Summary of Financial Literacy and Education Commission Public Meeting
May 29, 2014
U.S. Department of the Treasury, Washington D.C. – Cash Room

Webcast available at: http://www.treasury.gov/press-center/press-releases/Pages/jl2413.aspx

Executive Summary

Melissa Koide, Deputy Assistant Secretary for Consumer Policy, U.S. Department of the Treasury, opened the meeting with a brief introduction to the topic of youth financial success in regards to retirement savings. She introduced **Mary J. Miller, Under Secretary for Domestic Finance of the U.S. Department of the Treasury**.

Miller described the role of the President's Advisory Council on Financial Capability for Young Americans (PACFCYA), speaking on the collaborative effort between the private sector, families, schools, and communities in improving the financial capability of young people. She noted that the Department of the Treasury is eager to learn and assist these groups in their efforts for preparing young people for financial choices, including with financing higher education and planning for retirement. Some steps the administration has taken to make college more affordable are lowering interest rates on student loans and increasing the maximum Pell Grant to more than $900. This is especially important as an increase in debt burden from student loans impedes future financial decisions, such as buying a home or planning for retirement. It is important young people have the tools, guidance and capabilities to ensure they can successfully plan for the future.

Miller spoke about the disparities of retirement savings, and how those with low savings are disproportionally young people, middle and low income people, women, and people of color. She introduced the myRA retirement savings product, which offers a simple and affordable way to save for retirement that is protected and backed by the U.S. government. It is intended to be a start-up tool for savings, and will especially benefit part-time and seasonal workers. Miller closed by stating that the Financial Literacy and Education Commission (FLEC) continues to seek research and ideas to increase financial literacy. These financial interventions are essential to creating effective policy, understanding consumer needs, and better assessing individual financial health. Miller's remarks can be found on the Department of the Treasury's website at http://www.treasury.gov/press-center/press-releases/Pages/jl2413.aspx. Miller introduced **Richard Cordray, Director, Consumer Financial Protection Bureau**.

Cordray reiterated the Consumer Financial Protection Bureau's (CFPB) enthusiasm for the myRA product. He hopes the program will be heavily used amongst employers and will promote saving practices and financial awareness to employees. He spoke of the value of financial education within the workplace, as discussed at a FLEC Field Hearing held in Atlanta in February, and gave the example of Atlanta-based company Southwire, which partnered with the Federal Reserve Bank of Atlanta to provide financial education and mentoring programs to improve their employees' basic financial skills. He indicated that this is a potentially valuable part of a work benefits package, and the federal government should lead by example and take advantage of financial fitness resources for its employees. He closed by giving a brief introduction of panel topics including the CFPB's research initiatives, and the importance of state and local partnerships with the State Engagement Project. Cordray's remarks can be found on the CFPB's website at http://www.consumerfinance.gov/newsroom/prepared-remarks-of-cfpb-director-richard-cordray-at-the-financial-literacy-and-education-commission-field-hearing/.

Judy Mares, Deputy Assistant Secretary, Employee Benefits Security Administration, U.S. Department of Labor spoke about how the retirement marketplace has changed over the past 40 years and how financial decision-making plays a significant role for young Americans now more than ever. She highlighted the value of financial knowledge as young consumers spend, save and plan for the future. Mares introduced panelists for further discussion on **"Retirement Savings and the Young."** Mares' presentation can be found at the Department of the Treasury's website at http://treas.yorkcast.com/webcast/Play/64be9b02ee294902a906ffd544e391451d.

Lisa Mensah, Founder and Executive Director, Initiative on Financial Security, the Aspen Institute began her discussion by emphasizing "Savings for Life," the idea that savings needs to take place at all stages of a life cycle and be simple and automatic. Ideally, savings would begin at birth, develop through childhood and continue to retirement. For American youth, savings should develop into a lifelong habit which would enable other financial opportunities later in life. She also noted the importance of exposing a child to education and interaction with money as a significant emerging initiative. Mensah gave the example of Ariel Academy in Chicago, where children not only learn about investing money, but also control investment dollars for their class. She explained that even owning small dollar accounts greatly improve the probability of completing college. One statistic showed that low- and moderate-income children with savings from $1 to $500 are three times more likely to complete college than a low-or moderate-income child without an account. She closed by highlighting that now is an important policy moment for retirement savings, and that Americans are concerned about their savings and Social Security, especially as they approach their 50s, 60s, and 70s. Teaching young children the value of saving for their futures is an important investment that Americans can make, and can lead to the automatic thought process to planning for lifelong saving.

J. Mark Iwry, Senior Advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy, U.S. Department of the Treasury began with an overview of the role of IRAs in individual saving, and its function to fill the gap for workers that do not have access to a workplace retirement plan. Despite the importance of saving for retirement, many individuals do not participate in an IRA for many reasons, for example, investment requires taking initiative, knowledge, good decision-making skills and confidence. Furthermore, lack of good jobs or an employer-sponsored plan, minimum balance requirements, and investment expenses often impede action. For new savers in particular, the fees associated with opening new accounts may be a significant amount of the initial savings, and often, the private sector does not serve these customers. Thus, myRA was developed by the Department of the Treasury, as a Roth IRA savings bond designed to accommodate deposits that may be too small to be of interest to the private sector, or may otherwise be consumed by the fees to maintain the account. It is targeted towards low and moderate income individuals who may not have access to employer-based retirement plans. The myRA allows workers to open an account for as little as $25 and deposit savings through payroll deposits. Unlike bonds of the past, myRA would be an account-like experience for the individual. The account is capped at $15,000, allowing for a reasonable transition point to move savings into the private sector for continued investment, the ultimate goal for these accounts. The myRA is targeted to employers that currently do not offer a plan for their employees and the employer participates by acting as a conduit using its payroll system to transfer funds. The myRA program should provide a platform to expand financial literacy for Americans.

Yvonne Cowser Yancy, Commissioner of Human Resources, City of Atlanta highlighted the role that employers play in promoting financial literacy. She opened by speaking about the City of Atlanta's current pension reform and commented that the public sector is at the point that the private sector encountered twenty years ago, meaning individuals will need to take a more active role in their financial choices in order to have adequate savings. During the reform, they noticed a surprising trend that workers often did not know about the benefits they were receiving and lacked knowledge and confidence about personal finance issues. To address this, the City of Atlanta designed a comprehensive financial education initiative which focused on the concerns employees had about their savings and benefits. The findings showed that employee savings were often influenced by how much knowledge an individual had about money and the financial options available to them. This played a greater role than class, income or access to knowledge. Efforts to improve awareness included creating a culture of engagement around money by using texting and interactive services, and using metrics to gauge employee financial literacy. She noted the challenge of helping people understand that they can be actively involved in their planning choices and have enough money for retirement even without a pension. They have also developed outreach programs to young Americans about managing credit and saving for the future, as findings suggest that young Americans do not have a long-term view of saving. She closed the discussion by reiterating the importance of developing relationships with employers as a means to improve financial literacy in the workplace.

Discussion with FLEC Members:

Mensah spoke about the new research which will allow for creative outreach to consumers and that in short, fun sells—especially when trying to get young people excited about retirement savings. She recapped that the best savings programs are simple and automatic, especially for priorities that are low on your list, as retirement often is for young people. The structure of the account is important and she sees hope in new tools such as mobile apps that utilize “set it and forget it” philosophies.

Yancy added that new mobile apps that track performance over time, for example fitness tracking apps, may be a potential savings tool for personal finance as well, as they reward persistence and competition. She mentioned that when the City of Atlanta used encouragement through text messaging and persistent reminders, they were successful in decreasing the percentage of those who had never logged into their 401(k) account from 87% to less than 20% over the course of a year.

Iwry spoke on the myRA outreach and development strategy with employers and stated the Bureau of Fiscal Service was piloting the program with a small amount of participants in order to have smooth implementation and operation of the new myRA product. Iwry said the Department of the Treasury is looking for a diverse set of employers and industries and welcomes suggestions from the Commission. Those initial employers who do choose to participate in offering the myRA program are especially encouraged to offer insight into their experiences.

Iwry spoke about the changing landscape of the defined-benefit plans over the years and the disproportionate lack of access for those who do not have access to employer-based programs. He noted that this leads to a wage and benefit disparity that translates to a greater wealth inequality and insecurity, as well as the inability to manage economic shocks. In reference to consumer attitudes post-recession, he believes Americans have a higher awareness of debt and the accumulation of assets.

Mares gave the closing remarks for the panel by adding that today's youth will have the additional advantage of learning from the experiences of their parents as they prepare for retirement and make their own financial choices.

Max Schmeiser, Senior Economist, Federal Reserve Board introduced the panel for **"Starting Early for Financial Success"** and spoke about the successful call for papers on academic research and the future academic symposium on the topic of financial literacy.

Louisa Quittman, Director, Financial Education, U.S. Department of the Treasury described two research projects recently completed for the Department of the Treasury within the Assessing Financial Capability Outcome pilots. The youth pilot assessed the effects of five or six hours of classroom financial education and access to a school bank or credit union on fourth- and fifth-grade students in two communities. The research found that classroom financial education had significant effects on knowledge, and that access to a financial institution and education had significant effects on student attitudes and confidence about savings and financial institutions. Quittman also described the adult pilot which assessed outcomes from a project to offer low-cost checking accounts and one-on-one financial counseling to low-income workers in a transitional jobs program. This pilot found that while financially vulnerable adults continued to have difficulty maintaining accounts and improving credit scores, they did seek to retain their bank accounts, and those who had as little as one or two hours of financial counseling made improvements in their past-due debt and planning for the future. Quittman concluded by encouraging the FLEC members to use this research, and build on it with additional research on similar topics.

Camille Busette, Assistant Director, Office of Financial Education, Consumer Financial Protection Bureau provided an overview of the research the CFPB's Office of Financial Education (OFE) is pursuing to build understanding about the definition of financial wellbeing and analyze the long-term impact of starting early with financial education programming.

Busette asked what defines successfully pursuing one's financial goals. She continued that the OFE is working to answer this question by developing a definition of the concept of individual financial wellbeing, developing hypotheses about what contributes to individual financial wellbeing, and creating measurement tools for these concepts. The outcomes of this work will allow understanding in measuring the success of financial literacy programs. Research currently underway by the CFPB defines financial wellbeing as a state wherein one can fully meet current and ongoing obligations, has secured the future, and is able to make choices that allow them to enjoy life. Allowing personal preferences to enjoy life is particularly notable; as it includes the often challenging day-to-day financial decisions and tradeoffs it takes to achieve it.

She mentioned the next phase of work includes developing questions to measure financial wellbeing on a scale, and understanding the antecedents to the skills and behavior that young people may need to develop to be able to experience financial wellbeing as adults. From a broader perspective, she hopes they can use consumer focus groups to understand consumer needs, challenges, and experiences in financial decision making, as well as examine the effectiveness of existing practices. This work supports the Commission's focus on youth financial literacy by identifying positive habits and behaviors that support financial wellbeing and will enable collaboration with stakeholders to prepare young people to be able to succeed financially.

Discussion with FLEC Members:

Quittman spoke of the difficulties of follow-up participation twelve months after the financial intervention of the program. She hopes this investigation will open up additional research questions and allow FLEC members to integrate programs to help individuals find financial success. She noted in the study that counseling was often a means of problem-solving, in particular to debt and credit issues, and that this information may offer answers for questions of attendance and seeking guidance.

Busette commented on the inundation of marketing and advertising that consumers receive versus information about financial literacy and capabilities. She believes financial education can target the aspirations of the consumers. **Schmeiser** added to the topic by talking about the tools available to consumers, and thinking and acting like marketers to better reach consumers.

Melissa Koide, Deputy Assistant Secretary for Consumer Policy, U.S. Department of the Treasury closed the panel by giving a brief report on the activities and plans for the Commission. She hopes the Commission will continue to expand the complex meaning of financial capability, to include broader terms than if an individual uses a bank or not. She posed a call for research endeavors for the Innovation Fund to topics on government payments and benefits, higher education decision making, and levering different approaches to build financial capability at large. She stated the next meeting will be in the fall, and focus on workplace financial opportunities. She introduced **Amias Gerety, Acting Assistant Secretary for Financial Institutions, U.S. Department of the Treasury**, who closed the discussion by highlighting the importance of incorporating sound research into program design and policy choices.

Committee Members Present
Mary Miller, Department of the Treasury
Melissa Koide, Department of the Treasury
Amias Gerety, Department of the Treasury
Louisa Quittman, Department of the Treasury
Richard Cordray, Consumer Financial Protection Bureau
Camille Busette, Consumer Financial Protection Bureau
Susan Shockey, Department of Agriculture

Brenda McDaniel, Department of Defense
David Soo, Department of Education
Jeannie Chaffin, Department of Health and Human Services
Sandra Norcom, Department of Housing and Urban Development
Judy Mares, Department of Labor
Shonny Ogunfiditimi, Department of Veterans Affairs
Michael Herndon, Commodity Futures Trading Commission
Luke Reynolds, Federal Deposit Insurance Corporation
Gwen Camp, Federal Emergency Management Agency
Anna Alvarez-Boyd, Federal Reserve Board
Ryan Edelstein, General Services Administration
Kenneth Worthy, National Credit Union Administration
Karen Bellesi, Office of the Comptroller of the Currency
Alan Sorcher, Securities and Exchange Commission
Nathaniel Bishop, Small Business Administration
Maria Artista-Cuchna, Social Security Administration