

### **Public Policy Ideas to Improve Financial Education and Help Consumers Make Wise Financial Decisions**

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Although the number of financial education programs has grown over the last decade, few policies have been enacted to evaluate, support and expand effective financial education and increase financial capability. Although the government is not the only entity that can help improve financial education, there is an important role for the government sector to play that complements the efforts of the private sector, the nonprofit sector, and the efforts of individuals to take personal responsibility to access financial education. All levels of government can develop policies that help prepare youth and adults to make wise financial decisions. This report identifies some policy ideas that were generated by financial education experts—including practitioners, researchers, and financial institution representatives—during the New America Foundation’s Roundtable Meeting on March 21-22, 2007 in Washington, D.C.<sup>2</sup>

The policy ideas included in this report can improve financial education and help consumers increase their financial capability. For the purposes of this report, financial capability can be defined as developing the skills and confidence to be aware of financial opportunities, to know where to go for help, to make informed choices, and to take effective action to improve financial well-being. Financial capability links education with appropriate products and services to make the education relevant.

The Roundtable also discussed two concepts complementary to financial education in improving financial outcomes for consumers: consumer protection and the development and implementation of consumer-friendly “default” or model products that consumers would receive unless they affirmatively chose a different product. Such products could significantly reduce the need for financial education, because consumers would automatically make the right choice. With the Roundtable participants, we also believe that education is a complement to, not a substitute for, strong and effective consumer protection, including substantive protections, clear disclosures and vigorous enforcement. We also find the concept of defaults extremely interesting, especially given practical constraints on both education and enforcement, and have commissioned and expect to publish research on the topic shortly. This report, however, focuses solely on ideas to improve financial education and enhance financial capability.

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<sup>2</sup> The recommendations discussed in this paper were offered during the Roundtable, but the Roundtable participants were not asked to develop a consensus set of recommendations. Accordingly, the Roundtable participants do not necessarily endorse these recommendations. Select additional industry experts also provided input and comment on the recommendations.

## POLICY IDEAS TO IMPROVE FINANCIAL EDUCATION

**Policy Idea:** *Establish A Savings And Investment Account At Birth For All Newborns*—Financial education is a means to the end of effective money management. As we are learning from the Child Trust Fund experience in the United Kingdom (where an account is established for all newborns), a child’s account appears to be an effective tool for financial education of both children and parents. The bi-partisan Aspire Act would establish a “KIDS Account” for US newborns, funded with \$500 (\$1,000 for lower income children), into which other funds can be deposited, and which would be available at age 18 for wealth-building purposes. Alternatively, Congress could, at a significantly lower cost, enact pending proposals to authorize “Young Savers Accounts” (a Roth IRA for kids) or “401Kids” (a Coverdell college savings account with added uses for home purchase and retirement), encouraging kids, families, communities, philanthropies, states and others to make contributions.

**Policy Idea:** *Mandate Financial Education In Schools*—Require that, as part of No Child Left Behind, every child in grades K-12 be taught financial education, and tested on the results, and include funds to enable states to implement this mandate. Ensure that personal financial management concepts are integrated into the content standards so that personal finance questions are included in standardized testing. Ensure that teachers integrate financial education into core courses and that teachers at all grade levels are trained in personal financial management, and are taught how to integrate personal financial management concepts into the curriculum.

**Policy Idea:** *Encourage Broad-Based Financial Education in the Workplace*—Require every publicly-traded corporation in the United States to include in its annual report a description of the activities it is undertaking to ensure the financial capability of its workforce by providing broad financial education in addition to retirement planning education. Establish parallel requirements for all governments of general jurisdiction and for state and federal government agencies.

Encourage small employers to provide financial education in the workplace. For example, provide employers with fewer than 500 employees a tax credit equal to 5 hours of wages for each employee who is provided with at least 5 hours of financial education annually on-the-clock and at the workplace or at a nearby convenient location, and who is offered the opportunity to direct deposit his or her paycheck into a savings account, a low-cost checking account or a low-cost prepaid card. Further encourage small employers by researching and promoting best practices and different delivery options for small employers operating in different work environments such as retail stores, manufacturing plants, and office settings.

**Policy Idea:** *Expand the Number of Trainers and Increase their Capacity to Meet the Financial Education Needs of Adults*—Create and deploy a “Financial Services Corps” to broaden access to one-on-one financial planning and “just in time” advice for low- and middle- income adults. Analyze the costs of establishing and managing such a Corps, exploring both existing Corps such as AmeriCorps and

SCORE, and programs that employ teaching models such as Teach for America, National Student Partnerships, and City Year.

The goal would be for the Corps to recruit a range of trainers including young adults and retired workers to participate by providing them with financial incentives, either directly to citizens or through employers. The Corps would provide initial and ongoing training to ensure that volunteers have current information. The Corps would receive sufficient funding for the Corps' infrastructure to ensure efficiency, effectiveness, and evaluation.

The Corps would have a special focus on enlisting psychologists, marriage counselors, and social workers to integrate personal financial management concepts into their work and to document financial matters that impact their clients so that quality research could be done on the impact of financial matters on mental health and quality of life. Ultimately, psychologists, marriage counselors, and social workers, whether they joined the Corps or not, could be tested on their understanding of the relationship of financial matters to the health of their clients and their families on state certification examinations.

***Policy Idea: Establish a Well-Funded “Innovations Fund” Run by the National Science Foundation or a Similar Institution to Develop, Explore and Evaluate Promising Approaches to Financial Capability***—Establish a \$200 million competitively-accessed Innovations Fund, open to teams of financial education providers, financial services providers, and academics to develop, implement (on a pilot but scalable basis) and evaluate effective strategies to increase financial capability, especially among adults. Create steady funding sources for the Innovations Fund, such as penalties assessed against financial institutions that violate consumer protection laws.

Preference should be given to fund financial education projects that:

- Explore consumer needs and preferences for financial products and services, so as to understand what the consumer wants and develop approaches to design programs and products in a consumer-friendly context that protects the consumer's interests.
- Conduct research to better understand effective marketing approaches that address consumer motivations and identify how and when to tap into consumer preferences with different marketing approaches (e.g. use of fear, use of motivation; use of incentives, etc) so as to encourage positive consumer choices.
- Tighten the connection between learning and action.

***Policy Idea: Develop a Pilot Program to Help Consumers Identify Quality Financial Education Trainers and Programs***—Establish a process to provide credentials and ongoing training and certification to financial education counselors and educators. The credentialing process would promote quality standards and be implemented in a manner that acknowledges the time and cost constraints of nonprofit financial educators. The process should identify standard core financial management topics necessary for all consumers, as well as additional financial

management topics that can be tailored to the needs of different target audiences and different environments. Financial education programs that employ credentialed counselors and educators would be officially certified and otherwise recognized, for example, as automatically eligible for government funds.

***Policy Idea: Make Sure Consumers Are Financially Capable Before Taking on Obligations***—Automobile drivers are required to get a license to demonstrate that they have the skills necessary to responsibly operate an automobile. This logic also applies to financial management. A “financial driver’s license” could provide consumers with the basic financial information they need to make better decisions and avoid financial mistakes. Initially, consumers could use the license examination to determine their own level of understanding, and get guidance about the appropriate types of products given that level. Eventually, the license might be used to establish eligibility criteria for specific types of financial instruments, especially investment and credit products.

***Policy Idea: Significantly Improve All Consumer Financial Disclosures***—Require that consumer disclosures are written in consumer-tested language understandable to a seventh-grade level reader, are limited to a small number of critical items, and are provided at a specified time period prior to the transaction so that consumers can make effective decisions. Provide that disclosures cannot be implicitly or explicitly contradicted by contract terms.

***Policy Idea: Use Social Security Communications to Help Consumers Plan for Retirement Needs Beyond Social Security***—Expand the educational messages included in Social Security Administration’s regular communications to educate consumers about planning for retirement and incorporate tools to calculate the amount of savings that will be needed beyond Social Security retirement income.

***Policy Idea: Educate Consumers about Financial Products and Services***—Publish and promote guidelines that help inform consumers and provide easy-to-access information and directions (the equivalent of a “food pyramid” for savers) about reaching and sustaining financial stability. Guidelines should be generated by a panel of independent and recognized experts.

**Appendix:**  
**Participants at the New America Foundation's**  
**Roundtable Meeting, March 21-22, 2007**

**Michael Beacham**  
Money Savvy Generation

**Ted Beck**  
National Endowment for Financial Education

**Ray Boshara**  
New America Foundation

**Stephen Brobeck**  
Consumer Federation of America

**Michael Calhoun**  
Center for Responsible Lending

**Sharon Danes**  
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**Jean Ann Fox**  
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**Patty Hasson**  
CCCS of Delaware Valley

**Margaret Henningsen**  
Legacy Bank

**Sharon Hermanson**  
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**Jeanne Hogarth**  
Board of Governors of the Federal Reserve System

**Beatriz Ibarra**  
National Council of La Raza

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American Bankers Association Education Foundation

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