

Minutes

Financial Literacy and Education Commission – Public Meeting

June 29, 2016

U.S. Department of the Treasury, Washington, DC

Melissa Koide, Deputy Assistant Secretary for Consumer Policy, U.S. Department of the Treasury, called the meeting to order at approximately 9:15 a.m. She explained that Secretary Lew would be delayed, and asked Secretary Perez to provide remarks.

Ms. Koide introduced Tom Perez, U.S. Secretary of Labor. Secretary Perez addressed the Commission. He thanked the members of the FLEC, including Treasury and the CFPB for their partnership. He described how retirement plans have changed in the past 30 years, from defined benefit to defined contribution plans. He noted that the greater onus on consumers to make critical decisions for their own retirement security. Yet, financial education of Americans has not kept up, even with the efforts of government agencies and the private sector. Americans' financial literacy is insufficient to meet their needs, even in comparison to other countries. He noted the efforts for financial literacy are important to ensuring a dignified retirement as a critical pillar of middle class security. The Secretary described how the Department of Labor has been focused on promoting savings and protecting consumers, including helping state programs that help workers save for retirement and supporting myRA . Currently eight states have passed programs to enable auto-enrollment in an IRA, which increases the likelihood of saving 13 times. He congratulated the Treasury in releasing myRA as an important tool in the toolkit.

Secretary Perez described the new conflict of interest rule as important to helping millions of Americans safeguard and grow their retirement nest egg, by helping them get advice in their financial best interest. Secretary Perez noted that the Department will defend the rule against lawsuits. He explained that it is often difficult for consumers to figure out which advisors are best for them and cited the CFPB's report on this topic, as well as the recent show in which John Oliver humorously highlighted the challenge. Perez praised private sector leaders who are focusing on financial education, and noted the role of the FLEC in fortifying the pillar of middle class security, to make sure consumers are able to retain their savings.

Next, Secretary Jacob Lew thanked everyone for focusing on helping Americans attain their financial goals. He thanked Secretary Perez for his leadership in helping people have the tools and protection to plan for their own future. Secretary Lew noted the importance of savings and investment for security and future generations. He explained that for many, the best way to retirement savings is through their workplace savings plans, yet many do not use such opportunities. He also noted that 30 million Americans lack access to retirement plans, but would have access if auto IRA is enacted. Secretary Lew also noted new state programs that enable auto IRAs. Secretary Lew noted DOL's new rule in this area, and Treasury's myRA as a type of Roth which is simple, low risk and safe, thus meeting the needs of people who are new to saving for retirement.

Secretary Lew reiterated the importance of education and advice for individuals to manage their retirement savings, given lack of confidence in investing. Secretary Lew spoke on the

Department of Labor's work on the conflict of interest rule to help people obtain trusted advice. Secretary Lew pointed out the importance of reaching young people, including through technology-based tools. He noted the importance of helping young workers gain financial education and opportunities to access an account with their first paycheck, and referred to efforts across the FLEC to support that activity. Secretary Lew closed with encouraging the FLEC to have a productive conversation.

Next, Richard Cordray, Director of the Consumer Financial Protection Bureau (CFPB), stated the value of working together to promote financial well-being, especially for vulnerable people. He noted the CFPB is interested in helping people obtain financial advice in their best interest. He described the role of the CFPB in consumer protection and informing consumers. He noted the importance of diverse array of partnerships at the local level. Director Cordray pointed to important partnerships with legal aid groups, and how the CFPB is providing resources to help these groups help their consumers. For example, Your Money, Your Goals' toolkit has been shared with 450 legal aid staff and volunteer lawyers have attained in person and online training. The "Managing Someone Else's Money" guides are written in plain language to help an array of lay fiduciaries, especially those serving older adults. There have been 600,000 printed copies of the guides distributed. He encouraged other agencies to work with Legal Aid groups to enable greater effectiveness. Director Cordray's full remarks are available here:

<http://www.consumerfinance.gov/about-us/newsroom/prepared-remarks-richard-cordray-director-consumer-financial-protection-bureau-doe/>

Secretary Lew congratulated Assistant Secretary Phyllis Borzi on protection of retirement savings, and the Commission acknowledged her with applause. .

Panel 1. Financial Education and Retirement Investment Advice

Phyllis Borzi, Assistant Secretary, Employee Benefits Security Administration, Department of Labor, introduced the panel: Marilyn Mohrman-Gillis, Managing Director, Public Policy and Communications, CFP Board, Sarah Newcomb, Behavioral Economist, Morningstar and Jon Stein, Founder and CEO, Betterment. Ms. Borzi asked about their work, including the role of the CFP Board certification, consumers' understanding of risks and investments, various approaches to help people gain better understanding on financial terms and even contracts.

Ms. Borzi posed a question about the Certified Financial Planner (CFP) Board designations to financial advisors. Ms. Mohrman-Gillis explained that the CFP Board is a 501(c)(3) organization with high standards for certification, including education, experience, and an extensive examination. Since 2008, there is a standard of professional conduct which includes the Department of Labor's fiduciary rule. A brief advertisement produced by the CFP Board was shown, and explained by Ms. Mohrman-Gillis. The spot showed a DJ disguised as financial advisor. Most of the people said they would work with him, one said he would work with him even after he was revealed as a DJ.

Sarah Newcomb, Behavioral Economist, Morningstar, discussed two approaches to behavioral economics: nudges vs. financial education. She expressed the view that it is important to combine the two—nudges get people to the table and then financial education helps them to use tools once they get to the table. People do need the financial education, but studies of financial education have had mixed results. She noted, for example, that “just in time” financial education has proven valuable, but we don’t know when people will need it. She noted that financial information needs to be simplified because people do not understand, including financial professionals. Ms. Newcomb stated regarding the CFP Board ad, it iterated the point that people do not understand how their financial advisor is being paid, and it is a difficult question for people to raise.

Jon Stein, Founder and CEO of Betterment described how and why he founded the company, which is to help people make better financial decisions. He made an analogy on financial education being like a map, and advice being like a GPS directing you along the way.

Panelists further discussed the value of both financial education and one-on-one advice. Ms. Mohrman-Gillis emphasized the value of a regulatory structure clarifying the responsibilities of different types of advisors. Ms. Newcomb noted that while financial products may be complex, general concepts may be easier, but it is hard to choose from many choices. She noted that there are ways of organizing choices, such as rating systems, to make them easier to navigate.

FLEC members raised questions about access to customer data and use of customer data in an on-line advising format. Mr. Stein explained that more financial data helps provide better solutions for consumers, such as by considering more information about the intentions and financial goals of an individual. Factors like Social Security information and spouse information can be helpful in providing a holistic view of the customers’ needs. He also noted that consumers can contract with businesses so that they don’t share their data. Additionally, he reported that algorithmic advice is transparent and accurate, as well as consistent.

The panelists were asked for their advice for the FLEC and particularly around the question about how to help people access advice and guidance. Mr. Stein stated that automated advice is very cost effective, and thus enables a low-cost, aligned business model. Betterment charges customers for consultation advice only. He stated the believe that the automated model will be increasingly common. He gives the parallel of the self-driven car which is complex, but technology is good at solving the problems that make it difficult, although it may be with human intermediation. . Ms. Mohrman-Gillis believes that technology is important, but at the same time you need the financial literacy and education. Regulatory safety nets are needed to be extended to financial advice, like the conflict of interest rule.

Ms. Newcomb gave a three legged rule analogy which are policy concerns, education and nudges. Ms. Borzi closed the panel with two thoughts, that financial literacy been focused on the consumer, we should spend more time on educating the advisor. She also noted that regulations can be altered in the future to respond to needs that arise.

Panel 2. **Legal Aid and Financial Education**

Karen Lash, Executive Director of the White House Legal Aid Interagency Roundtable (LAIR) introduced the panelists. She gave a background on the Legal Aid Interagency Roundtable, which was started in 2012. She described both the low public awareness of the legal aid and the role legal aid can play in addressing many issues related to the financial well-being, education, employment and housing.

Mary Griffin, Senior Advisor, Office of Financial Empowerment, Consumer Financial Protection Bureau explained how her office sees financial empowerment and education, and its focus on integrating financial empowerment into existing programs. She noted that the CFPB developed Your Money, Your Goals to address an unmet need – to help frontline staff have the “money conversation” with their clients. The toolkit is a series of modules that address specific topics such as how to read your credit report or your rights related to debt collection. More than 450 legal aid volunteers and staff have been trained to incorporate Your Money, Your Goals into their work. Working with partners, national and local, public and private, CFPB has reached more than 8,000 frontline social services and legal aid staff and community volunteers. She closes by speaking on partnerships with legal aid around financial education and empowerment efforts informing many aspects of CFPB’s work.

Monica Vaca, Assistant Director, Bureau of Consumer Protection, Federal Trade Commission (FTC), speaks on the Federal Trade Commission’s Legal Services Collaboration project. Ms. Vaca explains how it has become an important part of consumer protection efforts. In short: the FTC’s work is better because of the partnership with legal services advocates. She explains some of the consumer protection problems being addressed are helping people from losing homes and getting scammed. The FTC wants to make sure that information is accurate and relevant, given the feedback that some resources were too complex for consumers. Ms. Vaca described how the FTC receives information about scams and other issues through their partnerships with legal aid programs. For example, the FTC developed a simple website, Consumer.gov (consumidor.gov in Spanish), as well as resources targeting particular needs. Ms. Vaca spoke on cross training helping all agencies involved with advancement in knowledge of issues.

Michael Froehlich, Managing Attorney, Community Legal Service (CLS) of Philadelphia, began with a little background of the CLS and provided a description of their partnership with Clarifi, a consumer credit counseling agency that provides financial education and counseling on site with CLS’s clients. The financial counselors help clients avoid fees and manage their finances, while the lawyers can focus on resolving legal matters, which may be related, such as managing home mortgage modifications to avoid foreclosure. Mr. Froehlich indicated that this partnership provides trusted financial counseling services for clients of CLS, which is especially important in the face of many unscrupulous financial advisors. The financial counselor can spend more time with the client than the legal aid lawyer can, educating and empowering her about her finances, and doing so one-on-one. Mr. Froehlich also described the value of the CFPB’s and FTC’s consumer facing materials, which are written in clear, consumer-friendly language. He added that more such materials would be valuable, in addition to materials in Spanish and other

languages. Mr. Froehlich closed with a recommendation that the FLEC continue to support financial education and consumer resources, but also work to make financial products more clear and easy for consumers to understand.

Ms. Lash suggested agencies consider how their programs focused on low-income populations, can include a legal aid income representative to get the information produced into the hands of those who need it most. Mr. Cordray proposed that materials that go towards the public have to be translated from legal terms into English.

National Strategy Update

DAS Koide called on Louisa Quittman, Director, Financial Security at the Department of the Treasury to provide a status report on the FLEC's National Strategy Update. The National Strategy Update will reflect the fact that there have been many changes in the state of financial education since the National Strategy was released in 2011. The National Strategy Update will capture what has been learned, what the FLEC has done, and steps forward. The Update will enable a smooth transition to the next Administration. Ms. Quittman described that a Request for Public Comments was released in April, and the Treasury Department, on behalf of the FLEC received responses from non-profits, businesses, trade associations and members of the public. Comments were generally supportive of the update. The feedback addressed topics including the understanding and addressing the needs of financially vulnerable individuals, and the value of financial education across the lifecycle. The Update is expected to be released this fall

DAS Koide thanked the Commission members, those in attendance and adjourned the meeting at approximately 11:35 a.m.

Participants

Members of the FLEC

Jacob Lew	Secretary of the Treasury, Chair of the FLEC
Richard Cordray	Director-Consumer Financial Protection Bureau, Vice Chair of the FLEC
Thomas Perez	Secretary of Labor, Department of Labor
Jack Bienko	Small Business Administration
Phyllis Borzi	Department of Labor
Wayne Boswell	Department of Defense
Linda Bradford	Office of Personnel Management
Jeannie Chaffin	Department of Health and Human Services
Alan Fishbein	Federal Reserve Board
Amias Gerety	Department of the Treasury
Bill Glavin	Department of Housing and Urban Development
Beth Honadle	Department of Agriculture
Marietta Jelks	General Services Administration
Melissa Koide	Department of the Treasury
Gail Laster	National Credit Union Administration
Karen Marsh	Federal Emergency Management Agency
Cristina Miranda	Federal Trade Commission

Mark Mitsui
Joni Palmer
Louisa Quittman
Janneke Ratcliffe
Luke Reynolds
Dan Rutherford
Lori Schock
Julie Schroeder
Barry Wides

Department of Education
Social Security Administration
Department of the Treasury
Consumer Financial Protection Bureau
Federal Deposit Insurance Corporation
Commodities Futures Trading Commission
Securities and Exchange Commission
Department of Veterans Affairs
Office of the Comptroller of the Currency

Panelists

Michael Froehlich
Mary Griffin
Karen Lash
Marilyn Mohrman-Gillis
Sarah Newcomb
Jon Stein
Monica Vaca

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