and adult financial education, the following studies begin to illustrate the potential of these programs.

Perhaps the most studied youth financial education curricula is NEFE's High School Financial Planning Program. According to an evaluation of this program by Danes (2004), it has educated over two million children and shown strong post-program impact in knowledge and skills and increased confidence in managing money. A study by Bernheim, Garrett, and Maki (1997) concludes that consumers who graduated from high school in states with mandated financial education were more likely to have higher savings rates and net worth as adults than those who did not. These researchers conducted a survey in 1995 of adults aged 30 to 49 to determine if mandated

[5] One report estimates the cost of financial education at between $50 and $350, depending on the type of program offered (Quinn, 2000).

consumer education in schools changes the financial habits of adults. They found that before this education was mandated, there was no difference in savings rates and net worth across states. However, once this requirement was implemented in several states, a steady and significant divergence of financial behavior took place. Those adults who grew up attending schools in states with mandated financial education had higher reported savings rates and a higher net worth as a percentage of income.

Likewise, a Luntz-Webber/Merrill Lynch survey found that children who are exposed to financial education and decision-making skills have better financial habits as adults. For example, those who discussed finances with their parents saved 43 percent more of their earnings as adults for retirement than those who did not have such discussions. Along those same lines, people who had an allowance, bank account, or investment as a child saved 36 percent more, 108 percent more, and 40 percent more of their income, respectively, as adults (Kotlikoff and Bernheim, 2001).

Other studies show that adult financial education can be successful when offered in the workplace when decisions need to be made about participating in an employer's retirement savings plan, such as a 401(k). For example, Bayer et al. (1996) find that "both participation and contributions to voluntary savings plans are significantly higher when employers offer retirement seminars," particularly when the frequency of these offerings is high. They also find that the effects of financial education on savings behavior is particularly strong for non-highly compensated employees. Given that low- and moderate-income populations have a more tenuous connection to the financial mainstream than do wealthier groups, this finding is particularly important. Financial education, when delivered properly, may help more vulnerable populations to "catch up" and foster positive financial behaviors. In their study of lower-level, white collar employees, Loibl and Hira (2004) found that "a single employer-based educational session stimulates autonomous financial learning which, in turn, improves financial management practices and financial satisfaction." Another study by Bernheim and Garrett further shows the link between financial education and retirement saving, with a 20 percent increase in retirement plan participation rates among employees attending workplace financial education (1996).

Another example of pairing adult financial literacy with an opportunity to save is the American Dream Demonstration where low-income participants were given the chance to save in an Individual Development Account, or IDA, for a home, business start-up, or an education. Those who saved in an IDA and completed a financial education program had their savings matched. An evaluation of the program found that rates of saving increased for every additional hour of financial education received, up to twelve hours. (Schreiner et al., 2001). This study suggests that a modest amount of financial education could make a difference in spending and savings behavior.

An evaluation of the Financial Links for Low-Income People (FLLIP) program in Illinois offers further evidence that low-income individuals benefit from financial education and the opportunity to open a savings account. This program provided financial education to low-income participants, including TANF recipients, a portion of whom had the opportunity to open an IDA account. Participants reported that they were budgeting better, saving more, opening bank accounts, and participating in employer-sponsored retirement plans as a result of the program (Anderson et al., 2004).

Finally, a research study examining an experiment where H&R Block tax advisors offered matches for IRA contributions from tax refunds found that quality professional advice generated a large increase in retirement savings. The combination of matching funds and the presence of an experienced advisor to talk through a person's financial options played an important role in taxpayers' decisions to save (Duflo et al., 2005).

Summary of Research Findings

Study	Key Findings
NEFE High School Financial Planning Program evaluation by Danes	Youth engaged in NEFE's financial education curriculum have increased knowledge, skills, and confidence in managing money.
Bernheim, Garrett, and Maki	Adults that received financial education in high school have higher savings rates and higher net worth.
Luntz-Webber/Merrill Lynch	Children exposed to financial education and decision-making through interaction with their parents have better financial habits as adults.
Bayer et al.	When employers offer retirement planning, participation and contributions increase, especially among lower-income employees.
Loibl and Hira	Employer-sponsored financial education improves financial management and financial satisfaction.
Bernheim and Garrett	Workplace financial education led to a 20 percent increase in retirement plan participation rates among attendees.
American Dream Demonstration Evaluation by Schreiner et al.	Rates of saving increased for every hour of financial education received, up to twelve hours.
Financial Literacy for Low-Income People evaluation by Anderson et al.	Participants improved their budgeting and saving after taking a twelve hour class.
H&R Block Study by Duflo et al.	Professional advice and matching funds generated a large increase in retirement savings.

Characteristics of successful financial education programs

The above research establishes quite clearly that financial education can play a significant role in helping people to become better financial actors. There is less agreement on the format, quantity, and content of the education, although some overarching principles are beginning to emerge. The National Endowment for Financial Education (NEFE) has identified seven universal concepts, all of which must be present in order to effect a change in behavior. These concepts are: readiness, resources, relevance, respect, responsibility, reward, and replication (NEFE, 2004).

It also appears that the more individualized the approach, the more successful the intervention. Evidence seems to suggest that the most effective financial education programs are those that are delivered in person, through seminars, workshops, or one-on-one (Bayer et al., 2006). To the extent possible, financial education programs should be tailored to the individual and focus on client values (Ciccotello and Elger, 2004).

Financial education experts also recommend that this education be active, rather than passive. People tend to learn better when they believe the material is relevant to their lives and when they are able to practice what they learn. For example, the most recent Jumpstart Survey of high school students found that students who had taken a financial management course did not necessarily score any better on a financial education course than their peers. The survey researcher, Dr. Lewis Mandell notes these findings that may indicate that students do not retain financial education teachings because they do not see them as relevant to their daily lives (Jumpstart, 2006). Other studies suggest that "the use of mainstream banking services contribute[s] to positive financial behavior" and that "negative financial behavior increased when mainstream banking was not used" (NEFE, 2004). Research also suggests that people who have access to institutionalized mechanisms of saving, such as IRAs and employer pension plans, "are likely to have higher saving rates than those who lack such access" (Sherraden et al., 2002). These findings lend support to arguments for policies that create a system of universal savings plans.

The manner in which material is delivered is also important to program success. Traditional approaches to financial education may do a poor job of connecting with individuals (Ciccotello and Elger, 2004), and low-income individuals in particular (Shirer and Tobe, 2004). Alternatively, other research findings suggests that a promising new approach called "andragogy," a learner-centric approach that is more flexible and less lecture-oriented than traditional classes, may work better for adults than traditional pedagogical approaches (NEFE, 2004). Shirer and Tobe found that traditional budgeting classes did not do a good job of retaining participants, and therefore piloted a model curriculum incorporating “stages of change theory” which they found to be effective for motivating people with few financial resources to pursue a healthy financial lifestyle.

This emerging research can serve as guidance for designing effective programs which allow people to be active participants in their education, which is customized as much as possible to their individual needs. Further evaluations of existing financial education programs may yield additional findings on how to best deliver financial education.

CURRENT POLICY

Recent years have witnessed the launch of several relevant policy initiatives that collectively attest to a growing consensus regarding the importance of broadly increasing access to financial education. Currently, however, programs and policies to address the financial education issue remain fragmented. This section summarizes current efforts.

Financial Literacy and Education Commission (FLEC)

The Financial Literacy and Education Commission was created within the Treasury Department as a result of the Fair and Accurate Credit Transactions (FACT) Act of 2003 to leverage the financial education activities in the public, private, and nonprofit sectors and create a national strategy to serve as a blueprint for the government moving forward. The Commission, which is made up of representatives of approximately twenty different government agencies, is charged with encouraging public and private sector efforts to promote financial literacy, coordinating the federal government’s financial education efforts and identifying best practices, developing a national financial education strategy, and creating a toll-free number and a website that provides financial education resources.

The website, MyMoney.gov, and the toll-free number were both launched in October 2004. The website provides a comprehensive list of all grants, materials, and resources produced by the federal government that are relevant to financial literacy. In future iterations, the website will include financial education resources from the nonprofit and private sectors. Callers to the toll-free hotline can get a financial education “toolkit,” consisting of several publications.

FLEC released their national strategy in April 2006. This report documents the need for financial education and what resources are currently available in the private and public sectors, and then suggests several next steps for moving financial education forward which are largely focused on further convenings of different segments of the financial education field to work on crafting an agenda. These include:

- A joint Treasury and Department of Labor roundtable with large employers to discuss retirement savings and financial education in the workplace;
- A joint Treasury and Department of Education summit on integrating financial education into the K-12 school curriculum and teacher training to prepare for this integration;
- A series of four regional “bank the unbanked” conferences to be held in partnership with the OCC, FDIC, and NCUA; and
- A symposium for financial education researchers to be held with the USDA’s Cooperative State Research, Education, and Extension Services (CSREES) that will result in a working paper examining the current financial education research that exists and identifying future research that needs to be conducted.

In addition, FLEC intends to launch public service announcement campaigns on the importance of saving and credit score basics, linking consumers to additional resources through the MyMoney.gov website and toll-free number. While the mere presence of this Commission is unlikely to yield radical improvements in financial knowledge among all Americans, its efforts are already sparking conversation and debate among policymakers and the private and non-profit sectors on how best to move forward.

Financial and Economic Literacy Caucus

This bi-partisan caucus led by Rep. Judy Biggert (R-IL) and Rep. Ruben Hinojosa (D-TX), was created in February 2005 to organize legislative efforts around financial literacy and host related forums and events. Several other House members have joined the Caucus, which has authored a resolution declaring April as Financial Literacy Month and hosts an annual Financial Literacy Month event on Capitol Hill.

Federal Financial Regulators' Programs

Curricula, workshops, and outreach programs have been launched from several of the federal agencies that regulate financial institutions. Each of the twelve Federal Reserve Banks provides economic literacy materials to help students and the public better understand the U.S. economy and the role of the Federal Reserve. The individual banks support this objective through a wide variety of education partnerships, publications, learning tools, and student challenge contests. For example, the Federal Reserve Banks in Atlanta, Chicago and Dallas have designed financial literacy curricula. The Atlanta Bank's curriculum is geared toward middle school students, whereas the Dallas Bank's program (called "Building Wealth: A Beginner's Guide to Securing Your Financial Future") is targeted to adults. The Federal Deposit Insurance Corporation (FDIC) has developed a course called Money Smart for adults, which consists of ten, instructor-led modules. Since 2001, nearly 500,000 people have taken the Money Smart course.

State-Mandated Financial Education

The National Council on Economic Education conducts a biennial survey of states to determine progress on implementing economic and personal finance education in the schools. Their latest survey, which was released in March 2005, showed the following:

- 38 states have adopted personal finance standards, although only 23 require explicitly or through required testing that these standards be followed
- 7 states make personal finance a requirement for high school graduation
- 9 states require testing in personal finance

In 2005, seven additional states passed legislation mandating youth financial education be incorporated into the K-12 school systems.

POLICY RECOMMENDATIONS

All levels of government can play a role in ensuring that youth and adults are equipped with enough financial education to make good decisions. Each of the following recommendations incorporates principles that lead to effective financial education.

First, financial education should be taught at "teachable moments" when participants can immediately put their newly-acquired skills to use. For kids, this could mean financial education provided in schools. For adults, this financial education can be provided during key decision making times such as signing up for a retirement plan or buying a home.

Second, it should be "active" rather than "passive," with opportunities such as saving and investing into an existing account or opening a new financial account offered alongside the course to increase its relevance. Being able to act on what was just learned will increase the chances of improved financial behavior.

Finally, both the supply of and, especially, demand for financial education need to be addressed so that people not only have resources available to them, but they also know that they need to become more knowledgeable in managing their finances. This new focus on building the demand side education is now a priority of one of the most prominent financial education organizations, the National Endowment for Financial Education, which is bringing together multi-disciplinary experts to examine how to motivate people to seek out financial education and change their behavior.[6]

Require completion of a personal finance course for high school graduation. To ensure that all children become financially educated, states should require a personal finance course for high school graduation. In addition, financial education concepts should be integrated into existing material in grades K-8 and made part of each state's standardized testing mandated by the No Child Left Behind Act. States and local school districts should have the flexibility to draw from a variety of existing resources or craft their own curricula. These courses should then be evaluated for impact to discern which curricula and delivery methods work best.

Establish a savings and investment account for every child that can serve as a relevant financial education tool. The ASPIRE Act, currently being considered in Congress, would establish a savings account, called a KIDS Account, for every child at birth.[7] Each child would receive a starter deposit of $500 from the government and children from households below the national median income would be eligible for a supplemental contribution up to an additional $500. Further contributions from any source could be deposited into the account and grow tax-free. Low- and moderate-income children would have their savings matched. Once a child reaches 18, they would be able to use the account for post-secondary education, a home, or save it until retirement.

These universal accounts would provide a promising teaching opportunity for youth and their parents, giving financial education more relevance. Financial education taught in conjunction with these accounts could help children and their parents save into the account and manage their investment choices, as well as prepare youth for the financial decisions they will be able to make regarding their savings once they reach age 18.[8]

If, however, this KIDS Accounts proposal cannot be enacted due to fiscal constraints, there is a low-cost proposal for "Young Savers Accounts" or YSAs which would also create a savings product for kids that could make financial education relevant. Simply put, YSAs are Roth IRAs for kids. Presently, because of the "earned income" requirement, the vast majority of kids cannot save in Roths. YSAs simply clarify that the parents' earned income, instead of the kids', would be used to determine contribution levels. Also, just like Roths, penalty-free withdrawals may be made for college or a downpayment on a home, as well as retirement. And, as a Roth, contributions would trigger the federal "Savers Credit," a federal matching program aimed at helping low-income persons save. YSAs were introduced as part of the Savings Competitiveness Act of 2006, currently pending in Congress.[9]

Create opportunities for adults to receive financial education in conjunction with opening a bank account or saving for retirement. Many government-sponsored incentives to build assets through homeownership, matched savings accounts or other means include provisions mandating some sort of financial education or counseling. For example, a proposal for zero-down FHA home loans requires that participants complete a homeownership counseling class. State housing finance authorities, which offer below-market rate mortgage loans to first time homebuyers, often also have this requirement. These safeguards give participants the best chance of success, while giving the government offering the program or subsidy a better chance of a return on their investment. Whenever possible, when a government program is created to spur savings or asset building, a financial education component should be offered alongside.

Encourage states to provide financial education to TANF recipients. The proposed TANF Financial Education Promotion Act would mandate that states specify in their TANF plans how they will encourage

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[6] See NEFE's 2005 white paper, *Closing the Gap Between Knowledge and Behavior: Turning Education Into Action*, available at www.nefe.org.

[7] The ASPIRE Act is S 868 and HR 1767. The sponsors of S 868 include Sen. Santorum (R-PA), former Sen. Corzine (D-NJ), Sen. Schumer (D-NY), and Sen. DeMint. The sponsors of HR 1767 include Rep. Ford (D-TN), Rep. Kennedy (D-RI), and Rep. English (R-PA). Senator Corzine is now Governor of New Jersey.

[8] See www.AspireAct.org for more information on KIDS Accounts.

[9] The Savings Competitiveness Act of 2006, S 2431, was sponsored by Sen. Baucus (D-MT).

financial literacy among TANF recipients.[10] Attendance at financial education seminars or classes would count as work activity for recipients. Some state and local governments have already begun to offer this kind of training on their own. For example, the Illinois Human Services has partnered with Financial Links for Low-Income People (FLLIP) and the University of Illinois Cooperative Extension to provide a twelve hour financial education program which counts as a work activity. FLLIP has shared this curriculum with other states interested in creating similar programs which offer work activity credit to TANF recipients. At a minimum, federal policymakers should ensure that states continue have the flexibility to allow financial education as an option for TANF recipients, as Delaware, Illinois, and Missouri currently do and as is proposed in California.

Support public awareness campaigns that build demand for financial education. While many financial education materials exist, consumer demand for financial education is not high among the general population. This may be because people "don't know what they don't know" and are unaware of how their lack of knowledge may be costing them money or opportunities. Public awareness campaigns could be one solution to this, similar to those for smoking, seat belts, and littering. Some have suggested that campaigns include celebrities such as Donald Trump, or that the President could talk about the issue to raise its profile. These types of campaigns could teach parents how to talk to their kids about finances and how to model good spending behavior, similar to ads now that direct parents to resources on talking to their kids about drugs. One large-scale privately-funded public awareness program already underway is the National Endowment for Financial Education's "Get Smart About Money" campaign which includes educational ad spots and a website with resources for people who want to learn to manage their personal finances. In addition, FLEC is planning to roll-out a public service announcement campaign within the next year.

Create new funding sources generated by predatory lenders' financial penalties. If financial institutions are found in violation of a consumer protection or predatory lending law, they may have to pay substantial financial penalties, in addition to changing any harmful business practices. A portion of these funds could be put into a fund to create financial education resources. These resources could be funding for teacher training, financial education courses taught by disinterested parties, or a variety of other related needs.

Support efforts to provide financial education in the workplace. Research cited above documents the effectiveness of financial education delivered at the workplace, and the link between financial education and increased productivity. Workplace financial education can cover a variety of topics, and surveys have shown that workers are most interested in retirement planning and financial basics. The federal government, through the Department of Defense and other programs, has begun to recognize the value of financial education and now provides courses for its own employees. In 2004, Congress passed the Thrift Savings Plan Open Election Act, which included language requiring the Office of Personnel Management to develop and implement a financial education strategy for federal employees who are eligible for the Thrift Savings Plan retirement program. The government could share insights learned from operating its own workplace financial education and those of private sector firms such as Weyerhauser and the United Parcel Service, which have established comprehensive programs for their employees.[11]

In addition, policymakers have proposed incentives for private employers to provide independent financial counseling for their employees. For example, the pension bills currently under consideration in Congress also contain a provision which would further facilitate employers who want to provide a financial counselor to dispense investment advice to their employees.[12]

Create and deploy a "Financial Services Corps" to broaden access to financial planning. A "Financial Service Corps" of financial and tax advisors, similar in structure to the Army Corps of Engineers or AmeriCorps, should be created to ensure that all Americans have access to financial planning services. A tax credit to tax preparation firms and financial institutions could help off-set some of their costs of training personnel and

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[10] The TANF Financial Education Promotion Act, S 923, was sponsored by former-Sen. Corzine (D-NJ), now Governor of New Jersey.
[11] See Vitt et al. (2005) for more details on financial education programs at Weyerhauser and the United Parcel Service.
[12] HR 2830 and S 1953.

advising individuals that otherwise would not have access to a financial planner. Recognizing that many financial educators may work for non-taxpaying entities (non-profits, credit unions, etc.), a direct grant program could be administered by FLEC.

Summary of Recommendations

1. Require completion of a personal finance course for high school graduation.
2. Establish a savings and investment account for every child that can serve as a relevant financial education tool.
3. Create opportunities for adults to receive financial education in conjunction with opening a bank account or saving for retirement.
4. Encourage states to provide financial education to TANF recipients.
5. Support public awareness campaigns that build demand for financial education.
6. Create new funding sources generated by predatory lenders' financial penalties.
7. Support efforts to provide financial education in the workplace.
8. Create and deploy a "Financial Services Corps" to broaden access to financial planning.

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