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EDWARD M. GRAMLICH
MEMBER OF THE BOARD

October 28, 2002

Mr. John M. Molino
Deputy Assistant Secretary of Defense
(Military Community and Family Policy)
Rm 3A119
4000 Defense Pentagon
Washington, DC 20301

Dear Mr. Molino:

I am pleased that discussions continue to move forward for research collaboration between our two agencies to measure the effectiveness of financial literacy programs offered by the Department of Defense.

The Federal Reserve sees this research as a very important undertaking and a rare opportunity. To date, few broad-based empirical data have been gathered regarding the most effective means for improving individuals' personal financial practice. The aim of our collaboration will be to fill some of that void by assessing the relative effectiveness of alternative means for promoting sound personal financial practice among Department of Defense personnel.

I understand that each branch of the military devotes considerable resources to providing basic financial education to Service members and their families. At present, members of the Enlisted Service receive the bulk of their basic financial literacy training during the first 18 months of service; follow-on programs that include family members are provided at military installations to fulfill local educational requirements.

In our collaboration, the Department of Defense will be responsible for the execution of the research program, while the Federal Reserve will assist in the design of evaluative tools and in the assessment and interpretation of the collected data. We will provide the services of Federal Reserve staff who bring particular skills in the areas of questionnaire and sample design, data analysis, and knowledge of the professional literature regarding household spending and saving. The Department will, for example, secure the participation of the different groups of military personnel, collect baseline data, design and deliver the alternative forms of personal financial training, and collect follow-up data to assess the influence of the training. The Federal Reserve will be pleased, subject to your approval, to provide substantive advice and collaboration at each stage of this effort.

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Broadly speaking, we contemplate that the basic research design will involve assembling groups that are comparable initially, then delivering alternative forms of personal financial training to each of these groups, and finally measuring differences in subsequent personal financial practice to determine which methods of training are most effective.

We are confident that this research program can bring significant benefits. For the Department of Defense, the research could help guide future decisions on the appropriate level of overall support for personal financial training, as well as on the specific form or forms that the training should take. In advancing the knowledge of forms of financial training that work best, at least in the context of military personnel, the research should also enhance our ability to promote the common economic welfare of our nation's citizens.

In my experience, research is always a time-consuming undertaking, in which the most predictable event is that there will be unforeseen developments. But it will help to start off with a common understanding as to the scale and timing of the effort. If the approach that I have outlined above is agreeable to you, the next step might be to sketch out a work plan including a rough timeline for the execution of the various steps. I understand that Colonel Beauregard will work with Federal Reserve staff in this regard.

I trust you find that this letter represents an agreeable starting point for what we hope will be a mutually productive collaboration, and I look forward to hearing from you. If you have any questions, please feel free to call me or Jeanne Hogarth in the Division of Consumer and Community Affairs at 202-452-3306.

Sincerely,



Cc: Colonel Marcus J. Beauregard